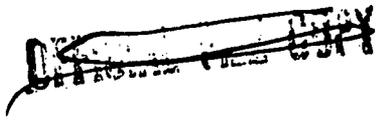


UNITED STATES GOVERNMENT

Memorandum



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

DATE: May 29, 1980

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

SUBJECT: Memorandum Audit Report No. 2-497-80-12
Consulting Services Loan 497-T-040 497-0000

INTRODUCTION AND SCOPE

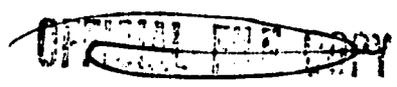
The U.S. Government, through the Agency for International Development, loaned the Government of Indonesia (GOI) \$6.0 million via Loan Agreement No. 497-T-040, dated July 28, 1976 as amended.

The purpose of the loan was to perform prefeasibility, feasibility, sector, regional, or market studies and various economic, technical and managerial consulting services related to capital projects in Indonesia, or otherwise support economic development interests.

The loan, payable over 40 years, was to assist in financing \$5.88 million of Foreign Exchange and the U.S. equivalent of \$0.12 million Local Currency cost of professional services and related materials and equipment required for the project. The studies and services under the loan are referred to as subprojects and are authorized via sequential disbursing authorizations (DA). At December 31, 1979 eleven DA's had been issued under the loan. These DA's totalled \$5.7 million and expenditures were \$3.8 million, leaving a balance of \$1.9 million (Exhibit A).

The Project Paper (PP) emphasized the linkage between the loan as a means of financing studies, technical assistance and related training "to prepare projects which will result in foreign donor financing". Representative of this type of a mandate was the subproject dealing with final design for the Jragung Dam, protecting several thousand farm families from annual floods and increasing about 15,000 families' income through irrigation and availability of electricity.

The loan funds are from the Food/Nutrition appropriation (Section 1.03 of the Foreign Assistance Act). This means that at least 50% of the loan must be used for projects related to food/nutrition to meet the needs of the poor.



Six of the subprojects (DAs 4001 through 4006) involving five contractors have been completed. The DA's issued under those completed, totalled \$2,902 million and expenditures were \$2.893 million. The balance will be deobligated as soon as it is determined that there are no unbilled expenses.

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

STATEMENT OF FINDINGS

Compliance with Loan Provisions

Our review disclosed a high degree of Mission awareness of the contractors' activities and accomplishments. Discussions with USAID/Indonesia personnel and examination of Mission files confirmed periodic project site visits by Mission personnel. Trip reports discussed, where applicable, problems and suggested corrective actions. We satisfied ourselves that conditions precedent were met, and various other provisions of the loan and contracts were being followed. All indications point towards contractors either having completed or being in the process of adequately fulfilling their contractual obligations. To date the GOI and USAID/Indonesia are satisfied with, and have accepted reports, designs, etc.

The loan funds are from the Food/Nutrition appropriation (Section 1.03 of the Foreign Assistance Act). This means that at least 50% of the loan must be used for projects related to food/nutrition to meet the needs of the poor. We found that six of the 11 subprojects met the specific criteria of directly helping the poor, and were properly designated as being related to food/nutrition. The six subproject DA's totalled \$4.2 million, representing 70% of the total \$6.0 million loanable amount (Exhibit A).

Mission records disclosed full compliance with procurement regulations on all contract award matters.

Discount Optimization, Local Procurements

We noted one area of special interest: Under DA 04005, locally managed funds amounting to \$120,000 were spent on participant training and related expenses, as well as the procurement of materials and supplies. A series of purchases for various stationery and training items, amounting to \$5,900 from one local firm did not appear to contain the traditional discount terms, normally offered by this enterprise. We established

the fact that this local firm normally gives discounts of at least 10%, yet none of the invoices reflected any such discounts. We informed the USAID of our findings, and we discussed the Mission's voucher monitoring responsibilities within a recently published guidance cable.

STATE 286425, dated November 2, 1979, "Administrative Approval of Vouchers under Host Country Contracts" clarified that there exists no requirement for project officers to monitor activities to the point where they would be verifying bills, etc. unless they became aware of conditions warranting such checking. In this particular case, there was no awareness of the condition. As a result of our determination that loan disbursements may not receive the benefit of all available discounts, on local procurement, we believe that the potential savings are of sufficient magnitude to warrant the USAID informing its project officers of local discounting and price negotiation practices.

Other Matters

No other matters came to our attention deserving USAID/Indonesia's attention.

Attainment of Objectives

Based on our review of the Consulting Services Loan, its progress to date, and its linkage to other donor lending activities, we are of the opinion that the project either has met its original objectives or is in the process of doing so.

cc: Auditor General (AG)
Executive Management Staff (AG/EMS)
Policy, Plans & Programs (AG/PPP)
Auditor General, Inspection and Investigation Staff
(AG/IIS/Manila).

EXHIBIT A

CONSULTING SERVICES-INDONESIA - LOAN 497-T-040
SUMMARY OF SUBPROJECTS STATUS
From Inception Through December 31, 1979

(000 Omitted)

<u>DA#</u>	<u>Contractor</u>	<u>For</u>	<u>Termination Date</u>	<u>DA Amount</u>	<u>Total Disbursed at 12/31/79</u>	<u>Balance</u>
4001	Asia Consultants	University of Indonesia New Campus Design	10-31-79	\$ 264	\$ 264	\$ 0
4002	Engineering Consultants, Inc.	Jragung Dam Final Design	<u>1/</u> 12-31-79	1,444	1,438	6
4003	Harza Engineering	Medan Power Rehabilitation Complete Engineering Services	8-31-79	74	74	0
4004	Charles T.Main International	Conversion Training Generation and distribution of electricity	12-31-78	321	321	0
4005	Third Country Training & Transportation	Communications Media Training	2-28-80	120	120	0
4006	Syracuse University	Education Technology Radio/TV Communications	1-31-80	680	676	4
4007	Engineering Sciences, Inc.	Medan Urban Development Housing & Water Sanitation	<u>1/</u> 8-31-80	1,267	588	679
4008	Parsons Overseas Company	Feeder Roads Study Program	<u>1/</u> 6-30-80	516	194	322
4009	Cornell University	Nutrition Surveillance System- Multi Sector Surveillance Mechanism	<u>1/</u> 6-30-80	198	0	198
40A01	Amythas Experts & Associates P.T.	Tambak Irrigation Brackish Water Fish Pond	<u>1/</u> 6-30-80	468	87	381
40A02	Engineering Consultants, Inc.	Tuntang River Basin Irrigation & potable water and electricity	<u>1/</u> 6-30-80	299	0	299
Totals				<u>\$5,651</u>	<u>\$3,762</u>	<u>\$1,889</u>

1/ Total of \$4.2 million in accordance with Section 103 of the FAA related to Food and Nutrition