PD-AAF-890

497-0260001801

Auditor General

AUDIT REPORT

AGRICULTURE EDUCATION FOR DEVELOPMENT PROJECT

LOAN NO. 497-T-041

PROJECT NO. 497-0260

USAID/INDONESIA

Audit Report Number 2-497-80-17

Issue Date July 29, 1980

Area Auditor General East Asia
Agency for International Development

TABLE OF CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

Indonesia is one of the world's most populous countries -- 140 million people. It also has a low per capita income -- $300 in 1977. Half of its people live at or below the subsistence level.

Indonesia lacks adequately trained manpower in the agriculture sector. The World Bank cites this as a constraint to Indonesia's agricultural development program.

AID has devoted the major portion of its program to Indonesia's agriculture sector's problems. One AID project, which attempted to improve agriculture education was the Agriculture Education for Development Project. In 1977, AID loaned $5.5 million to the Government of Indonesia (GOI) for the second phase of the 10 year program in agricultural education. The second phase was to build on the first phase successes and develop a pilot system of higher agricultural education universities at the national and provincial levels, which were responsive to the nation's needs for highly trained manpower. Eight universities were incorporated into the pilot system with two being designated lead universities.

The loan was to finance participant training in both the United States and Indonesia -- $3.0 million. Commodities were to be procured with loan funds -- $1.1 million. The balance of the loan was to be used for technical assistance -- $0.8 million -- and other costs -- $0.6 million. As of December 31, 1979, about $3.4 million of the $5.5 million had been expended.

AID has a direct contract with the Midwest Universities Consortium for International Activities, Inc. (MUCIA), to assist the GOI in implementing the project. USAID/I obligated the loan's full amount for the MUCIA contract.

SCOPE OF AUDIT

This is an initial audit of the loan (No. 497-T-041) and the second phase of this program. We concentrated our audit on the management of the project. We were unable to audit the loan expenditures in Indonesia because those financial records were maintained in the United States. When we found that USAID/I was having difficulty implementing instructions on paying health insurance and amenity services for contractor administered participants, we expanded the scope of audit to include all USAID/I projects with contractor administered participants.

CONCLUSIONS AND RECOMMENDATIONS

The 10-year program is in its ninth year of activity. Progress has been made towards its goals and intended outputs. The second phase of the project had some management deficiencies and we made appropriate recommendations to correct the deficiencies found.

We found that the participant training activity was offering the levels of training desired. However, nearly one-third of the U.S. participants and about one-half of the in-country participants, for various reasons, will not have fully completed their degree objectives by the scheduled close of the project (See pages 9 and 16).

USAID/I was programming participants for successive academic degrees in the United States contrary to a long standing AID policy against this practice. However, USAID/I supports this deviation from policy by pointing out that the project's purpose was to improve the project schools' faculties with the highest degree possible - doctoral. USAID/I established extensive review and approval procedures to ensure that the best candidates were approved for successive degrees. However, this practice was distorting the project's and other projects' success (see page 10).

The commodities worth about $1.1 million had not been managed as effectively as possible. Commodity management requirements established for the project had not been fully implemented (see pages 27 and 33-34). We could not readily verify the receipt and use of about $430,000 worth of commodities provided to date (see pages 27-28). Extensive delays in clearing commodities from the port hamper the impact of the commodities on project goals. However, GOI port clearance procedures were the cause of these delays (see page 30).

Several administrative requirements of the loan agreement and the MUCIA contract had not been implemented (see pages 33-34). Also, payment of about $128,500 for participants' health insurance and amenity services had not yet been made to the AID Master Disbursing account for this project. For 10 other projects, an estimated $170,000 has also not been paid for those services (see pages 21-21(a). We found that USAID/I had provided in-country logistical support to MUCIA amounting to about $56,000 which should have been charged to local currency or loan funds and was not (see pages 35-36).

INTRODUCTION

Indonesia is the world's fifth most populous nation and the largest Muslim country. Poverty in Indonesia is widespread -- per capita income in 1977 was about $300. Half of its population live at or below the subsistence level. Malnutrition, infant mortality, low life expectancy, and high rates of school drop-out characterize the social and economic plight of the majority.

Problems of inadequate agriculture production and distribution persist. Although rice production has increased, the inadequate distribution and increasing consumption have prevented such increases from benefiting the poor. Indonesia continues to be one of the world's largest rice importers -- about 2.6 million tons in 1977/78.

The Indonesia agriculture sector accounts for about 60 percent of the total work force. AID has devoted the major portion of its program to address Indonesia's agriculture sector's problems and short fall.

According to a 1979 World Bank report, one of Indonesia's most pressing problems, particularly in the agriculture sector, is the lack or a serious shortage of adequately trained middle-level manpower to serve as agriculture technicians for production, research, and extension activities and higher level manpower with training in project management. As the Bank points out, "One of the main constraints, to the success of the Government's (GOI) development program in the agriculture sector is the shortage of quality agricultural manpower.***" In its report, the Bank details the training deficiencies in most areas in Indonesia's agriculture sector, such as food crops, fisheries, and livestock.

While inadequately trained manpower in the agriculture sector still existed, the Agriculture Education for Development Project continued efforts to alleviate some of these problems. This project was intended to build upon the successes of the first phase of a 10-year higher agricultural education program. During the first phase, two "centers of excellence" were established in the higher agricultural education area which were to assist the lesser advanced Indonesian agricultural universities. The first phase -- 5 years from 1971 to 1976 -- was orchestrated by the Midwest Universities Consortium for International Activities, Inc. (MUCIA) under a $6.7 million grant -- Higher Agricultural Education, (Project Number 497-11-660-0190). The second phase -- 5 years, 1976 to 1981 -- was funded under a $5.5 million loan (497-T-041). The second phase's purpose was to complete a pilot system involving eight Indonesian universities which would be responsive to the national needs for highly trained manpower, research and public activities in the agriculture sector.

THE PROJECT AND SCOPE OF AUDIT

In July 1977, the Government of Indonesia borrowed $5.5 million from the Agency for International Development's (AID) development loan fund for the dollar and certain local currency costs of the Agriculture Education for Development Project. AID assigned loan and project numbers were 497-T-041 and 497-0260, respectively. The loan's terms were the usual concessionary terms - repayment in 40 years from the first disbursement, including a 10 year grace period and interest at the rate of 2 percent a year during the grace period and 3 percent a year thereafter. The last disbursement date under the loan was set as July 15, 1981.

The Agriculture Education for Development project was the second phase of a 10-year AID agriculture education program in Indonesia. The project's purpose was to complete a pilot system of higher education agricultural oriented institutions at the national and provincial levels, which were responsive to the national needs for highly trained manpower, research and public service activities in the agriculture sector. The project encompassed primarily eight Indonesian universities and could include other universities as needed. Two of these eight universities were designated major or lead universities, which were to be the center of the pilot system and by the end of the project would be capable of training personnel and offer guidance to the other six universities. These latter six universities were separate institutions in the pilot system.

The eight project universities were existing Indonesian universities. The two lead universities were Institute Pertanian Bogor (IPB) at Bogor, Java, and Gajah Mada University (UGM), Jogjakarta, Java. The other six project universities or minor universities were:

- -- Padjadjaran University, Bandung, Java
- -- Brawidjaya University, Malang, Java

-- North Sumatra University, Medan, Sumatra
-- Andalas University, Padang, Sumatra
-- Udayana University, Denpasar, Bali
-- Hasanuddin University, Ujung Pandang, Sulawesi

The $5.5 million loan was to finance activities in these areas:

-- participant training of Indonesians in the United States or Indonesia, $3.0 million,
-- procurement of commodities, $1.1 million,
-- technical assistance to achieve the project's purpose, $0.8 million, and
-- related costs for travel and overhead expenses, $0.6 million.

The GOI agreed to provide Indonesian Rupiah (rp) of about 81.7 million or $130,000 for the contractor's in-country costs.

The specific outputs expected from the second phase are detailed below:

-- Basic 4-year, 140 credit, bachelor of science curriculum would be installed at at least four of the project universities;

-- Initiation of post graduate degree programs at the two lead universities;

-- Return Indonesian participant trainees to the faculties of the project universities in the pilot system;

-- University programs of rural/community services established and operating;

-- University programs of applied agricultural research establishing and operating;

-- National development plan for higher agricultural education implemented;

-- Effective university administration system developed.

The project management was vested with the GOI, AID and a

U.S. Contractor, under direct contract with AID. The GOI's manager was the Ministry of Education and Culture, in particular, the Director General for Higher Education. AID's management was provided through the U.S. Agency for International Development Mission to Indonesia (USAID/I), in particular, the Education and Human Resources Division. The U.S. Contractor was the Midwest Universities Consortium for International Activities, Inc. (MUCIA).

At the beginning of Phase One of this 10 year program, AID negotiated an Institutional Development Agreement (IDA-AID/EA-176) with MUCIA. This contract was signed on July 1971 and was grant funded. For Phase Two, AID, negotiated a contract amendment in November 1976 to continue the program and to provide the loan funds. USAID/I obligated the full $5.5 million to the contract. Thus, there are no dollar funds for the project outside the MUCIA contract.

In this initial audit of the second phase of the project, we concentrated on the management of the project from November 1976 to March 31, 1980. We reviewed project records at USAID/I, MUCIA offices in Jakarta and the Indonesian Universities selected for review. We held discussions with responsible officials of the GOI, USAID/I and MUCIA. Samples of commodities ordered and received, and the participant trainee candidates records were selected to ensure that AID and legislative requirements were followed. We also interviewed returned participant trainees to obtain their views on the progress of the project. We were not able to audit the loan expenditures in Indonesia because the fiscal records are maintainted in the United States at AID/Washington and MUCIA's offices in Madison, Wisconsin. The status of loan expenditures as of December 31, 1979 is given on Exhibit I.

Because USAID/I had not fully implemented an AID/Washington instruction on paying for participant trainee's health insurance and amenity services under contractor administered training, we expanded the scope beyond this project to include all projects where this specific AID/W instruction applied.

This report was reviewed with USAID/I and MUCIA officials. Their comments were considered and changes were made as appropriate.

FINDINGS, CONCLUSIONS AND RECOMMENDATION

The 10-year program is in its ninth year of activity. Progress has been made towards its goals and intended outputs. The second phase of the project has not been managed as effectively as it should have been.

Of the $5.5 million provided for dollar costs, about $3.4 million had been expended as of December 31, 1979. MUCIA's projections of expenditures to the end of the contract disclosed a total balance of about $315,000 to be reprogrammed. Local currency requirements of about Indonesian Rupiah(Rp) 81.7 million 1/ or $130,000 were to be provided by the GOI for a special "Funds in Trust" account. The GOI had provided about Rp 63.5 million or $102,000 as of December 31, 1979. Additional Rupiah funds will be required beyond what the GOI had planned upon. However, no problems in obtaining these funds were anticipated.

We found that while the participant training was offering the levels of training desired, nearly one third of the participants will not have completed their degree objectives by the close of the project. USAID/I was programming participants for successive academic degrees contrary to a long standing AID policy against this practice. Further, this action was distorting the project's success. The commodities worth about $1.1 million have not been effectively managed and we could not readily verify the receipt and use of the commodities -- valued at about $430,000 -- provided to date. Extensive delays in clearing commodities from the port hamper the impact of the commodities on project goals.

Several administrative requirements of the loan agreement and the MUCIA contract had not been implemented. Also, payment of about $128,500 for participants' health insurance and amenity services had not been made to the AID Master Disbursing account for this project. For 10 other projects, an estimated $170,000 has also not been paid for those services. We found that USAID/I had provided in-country logistical support to MUCIA amounting to about $56,000, which should have been charged to either local currency or loan funds and were not.

1/ Rate of exchange - Rp. 623 = US$1.00

REACHING THE PROJECT'S INTENDED OUTPUTS

The project's purpose was to establish a pilot system of agricultural universities with the capacity to provide highly qualified agricultural manpower, research and public service activities appropriate for Indonesia. The pilot system exists in the eight project institutions. The intended outputs included installation of a basic 4 year bachelor of science curriculum, initiation of post graduate degrees at two lead institutions, training Indonesians in the United States and in-country for improving the faculties of the universities, establishing rural community service programs and university agriculture research programs, implementing a national development plan for higher agricultural educations and developing an effective university administration system.

According to USAID/I annual project evaluations progress has been made in all areas. However, these outputs will not be fully realized by the end of the project.

Implementing the New Curriculum

By the end of the project, it was expected that a basic 4-year 140 credits, bachelor of science degree curriculum would be fully established at at least four project universities. This curriculum was intended to replace the prevailing, 3-year baccalaureate course, which did not adequately prepare graduates for professional careers in agriculture.

During Phase Two the Director General of Higher Education had mandated the 4-year degree program. Only one institution, Instit Pertanian Bogor (IPB), has established this curriculum. However, IPB started its preparation for this during Phase One of the program and has had a lead over the other seven project universities. As of March 1980, these seven universities were moving toward implementing this curriculum according to MUCIA. However, MUCIA did not have a report or records on the status of implementation at each university. USAID/I's annual project evaluation summary for 1979 did report some progress at various universities. The MUCIA Project Director stated that he doubted that the remaining universities will have implemented this curriculum by the end of the project. He pointed out, however, that implementation takes several years and requires constant study and evaluation.

We can conclude therefore that eventually the project universities will implement this curriculum.

Post Graduate Degrees Program at Two Lead Universities

By the end of the project, the two lead universities -- the Institut Pertanian Bogor (IPB) and Gaja Mada University (UGM)-- were to have established post graduate degree programs. Both universities had graduate degree programs, but according to the MUCIA Project Director, UGM's program is not as complete as desired. He explained that the UGM program did not provide adequate emphasis on post graduate course work. He doubted that UGM's graduate degree program would be fully implemented by the end of the project.

Further, MUCIA was sponsoring 54 Indonesians for post graduate degrees at three project schools. Besides IPB and UGM, MUCIA was also sponsoring students at the University at Padjadjaran. The purpose of sponsoring these participants was to improve the faculties of the respective project universities. Therefore, progress was being made in this area.

Rural/Community Service Activities

One of the desired outputs of the project was to establish a means of extending the universities' knowledge and resources to the agriculture sector. According to MUCIA officials, each of the project universities had established a community services institute as directed by the GOI. Directors of these institutes had been appointed according to MUCIA officials, but no reports on the institute's activities were available.

According to USAID/I project evaluations, several of the project's universities had held demonstrations on improving agriculture production for farmers. Most of the project universities reported to USAID/I that they were attempting to improve their community service programs.

Further, the Indonesian graduate curriculum requires students to spend several months working in a community on local problems before being granted a degree.

Program for Applied Research

The objective of this activity was to establish within the pilot system the capability for conducting effective research and graduate training programs. According to the MUCIA Project Director, each of the project universities did have limited research capability supported by laboratories and research farms. While several of the project universities had reported they were conducting a variety of research projects, we found no reports evaluating the effectiveness of this research. However, the return of the U.S. participants and the receipt of research equipment provided should improve the project universities in this area. These two areas are discussed later in this report.

National Development Plan for Higher Agricultural Education

Before the end of the project, a national development plan for higher agriculture education was to be implemented. The plan was to be the blue print for the COI and other donors in the total development of Indonesia's agricultural education. The plan was to specify the various public (community) service and applied research programs to be developed at each university. It was also to specify the several degree levels and program emphasis to be established at each faculty and the time frame for development.

According to the MUCIA Project Director, the plan had not been fully developed. MUCIA had been assisting in the conduct of a baseline study of the Indonesian High Agricultural Education capabilities on which the national plan will be based. The baseline study should be completed by June 1980. The national plan should be completed by July 1980, and implementation beginning soon thereafter.

University Administration System

Improvement in university administration systems is a continuous process. The USAID/I annual project evaluation summaries indicate that the project universities are aware of their administrative shortcomings and were working on improvements. For example, most of the university administrators were not professional administrators, but the universities were providing specialized training for the administration staff. Also, MUCIA had arranged for four short term consultants to assist the project universities on various subjects, including administration.

PARTICIPANT TRAINING -- PROGRESS AND PROBLEMS

The basic objective of the project is to improve Indonesia's agriculture higher education institutions. The purpose of the participant training is to improve the faculties of the project universities and the primary emphasis was to provide more staff with doctoral degrees. To this end, the greatest number of participants trained should help achieve this objective and the larger number were sent to the United States for graduate training.

In 1977, it was estimated that about 166 Indonesian participants -- 112 to the United States and 54 in Indonesia -- could be trained during the project. The U.S. graduate training was to be for graduate degrees -- masters degrees (MS) or doctoral degrees (Ph.D.). The in-country training was for Ph.D. only.

As of March 30, 1980, the total number of participants in the project was 152 -- 98 to the United States and 54 in Indonesia. Phase Two had abosrbed 58 U.S. participants who had begun the training in Phase One and had not completed their degree objectives. This was planned on in the Project Paper.

The U.S. training institutions were determined by the MUCIA. While participants were directed primarily to MUCIA - member institutions, participants were directed to several other non-MUCIA member institutions. For example, as of March 1979, 58 participants were at MUCIA institutions and 16 were at non-MUCIA institutions.

The graduate training in Indonesia used three Indonesian Institutions. These were Institut Pertanian Bogor (IPB), Gajah Mada University (UGM) and University of Pajajaran (UNPAD). Of the 54 participants, 28 were at IPB, 15 at UGM and 11 at UNPAD as of November 1979.

U.S. Participant Training

The total number of participants to be trained, during Phase Two of the project, was estimated to be 112 in March 1977. By March 30, 1980, the total number was set at 98. The reduction of 14 participants to be trained, or 13 percent drop in the objective, was a function of the budgetary funds available, we were told. Of these 98, 31 had returned to Indonesia by March 1980, 67 were still in training in the United States. All the returnees had started their training during Phase One of the project.

Of the 67 participant trainees still in the United States, MUCIA estimates that 37 will complete their degree objectives by the end of the project, which is March 1981. The remaining 30 would have to be transferred to other projects or new projects for these participants to complete their degree objectives, according to MUCIA's Project Director.

According to the USAID/I project officer, no firm decision has been reached on the 30 remaining participants. Some consideration was being given to transfer some of these participants to other projects and requesting the Government of Indonesia to contribute to the financing of some of the participants. A one year extension of the project, with no new fund from AID, was being considered by USAID/I.

Notwithstanding the various problems with the remaining 30 participants at the termination of the project, the participants were returning with their degree objectives reached. Of the 31 returned participants, only two did not complete their degrees objectives of a Ph.D. However, one of the two did obtain a MS under Phase One of the project.

Thus, overall the project should attain about a 70 percent completion rate for those funded by the project, and about a 94 percent degree objective rate for those returning, based upon the current 31 returned participants' success.

Programming Successive Degrees

One of the unique features of the project is most -- 70 percent -- of the participants were programmed for both a MS and a Ph.D. upon entering the project. This was contrary to AID's policy -- AID Handbook 10 - Participant Training which states that successive degrees are not to be programmed. Exceptions require full justification. Bureaus and USAID's are to ensure compliance by contractors. A specific justification for this programming was not addressed in the project paper. Individual participant justification for a successive degrees were modest and did not state why a successive degree was necessary. However, USAID/I established extensive administrative procedures for approving continuation for a second degree. GOI, USAID/I and MUCIA representatives approved each continuation.

The reason for programming participants for successive academic degrees was that the primary project purpose was to supply the project universities with staff which were highly qualified -- the emphasis was on obtaining Ph.D.'s. According to USAID/I officials, most of the Indonesia participants do not have an adequate educational background to directly enter a U.S. university's Ph.D. program. Therefore, most of the participants must attain a M.S. degree, from a U.S. university, before being eligible for a Ph.D. program.

According to USAID/I officials, it considered the need for successive degree training at the time the Project was designed, and determined that for certain participants such successive degree training was consistent with project objectives. Until recently MS and Ph.D. degrees had not been offered in Indonesia. Thus few University faculty had the MS degree and for fewer still, the essential Ph.D. To stimulate advance degree production within Indonesia it is imperative that the number and quality of Ph.D. holders be increased dramatically. Thus, the AID Handbook 10 restriction was deemed to be counter productive to Indonesian needs and the waiver was built into each PIO/P and signed by USAID/I and GOI officials. However, USAID/I had not presented its position in the project paper. Nor had USAID/I described the education situation in that most Indonesians would not qualify for direct entry into a U.S. university's Ph.D. program with an intermediate goal of a MS degree. USAID/I believe it complied with the Handbook 10 instructions in that a regular system was set up for determining which participants should be allowed to continue for a Ph.D. after earning an MS.

According to USAID/I, the waiver in the PIO/P was conditional upon the following procedure:

1. The participants' MS level degree has to be completed with "excellence" as attested by minimum grade point average of 3.4 out of a possible 4.

2. The major advisor at the U.S. University must attest to the excellence of the participants' progress and strongly recommend that AID and the GOI permit the participant to continue for a Ph.D. degree.

3. The U.S. University graduate school must agree with the recommendation and the candidate must successfully pass all preliminary doctoral examinations in strict competition with all other applicants.

4. MUCIA also must agree to the nominations and pass their recommendation forward to the participants' home university which then must evaluate their personnel needs as well as the participants' progress.

5. The home university then recommends successive degree training or not as the case may be.

6. The Project Steering Committee then approves or disapproves such training in writing and asks the Cabinet of the Ministry (SEKKAB) of Education and Culture for approval to extend the participants' period of study.

7. When this last approval has been granted, USAID/I prepares the PIO/P extension which clearly states that the purpose of study is now to earn a Ph.D. degree. Responsible AID, MUCIA and GOI representatives then sign this PIO/P extension which officially grants the waiver to continue. This is done on a case-by-case basis as required by Handbook 10, and not under a blanket waiver.

USAID/I did follow the above administrative procedures. However, the Handbook requires full justification of the programming of successive degrees -- why the participant requires a second degree. Prior AID policy on successive degree programming was more restrictive than the present policy. AID Manual Order 1382.1 dated January 1972 stated that:

> "It is A.I.D. policy not to provide training which involves two successive postgraduate degrees. A.I.D./W may approve such requests only in exceptional circumstances upon full documentation of the need therefor. This policy is premised on the prolonged absence of a participant from his home country, work, family and culture, which works against the objectives of the participant training program. Prolonged absence from the cooperating country also provides opportunities for participants to avoid return to their country of origin, as well as having other undesirable side effects. Missions (USAID's) may not write or approve PIO/P's which circumvent this policy. Also, Missions are to insure compliance with this policy by A.I.D. contractors".

While the above Manual Order was superseded in October 1974 by the present Handbook 10 requirement, the AID policy has remained consistent. That is, successive degrees are not programmed.

Since USAID/I recognized that following the AID policy on programming successive degrees would have had a negative impact on the project, in our opinion it should have presented this position in the project paper. We believe that when USAID/I faces this problem in other projects, it should present the problem in the project paper so that proper consideration can be given to the waiver of the AID policy.

We recommended that USAID/I prepare a project implementation instruction requiring that project officers provide full justification for programming successive degrees in the project paper, when substantial numbers of participants will have to attain two degrees in meeting the project objectives.

USAID/I disagreed with our position and recommendation. USAID/I pointed out that the Handbook 10 does not require AID/W approval for deviation from the policy on programming successive degrees. Further, they believe that they have justified and approved successive degree training where this was consistent with the purpose of the training. In their opinion, this action is consistent with the principle of exercising authority at the lowest appropriate level. USAID/I commented that they see no reason not to confirm with AID/W that their judgement was proper or if the authority to approve successive degree training must be centralized somewhere in AID/W.

We agree with USAID/I that Handbook 10's statement of programming successive degree training is unclear as to who may approve the exceptions to the policy. Granted the Handbook does not state that AID/W must approve each deviation from the policy, we believe that the Office of International Training should clarify for USAID/I and us which organization in AID may grant a waiver on programming successive academic training -- USAID's or AID/W.

<u>Recommendation No. 1</u>

We recommend that the Office of International Training review Handbook 10's provision on exceptions to the policy on not programming successive academic degree training and clarify which AID organization may approve each exception.

This programming had a further complication to project success however. The life of the project is generally limited to 5 years. To accomplish both a MS and a Ph.D. in the United States usually requires 5 years or more, according to the USAID/I project officer. It is not feasible that a project can be initiated and participants selected all within a few months of starting a project. Therefore, programming successive degrees requires either project extensions, follow-on projects carrying forward participants, or finding other funding sources for the participants.

Under this project, 58 participants were carried forward from Phase One of the project. Of these 40 (about 70%) were programmed for successive degrees (MS/Ph.D.). Currently, MUCIA estimates that 30 participants will not have completed degree objectives at the end of the project. Of these, 16 (or about 50 percent) were programmed for successive degrees. Therefore, USAID/I is forced to find other sources of funding for these participants or cut them off at the close of the project.

If USAID/I continues to program successive degree participants, it will continually be distorting project success and funding use. This continuation of programming successive degrees will continue the ripple of participants seeking funding from other AID projects for completing degree objectives. Using other projects to fund existing participants distorts the achievements of the other project and reduces the funds available in the other project for participant training.

We believe that USAID/I should stop programming successive degrees for participants except in those situations when the AID/W agrees to an exception. If USAID/I believes that a participant warrants successive degree training, then it should prepare a written justification on this individual and identify potential sources of funding beyond the present project at the time.

USAID/I officials disagree with our position. USAID/I reported that for reasons stated previously, and given the present low academic level of Indonesian university professors, a project implementation instruction discouraging the practice of programming participants for successive degrees under the procedures outlined above would be counterproductive to urgent Indonesian university needs and the purpose of the Project. It stands to reason, according to USAID/I officials, that neither AID nor the GOI would willfully sign an agreement for a participant to continue study that could not be fully funded, provided the participant continued to perform with excellence. Not knowing precise dates for degree completion (which vary in every case), firm availability of AID funds if the study should need to continue beyond the Project completion date, or GOI or other donor that might be available two or three years hence, it would not be feasible for the project officer to guarantee the availability of future funds in every case.

To date, AID and the GOI have always been able to provide funding for degree completion, according to USAID/I officials. No successful student has had his study program cut short prior to degree attainment for lack of funding.

Recommendation No. 2

We recommend that USAID/I prepare a project implementation instruction stipulating that if a successive academic degree training is warranted, then the project officer must prepare written justification which identifies sufficient sources of funding so the participant will be able to attain the degree objectives.

In-country Training

During Phase Two of the project, 54 Indonesians were sponsored for a Ph.D. at Indonesian unversities. The fees and support for these participants was payable from loan funds, converted into local currency. Three different categories of participants were established with each category receiving different levels of support. The support covered a living allowance, research expense, tuition fees and an institutional development expense. The following table shows the number of participants in each category, the length of time to receive the support, and amounts granted.

Category	No. in Category	Length of Time	Amount Support Rp. in Millions	Dollars[1/]
C-1	2	1 year	2.6	$4,173
C-2	16	2 year	5.2	8,347
C-3	36	2.5 years	6.2	9,952
Total	54			

1/ Rate of exchange used of Rp. 623 = $1.00

The participants were nominated by their respective institution, screened by the Director General of Higher Education's Agriculture Sciences Consortium,and approved by MUCIA and USAID/I. The level of support was established by the Agriculture Consortium using the Ministry's policy for support as a guide.

As of March 30, 1980, the 54 participants had been selected.

Four (4) had completed their degree objective -- one from category 1 and three from category 2. Forty-five (45) were still in training and five (5) had not started training. The latter five participants were nominated for category 3 training and could not complete two and one-half years of training by the end of the contract of March 1981. Firm estimated dates for degree completion for the remaining 45 were not known.

According to the MUCIA Project Director, one of the reasons it did not have current estimates of when the in-country participants would complete their Ph.D. programs was that the institutions did not prepare periodic progress reports on these participants. For U.S. training AID requires periodic reporting on individual participants, but this requirement was not adopted for the in-country training participants.

AID Handbook 10 -- Participant Training -- does not require a participant's progress report for local (in-country) participant training on a periodic basis. This Handbook also does not cover academic local training in the same detail, as U.S. academic training is covered. However, the policy set forth in the Handbook requires systematic evaluation on a continuing basis. The evaluation covers 1) individual appraisal reports, at predeparture, entry, midprogram and exit interviews, and 2) periodic evaluation reports on training methods, programs and facilities.

MUCIA did conduct interviews of the in-country participants in November 1979 to evaluate the participant's performance and obtain their views on the training. However, MUCIA was not able to obtain specific data on the degree completion period for each participant.

Following the Joint Annual Review in March 1980 the participant's institution was requested to inform the Agricultural Sciences Consortium of the current estimated time of completion by the participant. While the responses to the Agriculture Sciences Consortium request were not available at the end of April 1980, MUCIA estimates that about 27 participants will not complete their training by March 1981. The success rate of the in-country program appears to be only 50 percent, based on MUCIA's estimate of the in-country participants completing their degrees by March 1981.

In response to our recommendation that USAID/I require at least semi-annual academic progress reports, USAID/I stated that they were seeking broader actions. USAID/I responded that in-country Ph.D. degrees are new programs for the project universities, and these universities were going through a difficult major change of educational philosophy from the former Dutch to new American systems. Each university was facing this turbulent situation in its own way and at its own rate of speed. Much progress has already been made; according to USAID/I; however, neither AID nor the GOI can legislate these changes. The rate of degree completion for in-country training will not be as high as for US training due largely to the academic change taking place. With the anticipated one year extension of the participant portion of the project, it is anticipated that 44 of the 54 participants (81%) will complete their training. Those 10 not completing their programs by March 1982, include the five who have not yet started training.

Further USAID/I and MUCIA were seeking to obtain not only semi-annual academic progress reports for in-country participants but more substantial uniform management procedures and academic requirements for all PhD programs. Such changes require in depth involvement of many people. Several meetings were held during the past two years by the Director General of Higher Education and much progress was made. Academic progress reports for AID funded participants will begin this year. MUCIA has already initiated the program with the three major universities involved through visits to the institutions and through the Joint Annual Review of March 1980.

Recommendation No. 3

> We recommend that USAID/I formally require MUCIA to obtain academic progress reports for the in-country participants, at least semi-annually.

Follow-up of Returned Participants

After AID sponsored participant trainees return to their country, USAID's are to maintain personal or written contact with them for at least 3 years. The objective of this contact is to strengthen the relations between the participant and the United States.

To meet this requirement, USAID/I uses three separate questionnaires. These are sent periodically to the returned participant to complete and return to USAID/I. The three separate questionnaires are sent to returned participants on the following schedule:

Questionnaire No. 1	Upon return
Questionnaire No. 2	6 to 9 months after return
Questionnaire No. 3	Third year after return

These questionnaires request various data from the participant, such as current position, promotion received after return, type of training received and views on training received.

According to the USAID/I Training Officer, selective use is made of the data collected from the participants. USAID/I uses this material to answer special requests for information, such as the number of people trained in various disciplines of agriculture, rather than routinely collating the data provided. The questionnaires are reviewed by the Training Office, and if appropriate, circulated to Project Officers. Project Officers are notified when their participants return and are encouraged to discuss the training program with them. When the returned participant indicates a special need in his questionnaire, i.e. professional journals or English language materials, every effort is made to provide these.

While this procedure meets the requirements for follow-up as stated in AID Handbook 10, it seems that USAID/I could have a more valuable information base if the data collected were evaluated or reviewed in a more systematic manner. For example, questionnaire No. 1 asks for the participant's views on the sufficiency of the training program, -- the planning, execution, adequacy, satisfaction, and problems. Without correlation of the other returned participants, USAID/I does not know if a project participant training program needs improvements or what changes should be made. In questionnaire No. 2, USAID/I requests data on participant's view of his influence on others and his activities since return. Without evaluation of such data, USAID/I cannot measure the full impact of the participant training in a project. However, the USAID/I Training Officer informed us that since the termination of USAID/I's General Participant Training Project, it does not have any funds for financing follow-up activities, including special assessment studies based on collected data, as well as up-date of the Returned Participant Directory from 1969 to 1979. A proposed Basic Human Needs project would have provided funds for this purpose.

If USAID/I cannot obtain funding through the project or the operating expense funds, then it should evaluate the need for all the data collected in these questionnaires. Building files of data that are not used is a waste of time. However, the data collected could be helpful in evaluating participant training success and impact. This latter point should be considered.

Recommendation No. 4

We recommend that USAID/I evaluate its present returned participant follow-up system and determine if funding can be made available for analysis and reporting on the data collected. If funding is not available, then USAID/I should revise the follow-up questionnaires to obtain only the minimum data required to maintain relations with returned participant.

Improved Record Keeping

If USAID/I determines that it will continue using questionnaires for returned participant follow-up, then it should improve the questionnaire record keeping.

For the 31 participants in this project, we found that 25 had returned one or more of USAID/I's follow-up questionnaires and 6 had not. According to the USAID/I records, all 31 had been sent questionnaires but we could not determine the date the questionnaire was sent and when a follow-on questionnaire was sent after the participant had failed to reply.

USAID/I procedure on recording the sending and receipt of the questionnaires is weak. The record for the sending of questionnaires is noted by a check mark (✓) beside the name of participant on the returned participants log. Receipt of the completed questionnaires is noted by an asterisk (*) next to the participant's name on the log.

USAID/I should establish a control record for the questionnaire follow-up system. The control sheet should provide the following type of data:

1. Participant's Name
2. PIO/P Number
3. For each questionnnaire:

   a) Date initial form sent
   b) Date of follow-on form sent, if needed.
   c) Date completed form received.
   d) Remarks on follow-up.

The use of the control sheet should allow for quick identification of participants who had not responded to a questionnaire and be the basis for sending a follow-on questionnaire or making direct contact with the participant.

Recommendation No. 5

We recommend that USAID/I establish a control record for the returned participant follow-up questionnaire system which will provide the following control data:

1. Participant's Name
2. PIO/P Number
3. For each of the three questionnaires:
   a) date initial questionnaire sent;
   b) date follow-on questionnaire sent, if needed;
   c) date completed form returned;
   d) remarks on follow-up.

Paying for Health Insurance for Contractor Administered Training

AID/W required that all U.S. bound participant trainees were to be included in the centrally funded health insurance plan. For AID direct-managed participants, the fees for the health insurance are included in the standard costs system for the participants. But for contractor administered participants, such as those in this project, the insurance fees are outside the contract funding, and were to be paid to the AID Master Disbursing Account (MDA) by USAID's. In December 1979, AID/W reported that this account was under funded by about $1.7 million. USAID/I owes this account about $300,000 for the health insurance for the contractor administered participants in the United States.

The instructions for paying the charges for health insurance and other centrally funded amenity services were contained in AIDTO Circular A-53, dated February 6, 1977. Basically, USAID's were to transfer $50 per month per participant to the MDA through the quarterly "Summary of Allotment Ledger Transactions and Reconciliation with Disbursing Officer's Account" (U-101 Reports). This charge was in effect from February 6, 1977 to February 1, 1980. Subsequently, AID/W modified the instruction to cover only health insurance and required that contractors pay directly to the MDA a charge of $25 per month per participant training on a quarterly basis. The additional funding for the latest charge was to be provided through contract amendments as necessary.

Since the AIDTO Circular A-53 went into effect in February 1977, USAID/I has had difficulty in completely implementing the circular. Because of this we expanded this audit to cover other USAID/I projects. Roughly about 280 participants were included in health insurance plans and the amenity service contracts. USAID/I had not attempted to transfer funds for any participants charges to the MDA until March 1980. The March 1980 transfer was not acceptable and covered only about one-third of the participants involved.

We looked at 280 participants' records which were included in 11 of 16 USAID/I projects. About two-thirds were being administered by MUCIA in just two projects -- Agriculture Education for Development (Loan 497-T-041) and Higher Education Development Training (Loan 497-U-042). The remaining one-third of the participants were included in 9 projects with the number of participants ranging from 1 to 26 persons (See Exhibit III).

We concentrated our audit on the MUCIA projects because these had two-thirds of the participants. For the other 9 projects we made only a cursory review to identify the potential number of participants covered and to estimate the total transfers due to the MDA. We estimate that USAID/I owes the MDA about

$300,000 for the services provided contractor administered participants per Circular A-53.

What Transpired with the MUCIA Projects

MUCIA had two contracts with AID to train Indonesians and administer the participant training program directly. The two MUCIA contracts, IDA-ea-176 and AID/ASIA-C-1307, were funded from Loan 497-T-041 of $5.5 million, and 497-V-042 of $5.0 million, respectively. USAID/I obligated the full amount of the loans for the contracts and AID/W executed contracts with MUCIA for these amounts. The respective projects do not have dollar funds other than from these loans.

In February 1977, after these loans were signed and the contracts were being negotiated, AID/Washington modified the standard cost system for contractor administered participant training. The modification required that a $50 charge per month be made for each participant to cover health insurance and amenity services. The total charges were to be transferred from project funds to the AID Master Disbursing Account (MDA) by USAID's, and annotated on each Project Implementation Order/Participant (PIO/P). Further, the USAID's were to report the accrued expenditures on the U-101 Reports. However, the MUCIA contracts were not amended to cover this new charge nor were funds removed from the contracts for USAID/I to pay this charge.

USAID/I position has been that MUCIA should be paying for these services, because MUCIA's contracts contain all the project's dollar funds. Also, USAID/I prepared the PIO/P's stating that MUCIA would transfer these funds to the MDA.

Confusion and False Starts for Three Years

A year after AID/W issued the AIDTO Circular A-53, USAID/I requested and received authority for direct reimbursement to the MDA for the AID/W provided services for participants funded from Loan 497-T-041 -- Agriculture Education for Development. Subsequently, USAID/I informed AID/W that it should not have requested this authority and recommended cancellation of the authority. USAID/I stated that there were no charge due for AID/W provided services for participants under this project because the loan 497-T-041 was funded prior to FY 1977. The Circular A-53 stated it applied to projects funded with FY 1977 and subsequent years allotments.

Then USAID/I cancelled the charges set out in the PIO/P's for the project. But AID/W requested information as to why, in April 1979. USAID/I restated its position that the loan was funded prior to FY 1977, thus Circular A-53 did not apply.

In April 1979, AID/W responded to USAID/I that the year of project funding was not the criteria for determining whether the compulsory charges for participants would be made. AID/W stated that the intent of the Circular A-53 was for USAID/I to fund the cost of all participants receiving these services, to the extent possible. AID/W stated that all MUCIA participants were receiving the services and USAID/I was instructed to restore the $50 per month charge in the PIO/P's and report the accruals.

In June 1979, USAID/I said it could not comply with the instruction because expenditure authority was with the GOI and MUCIA. AID/W could amend the contracts so USAID/I could report the accruals, USAID/I pointed out.

In September 1979, AID/W reminded USAID/I that it was not reporting the accruals for the compulsory charges on the U-101 report. Also, USAID/I was to amend PIO/P's for the contractor administered participants and fund these accordingly.

Again, USAID/I informed AID/W that it had no means to make these payments, since the dollar funds for the project were in the MUCIA contracts. USAID/I recommended that MUCIA and AID/W work out the payments.

In February 1980, AID/W again informed USAID/I that it was not reporting the accruals for these on the U-101 Report. AID/W said the MUCIA contract should be amended. USAID/I responded that for it to pay charges, the contracts with MUCIA would have to be amended deobligating the contract funds for the estimated total charges for participants, and making these funds available to USAID/I.

Effective February [illegible], 1980, AID/W modified Circular A-53 and changed the method of paying for health insurance and AID/W provided services. This change provides for the contractors to pay directly to AID for the compulsory health insurance program.

But in April 1980, AID/W advised USAID/I that MUCIA should submit the past charges directly to AID/W from contract funds, and AID/W would amend the contracts, if USAID/I agreed. USAID/I responded that it could not concur with AID/W approach.

Thus, USAID/I had not taken any action on the about $128,500 due the MDA for the 98 participants in this project.

The story varies slightly for the Higher Education Development Training Project. This project's loan (497-V-042) was funded in 1977. Therefore the provisions of AIDTO Circular A-53 would apply. However, USAID/I did not attempt to arrange for the transfer of the compulsory charges for health insurance and amenity services, as required, until September 1979. At that time, USAID/I reminded AID/W that the MUCIA contracts had the only project dollar funds and the contractor should arrange for payment. USAID/I pointed out that <u>all</u> contract PIO/P's stated that MUCIA would transfer the fund to the MDA, per Circular A-53. After much correspondence, in April 1980, AID/W advised that it would arrange for MUCIA to make the payments up to February 1980, as the program had changed then. USAID/I did not concur, and advised that MUCIA had concurred with a transfer to the MDA with a simultaneous charge to the contract. Unfortunately, USAID/I was advised subsequently that MUCIA's concurrence was limited to confirmation of a list of participants during the applicable period.

USAID/I had reported the transfer of $62,450 for the compulsory charges covering 91 participants on the U-101 report of March 31, 1980. It prepared a Journal Voucher showing the transfer to the MDA charging MUCIA's contract (AID/ASIA-C-1307). Subsequently USAID/I also was advised that MUCIA had been told by AID/W that AID could not accept the charges for health insurance unless the MUCIA contract was amended to allow for the payment. As of May 1980, the contract had not been amended to allow for this direct charge. Thus, USAID/I's action was inadmissable.

The USAID/I project officer disagrees, in part, with our position. He states that any arbitrary solution to the errors made by AID in allowing the MDA to be under funded by about $1.7 million would be difficult to explain to the GOI. Further for the Agriculture Education for Development Project (Loan 497-T-041) there are not adequate funds available to pay these past charges and also continue the 30 participants who had not completed their degree programs. He explained that the GOI had already complained about having to pay the $50 charge because the charge included amenity services for which the GOI did not believe the participants received these services. For the Higher Education Development Training Project, the project officer stated that he believed adequate project funds were available to pay for the past charges.

We recognize that the Agriculture Education for Development project has a balance of about $315,000 which was not encumbered. And paying the estimated $128,500 for the past charges, severely reduces the funds available for training. However, had USAID/I solved its implementation problem with Circular A-53 several years ago, it probably could have budgeted fewer participants and absorbed these charges without having to curtail training.

Other Contractor Administered Participant Charges

According to USAID/I's training office personnel, there were about 93 contractor administered participants in 9 other projects for which the Circular A-53 may apply. Our cursory review of the participant files revealed that: 1) for 60 participants, their PIO/P's did not cite a transfer of funds to the MDA for these charges; 2) for 25 participants, the PIO/P's state that the contractor will transfer these charges to the MDA; and 3) for 8 participants, the PIO/P's state that the funds were transferred to the MDA.

When questioned why the first group of 60 participants PIO/P's did not mention the transfers per Circular A-53, USAID/I training office personnel claim that AID/W processed these PIO/P's and the standard cost system should have included these charges. However, the Circular states that these charges are outside contract funding thus it appears to us that USAID/I should have been transferring funds to the MDA for these 60 participants.

For the second group of 25 participants, we asked if USAID/I had confirmation from AID/W that the contractors were transferring the charges to the MDA. USAID/I officials stated that they had not been told by AID/W that the transfers were not taking place. However, USAID/I was not reporting the accrual expenditures on its U-101 Report for these participants.

For the last group of 8 participants, USAID/I officials stated that they had not made the transfers.

We estimated that about $107,000 is due the MDA for these 93 participants. Our estimate is based on the projects' starting date or 24 months of coverage until February 1980. USAID/I will have to compute the actual amount due to the MDA after confirming with AID/W that the funds had not been transferred to the MDA by the contractors.

Additional Changes and USAID/I Position

In December 1979, AID/W advised USAID's that the MDA, from which all participant costs were paid, was under-funded by about $1.7 million. To alleviate the problem AID/W required that a one-time 10 percent surcharge be assessed for all PIO/P credits transferred to the MDA during FY 1980. The surcharge was intended to recover the "under" funding of the MDA.

USAID/I officials point out that if they do not charge the MUCIA contracts for the compulsory health insurance and amenity service charges, as required in the Circular A-53; the MDA will be balanced by the 10 percent surcharge mechanism. While the MDA may be balanced through the surcharge mechanism, ignoring the correct charges to the projects slightly distorts the actual project costs. Furthermore, in April 1980 AID/W requested that MUCIA pay directly to the MDA for these charges. Thus we would disagree with any approach which avoids charging the projects.

Recommendation No. 6

For the MUCIA projects, we recommend that USAID/I request AID/W to amend the MUCIA contracts to allow either MUCIA or USAID/I to transfer the approximately $189,000 to the AID Master Disbursing Account for the compulsory health insurance and amenity services.

Recommendation No. 7

For the other contractor administered participants,we recommend that USAID/I confirm with AID/W whether any transfers to the AID Master Disbursing Account have been made for the compulsory health insurance and amenity services. Based on AID/W response USAID/I should ascertain the amount due the AID Master Disbursing Account, transfer these funds and correct its record.

In May 1980, USAID/I informed AID/W of our finding and the above recommendations. USAID/I has requested AID/W to review the situation and advise whether USAID/I has to pay, retroactively for these services, particularly, in light of the surcharge mechanism established to balance the MDA's under funding. Until AID/W advises USAID/I of the actions to be taken, we cannot close the above recommendations.

COMMODITY MANAGEMENT NEEDS IMPROVEMENT

From the $5.5 million loan, $1.1 or 20 percent was budgeted for commodities. As of March 1980, MUCIA had expended or invoiced nearly the full budgeted amount. Commodity orders, including shipping, handling, and insurance worth $1,082,194 had been placed with MUCIA. Commodities worth $669,375 had arrived in Indonesia of which $431,470 were reported as received by the participating universities. The remaining commodity orders worth $412,819 were still being processed by MUCIA.

The commodity management was to be in accord with MUCIA's life cycle commodity management system. MUCIA's procedures encompass, in good detail, commodity management from ordering through end use and utilization. However, except for ordering and shipping of commodities, the MUCIA procedures were not being followed. We were unable to readily verify that the commodities ordered and delivered were inventoried and being used as intended. In addition, we found that shipments were not clearing Indonesia ports in a timely manner. While this latter problem is not unique to this project, additional effort by USAID/I is required to speed up port clearances.

Life Cycle Commodity Management

MUCIA had developed a handbook for managing the commodities procured under its project entitled: MUCIA/Indonesia "Life Cycle" Commodity Management System. The loan's Implementation Letter No. 1 required that the commodities procured with loan funds be managed according to this handbook.

The handbook provides, in good detail, a complete accountability of commodities from ordering, shipment, port clearances, transfer to end user, inventory, to utilization and condition. The handbook required that commodities ordered meet project requirements and an assurance given for equipment provided that a budget and trained personnel will be available for servicing and maintenance. A quarterly status report on orders, shipments and inventory was to be prepared and submitted to USAID/I according to the handbook. Also, the handbook describes the procedures to follow in making insurance claims for commodities damaged during shipment.

At the time of our audit, the only portions of the MUCIA commodity management system being followed in detail were the ordering procedures and the shipping status report. While MUCIA had information on the intended end-user and transfer dates, no reporting was made on the actual inventory of commodities, inventory numbers for equipment valued at over $50, and the condition of the commodities upon arrival and after use.

The net effect was that the MUCIA project director and the USAID/I project officer did not have any data by which they could determine if the commodities received were those ordered and the condition when received. Further, without inventory reporting, these managers could not know if the commodities were located where intended, and if these commodities were being used.

The USAID/I project officer explained that he was generally unaware of the commodity management system imposed by the loan agreement. He was not the project officer when the agreement was written. He explained further that during visits to the project universities, officials discuss problems and use of the commodities provided, but the required reporting was never an issue. The MUCIA project director arrived in September 1979 and likewise was unfamiliar with their commodity management system's reporting requirements. MUCIA administrative staff explained that these cited procedures were followed during the first phase of the program which was grant funded, but had not been followed in the second phase.

There Were Problems

During visits to the two lead unversities receiving commodities, we found that some commodities provided had not been installed, were damaged in shipment, and were not being used though installed. We found that no individual inventory numbers were assigned to the commodities received. The latter, precluded specific identification of the items provided and precludes meaningful audit. At these universities we were shown various commodities which the officials stated were supplied through the project. Most of these commodities were in satisfactory condition and in use. However, the following table lists examples of problems with project commodities at these universities.

University	Description	Value	Date Received at University	Remarks Use/Condition
UGM	Physiograph Unit (109 items)	$25,493	8/20/79	Being used, but 3 items worth $1,159 not working
UGM	Universal Wood Testing Machine (16 items)	30,120	3/01/79	Installed, but needs a part to be used.
UGM	Amino Acid Analyzer Assembly Ass	39,973	3/01/79	Installation problems, cannot be used
UGM	Atomic Absorption Spectrophotometer	28,818	8/18/79	Received in damaged condition. One of two channels needs to be repaired. Using the machine.

University	Description	Value	Date Received at University	Remarks Use/Condition
IPB	Labocone 3001 (Crude Fiber Extractor)	$ 1,265	2/24/79	Not installed
IPB	Refrigerated centrifuge (5 items)	5,525	2/24/79	Damaged in shipment not repaired, but installed.

NOTE: UGM - Gajah Mada University
IPB - Institute Pertanian Bogor

For the items received in damaged condition and/or not working, the universities' officials said the MUCIA/Jakarta was advised informally in most cases. However, these officials had no records for these reports. For the items with installation problems, MUCIA/Jakarta was aware of these problems to a certain extent, but corrective actions had been decided upon after almost one year after the commodity arrived.

According to MUCIA/Jakarta, no claims for damages have been made for those items damaged in shipment. The MUCIA handbook on the commodity management system does provide guidance on how to process claim for insurance or against the transportation companies.

Subsequent to our reporting the above to USAID/I, the project officer officially notified MUCIA to instruct the project universities to implement immediately the MUCIA-Indonesia life cycle commodity management system. Also, the project officer requested a report on implementation by mid-July 1980. Because of the action taken by USAID/I, we are not making any recommendation on the implementation of the commodity management system.

Port Clearance Delays

Under the project, MUCIA was responsible for all commodity procurement and shipping. The Agriculture Sciences Consortium (ASK) of the Director General of Higher Education, located at the Institute Pertanian Bogor, administered the port clearances. ASK hired clearing agents for sea freight shipments and the U.S. Embassy in Jakarta cleared airfreight shipment.

As of March 1980, commodities valued at about $206,000 were still being held at the port in Jakarta. Of these, commodities worth about $126,000 had been waiting clearance for more than 9 months, $21,000 for 7 to 9 months, and $59,000 for 6 months or less. MUCIA and USAID/Indonesia had not attempted to ascertain what the problems were, which caused these delays.

According to AID Handbook 15 -- AID Financed Commodities -- commodities supplied for projects shall be used effectively. Effective use of commodities under project agreements means delivery and utilization in accordance with project implementation plans. For this project most of the commodities were to be ordered by mid-1978 with delivery as early as possible. The last order was made in the Fall of 1979. But the commodities were expected to be delivered to the project universities more than a year before the end of the project.

According to an ASK official, the clearance of shipments in Indonesia is an intricate and paper work intensive process. According to this official, the amount of time required to clear a seafreight shipment takes anywhere from 6 months to 2 years, and for air-freight shipments about 3 months to 1 year. The official explained that GOI procedures require requests for clearance to be sent from the Ministry of Education and Culture to the Ministry of Trade, the GOI unit for foreign exchange transactions and the Central Bank and the Director General of Customs. He claimed that if the paperwork was not complete at any point, then the process may have to be started all over again.

While we could not confirm or refute the above statement, other USAID/I officials stated that port clearance in Indonesia is slow and often takes up to 6 months. However USAID/I should have been searching for methods to reduce the delays in port clearance. The loan agreement states that the GOI shall carry out the project with due diligence and efficiency. The following table on the number of shipment and value of the commodities still awaiting port clearance shows that there has not been efficient port clearance. Four shipments with commodities worth about $31,000 had been delayed for more than 1 year.

Number of Shipment Awaiting Clearance and Total
Value of Commodities
As of March 31, 1980

Universities	0 - 6 months	7 - 9 months	Over 9 Months
UGM	1 - $2,953.50	-	3 - $11,069.74
IPB	-	-	2 - $46,235.80
ASK 1/	6 - 55,731.49	5 - $20,976.68	11 - $68,739.22
Total	7 -$58,684.99	5 - 20,976.68	16 -$126,044.76

1/ Agriculture Sciences Consortium, which represents the other 6 project Institutions.

The data on the delays was extracted from MUCIA's monthly shipments summary report. These reports were routinely sent to USAID/I project officer and the Office of Management and Finance. According to the project officer, he reviewed these reports and did ask MUCIA why there were delays, but he never formally requested a report on the cause of the delays. In February 1980 during a meeting between the ASK, USAID/I and MUCIA representatives, it was agreed that USAID/I would write a letter to the Ministry of Higher Education requesting information on the commodity status and delivery. As of April 29, 1980, USAID/I had not prepared this letter.

In addition to the above commodities, another $412,000 worth of commodities had been ordered and were to be shipped to Jakarta. If these commodities arrive after June 1980, it appears doubtful under present arrangements that these commodities will be delivered to the project institutions prior to the end of the project in July 1981. Therefore, USAID/I should get actively involved in the port clearance problems and find solutions.

Recommendation No. 8

We recommend that USAID/Indonesia work with the cognizant GOI officials to resolve delays in the port clearances for project commodities. USAID/I should obtain a report on actions taken to release the commodities detained in the port for more than 6 months.

Loan Funds for Port Charges

The original loan agreement provided that the GOI would pay for the port charges. These were estimated to be about 10 percent of the ocean freight charges, except for "free out" shipments where the rate was estimated to be 2 percent. Subsequently, the GOI and AID agreed to amend the loan agreement whereby loan funds could be used to finance 100 percent of the freight costs including port charges. This amendment was in effect prior to any commodities ordered. As of March 1980, the GOI had not requested AID to reimburse them for the port charges to date.

According to an official of the Agriculture Sciences Consortium, the GOI has been paying for the port charges through the Department of Education, Ministry of Education and Culture. The official did not know the total amount expended for port charges.

We are not making a recommendation at this time because the responsibility for accounting and billing for port charges rests with the Government of Indonesia. We can only assume that the GOI is aware of the loan provision and has chosen not to request loan funds for the port charges.

LOAN AND CONTRACT ADMINISTRATION

The Loan Agreement and its implementation letters established certain requirements to be complied with. Also, the AID contract with MUCIA had specific requirements. The responsibility for assuring compliance with such requirement rests with USAID/I.

USAID/I efforts to assure compliance with a number of loan, implementation letters and contract requirements has been weak for this project.

Meeting Loan Requirements

While the conditions precedent to disbursement under the loan were met in late 1976, three requirements in the Implementation Letter No. 1 had not been met at the time of the audit. These were the submission of the borrower's shipping statement, the annual audit by the State's (GOI) Accountant, and implementation of the MUCIA/Indonesia "Life Cycle" commodity management system. This last item is discussed in the commodity management section of this report.

The borrower's shipping statement is a report on how well the borrower is meeting the loan requirement that at least 50 percent of the gross tonnage of loan financed goods are transported on U.S. flag carriers. This report is required quarterly and if the borrower is not meeting the 50 percent requirement, the borrower is to reimburse AID for the shipping costs.

Since the first shipment of commodities arrived in November 1977, neither the GOI nor MUCIA had prepared the quarterly borrower's shipping statement. MUCIA did prepare a monthly Commodity Shipment Summary Report, which was submitted to USAID and the GOI, showing the shipments completed, outstanding and missing/incomplete. However, this report did not detail the gross tonnage shipped on U.S. flag carriers. Thus, we were unable to confirm whether at least 50 percent of the gross tonnage was shipped on U.S. flag carriers.

Prior to our audit, USAID/I had not requested the GOI or MUCIA to prepare this statement. Subsequently, the GOI was requested to submit this report to USAID/I. As the in-country manager for the loan, USAID/I should routinely review shipping reports to ensure that the reports submitted meet AID's requirements.

Besides not receiving the borrower's shipping statement, USAID/I had not requested nor received the annual audit reports on the project by the Director General of State Financial Control (State's Accountant). The loan's Implementation Letter No. 1 specified that the State's Accountant was to annually audit the project and directed the scope of the audit. The audit report was to be submitted to USAID/I. USAID/I should have had procedures to ensure that the audit report was received and if not, request the audit report.

Although the USAID/I had not requested the State's Accountant's report prior to our audit, it did so upon our notification of the deficiency. We were informed that the State's Accountant had not performed an annual audit of the project over its 3-years life, but was arranging for the audit.

In view of the situation described above, we believe USAID/I should develop a "loan required reports" checklist for this project loan and others it manages. This checklist should identify the required reports, briefly describe their contents , and indicate reports due dates. Such a checklist, would enable the USAID/I to assure itself that the GOI, contractors or others are submitting required reports and in the form required. The checklist should be reviewed at least quarterly.

Recommendation No. 9

We recommend that USAID/I establish a procedure where a "loan required" reports checklist is prepared for this project and others. The checklist should identify the required reports, their contents, and date or periods of submission. The procedure should require quarterly review of the checklist and project officer notification, if the required reports are late or not in the proper form.

Charges for Logistical Support - MUCIA

Under the project, the Government of Indonesia (GOI) was to provide all the logistical support for the contractor -- MUCIA -- from sources other than loan funds except transportation to and from Indonesia. Rather than the GOI directly arranging for the logistical support, USAID/I provided the following logistical support: office space, office equipment, housing and utilities, furniture, and household equipment. USAID/I was to be reimbursed for its expenses by the GOI through a special "funds in trust" account established for this project. Under this special account, MUCIA annually submitted a local currency budget to the GOI and requested funds periodically for its operations. Upon receipt from the GOI, MUCIA turned these funds over to USAID/I who maintained separate accountability.

In providing MUCIA with the logistical support, USAID/I arranged for office space and 2 housing units for MUCIA.

USAID/I leased office space and one housing unit, located at the same site. The second housing unit was provided through the U.S. Embassy housing pool.

The GOI had reimbursed USAID/I for the lease of the MUCIA office space and the adjacent housing unit. For the second housing unit, however we found that USAID/I had agreed through Loan 497-T-041 Implementation Letter No. 4 that loan funds could be used to pay the local costs for this unit until the GOI could reimburse these costs through the "funds in trust" arrangement. We found that USAID/I had not charged the loan for the lease's local costs nor had it obtained funds so it could charge the "funds in trust" for the lease's costs. For the office space and adjacent housing unit, we found that USAID/I had not been charging or billing MUCIA's "fund in trust" account for the other logistical support items -- utilities, maintenance and furniture. Apparently, USAID/I had paid these charges through the interagency housing pool -- Foreign Affairs Administrative Support - - funding system.

Because the logistical support was provided through the interagency housing pool funds, we could not readily identify the specific charges, e.g. utility bills due from the project. However, USAID/I had developed standard charges to be used for billing contractors/projects for these logistical support items (see below). We believe these standard charges should be used as the basis for billing the MUCIA projects for the logistical support provided.

USAID/I Standard Charges for Logistical Support

	Fiscal Year 1978	Fiscal Year 1979
Rent	$ 9,920	$ 9,204
Utilities	2,740	2,391
Maintenance	4,395	3,403
Furniture	1,665	1,690
Total	$18,720	$16,668

Based on the above, the MUCIA "funds in trust" should be charged from occupancy through May 1980 as follows:

Office and Housing Unit No. 1	FY 78 & Prior Years (23 months)	FY 1979 to date (20 months)
Rent	0	0
Utilities	$ 5,252	$ 3,985
Maintenance	8,424	5,672
Furniture	3,191	2,817
Subtotal	$16,867	$12,474

The loan or the "funds in trust" account, if funds are made available,should be charged as follows:

Housing Unit No. 2	FY 1979 To date (19 months)
Rent	$14,573
Utilities	3,786
Maintenance	5,388
Furniture	2,676
Subtotal	$26,323

The total charges for support would be $55,664.

Recommendation No. 10

We recommend that USAID/I verify our computations and charge the MUCIA "funds in trust" account or the loan as appropriate, for the logistical support provided from occupancy to date, and begin routinely charging the project for these costs.

MUCIA Reporting Inadequate

MUCIA was required by its contract and a provision in Loan 497-T-041 Implementation Letter No. 1 to provide certain reports to USAID/I. Also, MUCIA could be required to supply other reports as requested by AID. All reports are to be in the English language. MUCIA had not fully complied with these requirements, and USAID/I has not required MUCIA to do so.

The project reporting requirements established in the contract and implementation letters are intended to allow AID managers to be informed of the progress and problems during project implementation. Statements in these report should be verifiable. Besides informing the project officer,these reports should inform other AID managers of the status of the project.

MUCIA was required by contract to submit five periodic report to USAID/I. These were:

1. Annual MUCIA overview,

2. Annual Work Plan,

3. MUCIA Annual Dollar Budgets,

4. MUCIA Local Currency Budgets, and

5. Quarterly Financial Report.

Each report has specific requirement and was to provide various data, as discussed below.

In addition to the above five contract required reports, a report on Joint Annual Review between MUCIA-AID-GOI was prepared annually. This report is to be an integral part of MUCIA's and USAID's project evaluation.

Annual MUCIA Overview

This report is due annually and prior to the Joint Annual Review. In this report MUCIA was to:

1. Evaluate the past year's activity as measured against the project's planned outputs for that year and against the project's goals established for the first five-year phase of the project;

2. Identify important issues or areas requiring special attention of the various participants at the Annual Review; and

3. Where appropriate, recommend special action required to maintain progress toward the project's goals.

While MUCIA Annual Overview was contained in the reports of the Joint Annual Review, there was no record at USAID/I that these reports were submitted prior to the Joint Annual Review. The MUCIA Project Director told us that he had not submitted this report prior to the last Annual Review, held March 18-20, 1980.

Since Phase Two of the project began in November 1976, four Joint Annual Reviews were made, but MUCIA's Overview had not responded fully to the reporting requirement. Primarily point One of the reporting requirements -- Evaluation of the past years activity against the planned outputs for that year and the project's goals -- was not covered in any detail. Points Two and Three -- identification of important issues at the annual review and appropriate recommendations -- were covered only partially in recent reports.

The USAID/I project officer and the MUCIA Project Director stated that the overview was actually covered in USAID/I's annual Project Evaluation Summary reports. These reports do cover the points required by the Annual MUCIA Overview report in better detail, but this does not relieve MUCIA from supplying the required report. Further, the data in the USAID/I prepared Project Evaluation Summary report was based primarily on the Joint Annual Reviews, which include data from the participating Indonesian universities, and not MUCIA's view of the project's progress.

Annual Work Plan

Three copies of this report were due no later than 45 days after the Annual Review. The report was to summarize the project activities and recommendations which were approved at the annual review and funded by the GOI and USAID for the coming year.

While this report had not always been submitted on time the Annual Work Plan for the project years 1977-1978 and 1978-1979 provided summaries of project activities anticipated in the coming year covered by the plan. These two plans stated that they incorporate the recommendations of the annual review, but did not provide references to the prior year's approved recommendations.

The Annual Work Plan for the project year 1979-1980 was incomplete. While the report attempted to summarize project activities, it did not contain the statistical data on participant training, commodity orders and deliveries, and the schedule of activities for the remaining years of the project. According to the USAID/I project officer and the MUCIA Project Director, they had discussed completing this plan, but MUCIA had not taken the time to do so. The USAID/I project officer had not formally requested MUCIA to do so.

The Annual Work Plan for the project year 1980-1981 was still being prepared as of May 2, 1980, its due date. The MUCIA Project Director explained that he was unaware of the 45 days submission requirement, but he was preparing the report.

MUCIA Annual Dollar Budgets

As with the other required reports, MUCIA was to submit three copies of this report to USAID/I and within 45 days after the annual review. This report provided annually a revised firm U.S. dollar budget for the next project year, sufficiently detailed for each category of expenditure to permit analysis of the basis of the estimates.

In a search through USAID/I's project and official files, we could not locate this report. According to MUCIA's Project Director, this report was prepared by the MUCIA Treasurer in Madison, Wisconsin and it would be supplied directly to AID/Washington. He stated that his Jakarta office would forward a copy to USAID/I, if they received a copy.

Bits and pieces of the details required in this report are contained in the Annual Work Plans for the project years 1977-1978 and 1978-1979 and in the Annual MUCIA Overview for the project year 1980-1981, but an annual firm U.S. dollar budget had apparently not been submitted. The USAID/I Project Officer was unable to provide comments on why this contractual requirement had not been enforced.

MUCIA Local Currency Budgets

This report was to be submitted as requested by USAID/I.

It was to provide the proposed local currency budget for the next project year. MUCIA had annually supplied USAID/I with this budget which is in sufficient detail to allow analysis. MUCIA local currency requirements were provided by the Government of Indonesia based upon MUCIA request. MUCIA turns these funds over to USAID/I on a periodic basis to be deposited in a special "Funds-in-Trust" account.

Quarterly Financial Report

The quarterly financial report provided data on the contract's budget since inception: expenditures for the quarter, cumulative from the start and projected for the next quarter; unpaid obligations and the balances. The report was to be submitted to the USAID/I within 45 days following the end of each quarter.

USAID/I did not routinely receive this report, but we found some copies in the files. According to the MUCIA Project Director, a previous USAID/I project officer had told him not to submit this report because no analysis was made of it. The present USAID/I project officer explained that he had subsequently requested and received this report. He had also requested a financial report on the amount of funds unencumbered for the remaining life of the project. MUCIA was preparing this data for USAID/I.

Joint Annual Review Report

In the spring each year, officials of MUCIA, USAID/I, the Government of Indonesia, and the project universities review the project's activities of the past year and recommend activities for the next year. The report of this review is called the Report Joint Annual Review.

According to USAID/I's project evaluation summary (PES), (78-14 and 79-15) and the project appraisal report (77-14) this report is an integral part of USAID/I's review/evaluation of the project. Also, the Project Paper, the MUCIA contract and the Loan's Implementation Letter No. 1 refer to the completion of this annual review.

Since this report is stated to be an integral part of USAID/I's evaluation , we had expected that the report would be in the English language or translated into English. Neither was the case.

Principally the reports for the periods April to March of 1976-1977, 1977-1978, 1978-1979 and 1979-1980 are in the Indonesian language. Small portions, usually the remarks on the reports of MUCIA and USAID/I officials, are in English. These reports have not been translated into English by either MUCIA or USAID/I. For the latest report March 1979 to April 1980, USAID/I did have the summary and recommendation section of the report translated into English.

AID's General Provision's for a Cost Reimbursement Contract with an Educational Institution, such as MUCIA's contract, requires that all written communication be in the English language. Since this report is important to USAID/I in conducting project evaluation, it seems to us that USAID/I should require that an English translation of the report be provided by MUCIA.

Recommendation No. 11

We recommend that USAID/I officially remind MUCIA of its reporting requirements. Also, we recommend that USAID/I direct MUCIA to have the Report of the Joint Annual Review or at least key sections of the report translated into English.

EXHIBIT 1

Status Of - Loan - Funds As Of
12/31/79

Contract Line Item	Total Project Expenditures	Less Grant Budget	Loan Expenditures
1. Personnel Compensation	$ 1,910,547	$ 1,573,510	$ 337,037
2. Indirect Costs	742,172	610,047	132,125
3. Consultants 1/	-0-	-0-	-0-
4. Allowances	280,420	228,624	51,796
5. Regular Travel & Transportation	275,706	246,299	29,407
6. Other Travel	55,751	39,697	16,054
7. Commodities	2,122,910	1,336,461	786,449
8. Foreign National Training	4,682,032	2,643,374	2,038,658
9. Other Costs	91,495	67,609	23,886
Totals	$10,161,032	$ 6,745,621	$3,415,411

1/ Costs included in other line items.

EXHIBIT II

Project Expenditures and Projected Expenditures as of 1/31/80

Line Item	Program Budget 1/ 7/1/77 to 3/31/81	Expenditures as of 1/31/80	Projected up to 3/31/81	Balance
1. Personnel Compensation	$ 651,231	$ 460,453	$ 103,315	$ 87,463
2. Indirect Costs	269,201	76,530	89,258	103,413
3. Consultants 2/	-0-	-0-	-0-	-0-
4. Allowances	120,121	110,030	13,308	(3,217)
5. Regular Travel & Trans.	92,464	47,335	26,850	18,279
6. Other Travel	55,691	10,469	18,793	26,429
7. Commodities	1,090,011	1,082,194	-0-	2,817
8. Foreign National Training	2,714,563	1,859,145	828,310	27,108
9. Other Costs	89,611	18,536	17,561	53,514
Totals	$5,082,893	$3,669,692	$1,097,395	$ 315,806

1/ Estimated Budget from July 1977 adjusted for expenditures since November 1, 1976 date of loan funding.

2/ Costs included in other line items.

Schedule of Contractor Administered Participants and Estimated Amount Owed the Master Disbursing Account for Health Insurance and Amenity Services

	Contractor	Project	Number of Participants	Estimated Amount to be Transferred
1)	MUCIA	Agriculture Education for Development	98	$ 128,500
2)	MUCIA	Higher Education Development Training	91	60,100
3)	University of Hawaii	Rural Sanitation Man-Power Development	26 1/	31,200
4)	Syracuse University	Education Technology	20 1/	24,000
5)	Ralph Parson Corporation	Feeder Roads Management Training	10 2/	12,000
6)	National Rural Electric Cooperation Association	Rural Electrification	10 2/	2,000
7)	Institute Public Administration	Professional Resources Development I	9 1/	8,800
8)	Engineering Consultant, Inc.	Citanduy Basin Development I	7	17,200
9)	U.S. Dept. of Agriculture	Progessional Resources Development II	5 1/	6,000
10)	International Agriculture Development Service	Sumatra Agricultural Research	5 2/	6,000
11)	Cornell University	Nutrition Surveilance	1	250
			282	$ 296,050

1/ PIO/P's do not cite Circular A-53 - 60

2/ PIO/P's state that contractor will transfer the funds to the AID Master Disbursing Account - 25

LIST OF RECOMMENDATIONS

Recommendation No. 1

We recommend that the Office of International Training review Handbook 10's provision on exceptions to the policy on not programming successive academic degree training and clarify which AID organization may approve each exception.

Recommendation No. 2

We recommend that USAID/I prepare a project implementation instruction stipulating that if a successive academic degree training is warranted, then the project officer must prepare written justification which identifies sufficient sources of funding so the participant will be able to attain the degree objectives.

Recommendation No. 3

We recommend that USAID/I formally require MUCIA to obtain academic progress reports for the in-country participants, at least semi-annually.

Recommendation No. 4

We recommend that USAID/I evaluate its present returned participant following system and determine if funding can be made available for analysis and reporting on the data collected. If funding is not available, then USAID/I should revise the follow-up questionnaires to obtain only the minimum data required to maintain relations with returned participant.

Recommendation No. 5

We recommend that USAID/I establish a control record for the returned participant follow-up questionnaire system which will provide the following control data:

1. Participant's Name
2. PIO/P Number
3. For each of the three questionnaires:
    a) date initial questionnaire sent
    b) date follow-on questionnaire sent, if needed

c) date completed form returned
d) remarks on follow-up.

Recommendation No. 6

For the MUCIA projects, we recommend that USAID/I request AID/W to amend the MUCIA contracts to allow either MUCIA or USAID/I to transfer the approximately $189,000 to the AID Master Disbursing Account for the compulsory health insurance and amenity services.

Recommendation No. 7

For the other contractor administered participant, we recommend that USAID/I confirm with AID/W whether any transfers to the AID Master Disbursing Account have been made for the compulsory health insurance and amenity services. Based on AID/W response USAID/I should ascertain the amount due the AID Master Disbursing Account, transfer these funds and correct its records.

Recommendation No. 8

We recommend that USAID/Indonesia work with the cognizant GOI officials to resolve delays in the port clearances for project commodities. USAID/I should obtain a report on actions taken to release the commodities detained in the port for more than six months.

Recommendation No. 9

We recommend that USAID/I establish a procedure where a "loan required" reports checklist is prepared for this project and others. The checklist should identify the required reports, their contents, and date or periods of submission. The procedures should require quarterly review of the checklist and project officer notification, if the required reports are late or not in the proper form.

Recommendation No. 10

We recommend that USAID/I verify our computations and charge the MUCIA "funds in trust" account or the loan, as appropriate, for the logistical support provided from occupancy to date, and begin routinely charging the project for these costs.

Recommendation No. 11

We recommend that USAID/I officially remind MUCIA of its reporting requirements. Also, we recommend that USAID/I direct MUCIA to have the report of the Joint Annual Review or at least key sections of the report translated into English .

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 the Philippines and Thailand Affairs	1
Bureau of Development Support:	
Office of International Training (DS/IT)	5
Office of Development Information and Utilization (DS/DIU)	4
Bureau for Program and Management Services:	
Office of Contract Management (SER/CM)	3
Office of the Auditor General:	
Auditor General (AG)	1
Executive Management Staff (AG/EMS)	12
Plans, Policy & Programs (AG/PPP)	1
Area Auditor General:	
AAG/W	1
AAG/Africa (East)	1
AAG/Egypt	1
AAG/Near East	1
AAG/Latin America	1
Office of the Legislative Affairs (LEG)	1
Office of Financial Managment (FM)	3
Office of the General Counsel (GC)	1
OTHER	
Auditor General, Inspections and Investigations Staff (AG/IIS/Manila)	1