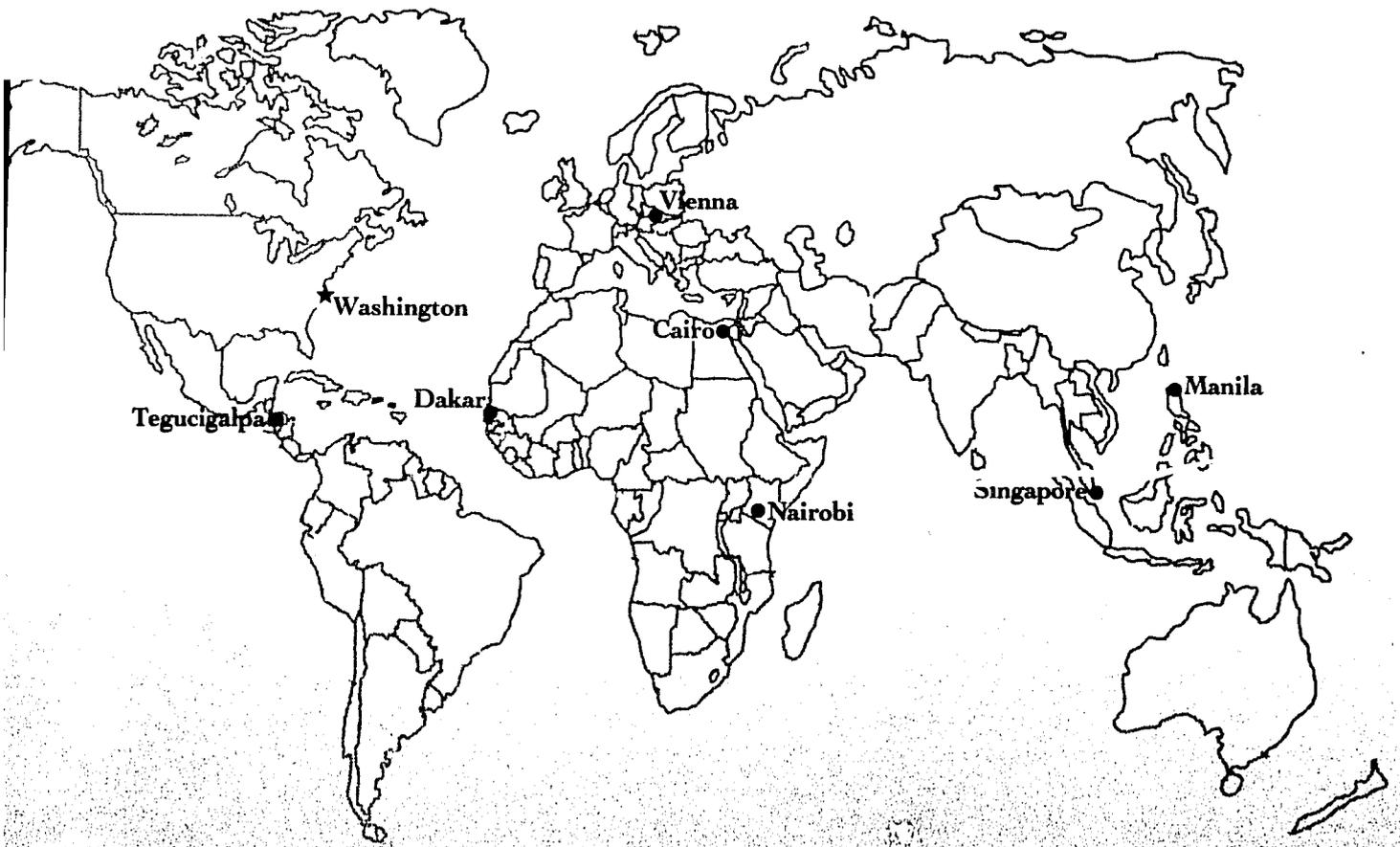


**Regional Inspector General for Audit
Singapore**

**AUDIT OF USAID/INDONESIA'S MANAGEMENT
OF THE SMALL SCALE IRRIGATION
MANAGEMENT PROJECT NO. 497-0347**

**Report No. 5-497-92-10
August 31, 1992**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

August 31, 1992

MEMORANDUM

TO: Charles Weden, Mission Director
USAID/Indonesia

FROM: 
James B. Durnil, RIG/A/Singapore

SUBJECT: Audit of USAID/Indonesia's Management of the Small Scale Irrigation
Management Project No. 497-0347.
Audit Report No. 5-497-92-10

Enclosed are five copies of our audit report on USAID/Indonesia's Management of the Small Scale Irrigation Management Project, Report No. 5-497-92-10. We have reviewed your comments on the draft report and included them as an Appendix II to this report. Based on the comments you provided to the draft report, recommendation numbers 1.1 and 4.2 are closed and numbers 2.3, 2.4., 4.1, and 6 are resolved. All remaining recommendations are unresolved pending agreement on necessary corrective actions. To resolve recommendation numbers 1.2 and 1.4, we also need your concurrence with the amount of monetary savings.

Please respond to this report within 30 days, indicating any actions planned or taken to implement the recommendations and your position on the amount of monetary savings. I appreciate the cooperation and courtesies extended to my staff during the audit.

Attachments: a/s

EXECUTIVE SUMMARY

The A.I.D. Administrator authorized the \$90 million Small Scale Irrigation Management Project to design, test, and apply irrigation technologies and management systems in three Indonesian provinces. The project began in 1985 and is scheduled to end in 1993. As of September 1991, A.I.D. had obligated \$37 million and expended \$13 million (see page 1).

After six years of implementation, the project is still encountering difficulties in producing economic benefits. The project is several years behind schedule in meeting project objectives—at least five years behind schedule in constructing irrigation systems. For example, although 10 surface water systems were to be constructed by 1991, construction on only one system has even started. Of the 5,200 hectares (12,849 acres) of land planned to be irrigated through groundwater irrigation systems, only 38 hectares (94 acres) have been irrigated (see page 3 and Exhibit I).

Mission monitoring and a 1989 evaluation found that an overly optimistic project design partly accounts for the limited progress in accomplishing project objectives. USAID/Indonesia, however, changed the project objectives without (1) preparing the necessary analyses, (2) submitting the required justification, and (3) obtaining necessary authorization. By 1991, a decrease of more than \$26 million in host country contributions and other issues had not been presented to A.I.D./Washington for a decision on whether to terminate or redesign the project (see page 5).

Weaknesses in USAID/Indonesia controls over technical assistance, training, and commodities also contributed to the limited progress. The Mission expended \$9.6 million for technical assistance but neither established clear performance standards for contractors nor held contractors to reporting requirements. Furthermore, although A.I.D. expended \$817,000 to strengthen the capability of the implementing institution through overseas training of 29 staff, the Indonesian Government assigned only 10 of the 29 staff to full-time project positions after the completion of training. Also, the Mission did not obtain reports from the Indonesian Government on the use of vehicles which cost A.I.D. \$231,000 (see page 16).

The limited project progress was not sufficiently and accurately reported to A.I.D./Washington and USAID/Indonesia officials. The Mission did not fully follow A.I.D. procedures for reporting key programmatic and project issues. More reliable reporting could have helped the Mission or A.I.D./Washington make key decisions to resolve the long-standing issues (see page 33).

To help support key decisions affecting project implementation, A.I.D. has established an evaluation function. However, USAID/Indonesia established evaluation procedures which were inconsistent with A.I.D. procedures. The Mission did not design the 1989 evaluation to address all critical issues affecting project implementation. Furthermore, the Mission did not clearly define some performance standards for the evaluation team and did not hold the team accountable for other standards—expending \$90,000 for an incomplete report. Moreover, in processing the evaluation report, the Mission did not (1) ensure the accuracy of the evaluation, (2) prepare a proper evaluation summary for A.I.D./Washington, and (3) establish the required system for resolving the evaluation report's recommendations (see page 39).

This audit report contains six recommendations. The report also assesses internal controls (see page 47) and compliance with legal requirements (see page 51).

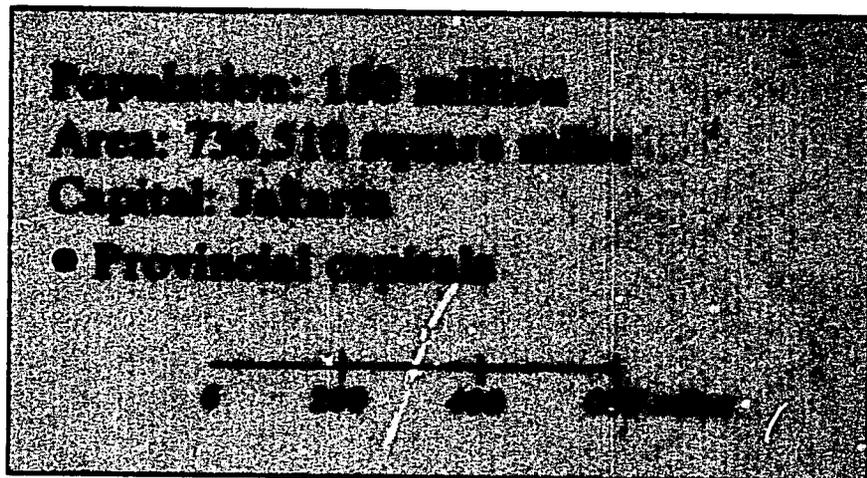
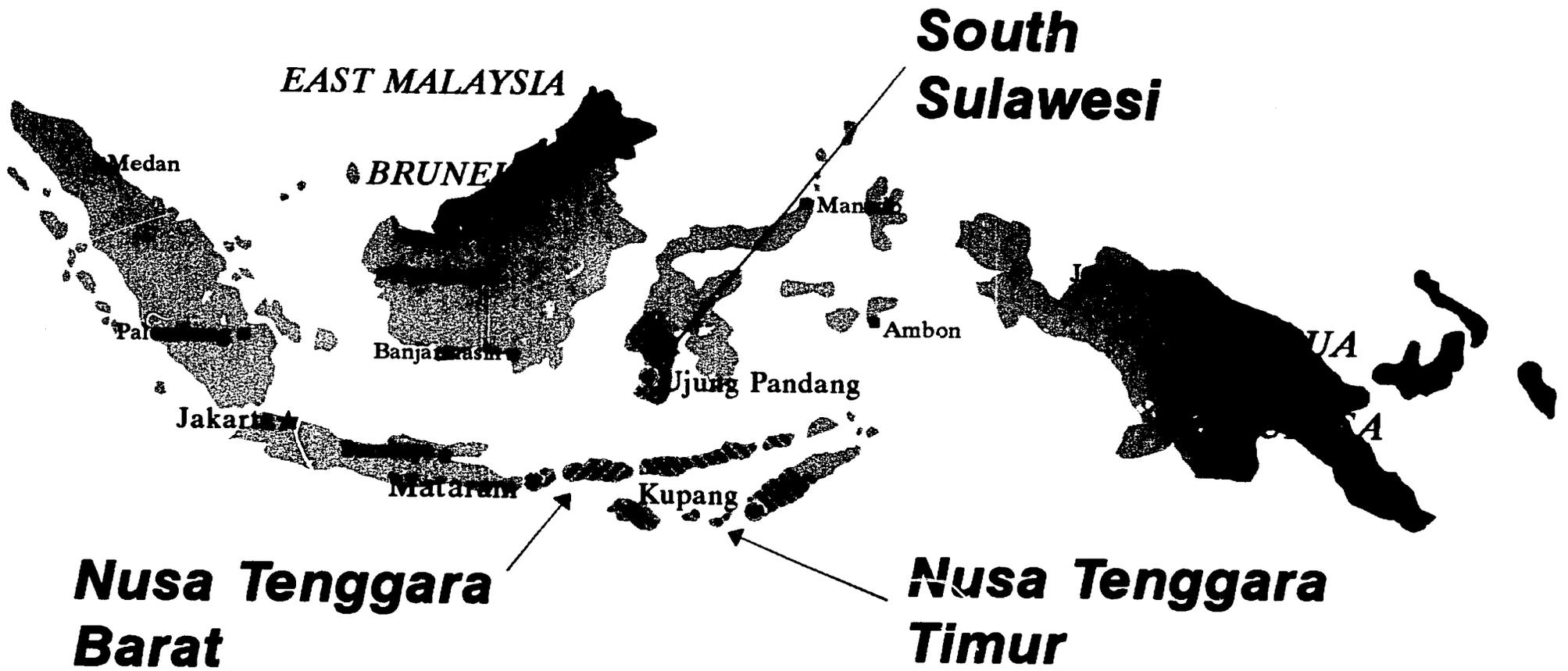
In responding to a draft of this report, USAID/Indonesia disagreed with the auditors' interpretation of facts and the tone of the report. The Mission emphasized that it:

- Reviewed project progress and conducted numerous field trips which led to the design of the 1989 evaluation, an evaluation which met the Mission's purpose and was in accord with A.I.D. procedures.
- Established a strong system of informing management of project progress and issues, and made its best efforts to respond to reporting requirements for data which were not always available. The Mission noted that the Asia Bureau (1) delegated primary responsibility for project implementation to the Mission, (2) retained only general oversight responsibility, and (3) had not indicated dissatisfaction with Mission reporting.
- Took major and responsible corrective actions, including a decision to reduce the number of project activities and to establish a series of critical deadlines for accomplishing key project implementation actions.
- Made a decision to concentrate on expediting project implementation rather than spend the time on drafting a Project Paper Amendment.

USAID/Indonesia comments were fully considered in finalizing this report and, where appropriate, we have revised the report. Mission comments are evaluated at the end of each finding and are presented in their entirety as Appendix II.

Office of the Inspector General

Office of the Inspector General
August 31, 1992



INDONESIA

Indicating the Project's Three Locations

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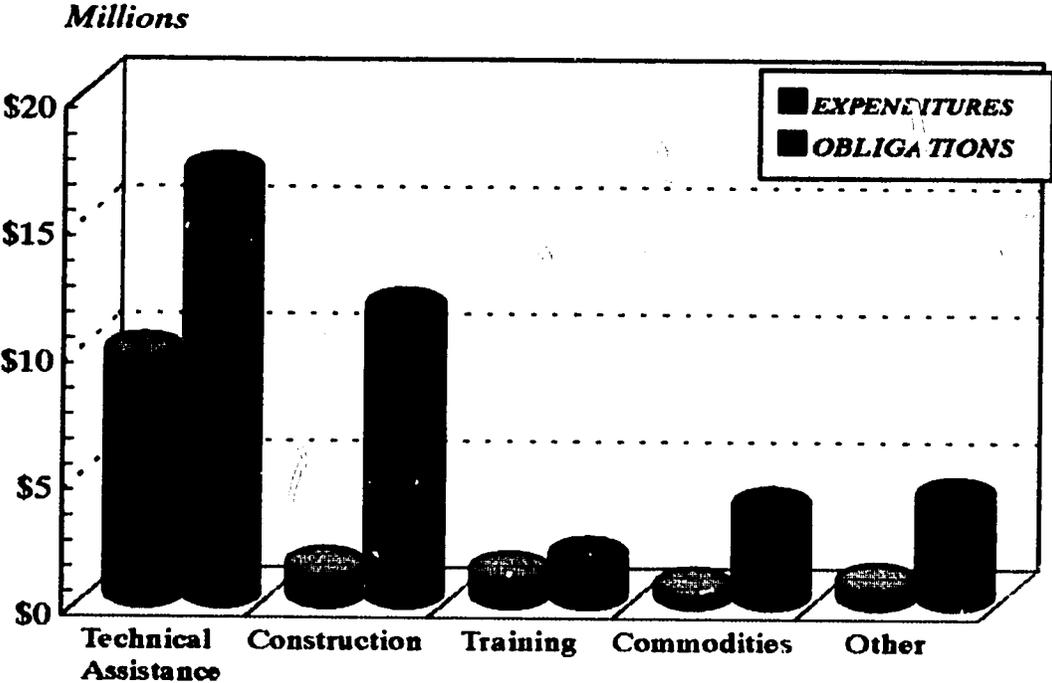
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INTRODUCTION

Background

A.I.D. authorized the Small Scale Irrigation Management Project to design, test, and apply irrigation technologies and management systems in three of Indonesia's provinces—Nusa Tenggara Barat, Nusa Tenggara Timur, and South Sulawesi. For this purpose, A.I.D. designed support for all stages of irrigation development: site selection, survey, design, construction, management, and maintenance.

This \$90 million project began on August 28, 1985 and is planned to end by September 30, 1993. The A.I.D. Administrator authorized \$50 million, including loans of \$43 million and a grant of \$7 million. The Indonesian Government agreed to provide the equivalent of \$40 million and all other resources needed for the project. As of September 30, 1991, A.I.D. obligations and expenditures totaled \$37 million and \$13 million respectively. As shown below, most expenditures have financed technical assistance:



BUDGET CATEGORIES

The Directorate General of Water Resources Development in Indonesia's Ministry of Public Works is responsible for project implementation. To help the Indonesian Government implement the project, A.I.D. funds finance technical assistance from a U.S.-based firm. A.I.D. policies and procedures require USAID/Indonesia to monitor, report, and evaluate the project.

Audit Objectives

The Office of the Regional Inspector General for Audit, Singapore, audited USAID/Indonesia's management of the project to answer the following objectives:

- What is the current status of the project?
- Did USAID/Indonesia follow A.I.D. policies and procedures in monitoring the validity of project design?
- Did USAID/Indonesia follow A.I.D. policies and procedures in monitoring the use of A.I.D. inputs?
- Did USAID/Indonesia follow A.I.D. policies and procedures governing reports on the project?
- Did USAID/Indonesia follow A.I.D. policies and procedures governing evaluations of the project?

In answering these objectives, we tested whether USAID/Indonesia (1) followed applicable internal controls and (2) complied with certain legal requirements. We designed tests to provide reasonable assurance that the answers to the above audit objectives are valid. We also included steps to detect abuse or illegal acts which could affect the audit objectives. Furthermore, for problem areas, we performed additional work to:

- Identify the cause and effect of the problem; and
- Make recommendations to correct the problem and the cause.

Appendix I contains a complete discussion of the audit scope and methodology.

REPORT OF AUDIT FINDINGS

What Is the Current Status of the Project?

As of September 1991, after six years of effort and the expenditure of \$13 million in A.I.D. funds, project results remain years behind schedule. As discussed below, for example, activities to construct groundwater systems, construct surface water systems, and train staff are substantially behind schedule (See Exhibit I for a more complete status).

Groundwater Systems - Of the \$5.5 million planned for groundwater-subsurface water from which wells and springs are fed-irrigation, A.I.D. has expended \$133,000 to initiate groundwater system activities, and these activities have resulted in the irrigation of only 38 of 5,200 hectares (12,849 acres) of land.



A pump for a groundwater well, one of the few wells constructed.

Surface Water Systems - Expecting to start construction in 1986 and to finish the construction of 10 surface water—a river or stream—systems by September 1991, the Mission has expended \$1.1 million of \$22.9 million planned and only just mobilized contractors to construct the first system—5 years behind schedule. The project has designed only three systems—7,150 of the 19,500 hectares planned for irrigation—and is in the process of designing four other systems. The remaining three systems were determined unsuitable for development and were dropped from the project. For the three designed systems, mobilization of contractors began for one in September 1991, another is undergoing contract bidding procedures, and the third has been turned over to Japan for financing.

Staff Training - Training activities to develop the capabilities of the implementing agency have also not met expectations. Of \$1.4 million planned for training, A.I.D. expended \$817,000 for overseas training. Two people were sent for short-term training versus 15 planned. Twenty-seven people were sent for Masters degrees versus 18 planned. While all 29 people completed their training programs, only 10 returned to work on the project full-time (see page 23). Of the 19 that did not return full-time to the project:

- 1 returned to the project to work part-time;
- 2 returned to the project and worked for 10 months or less, and then left; and
- 16 did not return to work on the project.

* * * * *

USAID/Indonesia was aware that results were limited in all areas of the project. In 1989, it contracted for an evaluation to help define the results, identify the causes of the limited results, and devise solutions. The Mission supplemented the evaluation with two in-depth Mission Director reviews of project implementation in 1989 and 1990. The evaluation and reviews attributed the limited results, in part, to Mission designers who: (1) underestimated the time required to award the technical assistance contract and to field the team; and (2) overestimated the Indonesian Government abilities to meet the responsibilities assigned for implementing and financing the project.

Although a faulty project design partly accounts for the limited results, we believe that the problems discussed in this report contributed to the limited progress in achieving project objectives.

Did USAID/Indonesia Follow A.I.D. Policies and Procedures in Monitoring the Validity of Project Design?

USAID/Indonesia followed A.I.D. policies and procedures in monitoring the validity of project design, except for performing thorough comparisons of design with results and for employing the specified procedures to resolve identified problems.

In monitoring the validity of project design, USAID/Indonesia followed A.I.D. Handbook 3 policies and procedures in several respects. The Mission monitored compliance with the conditions precedent to the disbursement of funds. Furthermore, the Mission established systems to compare planned levels of A.I.D. financing with actual levels, which helped the Asia Bureau and the Mission flag the project as a problem requiring close scrutiny. Also, the Mission compared certain aspects of project design with results in conducting a project evaluation in 1989, preparing Project Implementation Reports, and reviewing progress during a 1989 Mission Director implementation review. In using such techniques, the Mission assessed certain aspects of the adequacy and relevancy of project design. The result of these comparisons and assessments was a 1990 "Strategy Statement" which the Mission used to revise the project objectives and implementation methods.

The Mission, however, did not follow A.I.D. policies and procedures in: comparing enough aspects of project design with results; performing more detailed assessments of the adequacy and relevancy of project design (including the continued validity design assumptions and input, output and purpose-level objectives); and taking the required actions when the Mission found that differences existed between project design and results. Additionally, as discussed in the following finding, the Mission should terminate or redesign the project.

USAID/Indonesia Should Terminate or Redesign the Project

Although USAID/Indonesia identified significant design flaws in 1989, by 1991 the Mission still had not followed A.I.D. policies and procedures to redesign or terminate the project. Instead, the Mission informally changed project objectives without preparing the required justification for the changes and submitting the changes and justification for A.I.D./Washington approval. As a result, the Mission has continued funding without: (1) providing justification on whether sufficient economic benefits remain to continue the \$50 million project; (2) assuring the Indonesian Government ability to sustain project activities after A.I.D. assistance ends (taking into account a \$26 million decrease in host country contributions); and (3) obtaining authorization to use the uncommitted \$19.4 million for new purposes, as well as \$12.7 million not yet obligated.

Recommendation No. 1: We recommend that USAID/Indonesia:

- 1.1 Within 30 days, advise the Asia Bureau of the changes to project objectives and request instructions on whether to terminate or redesign the Small Scale Irrigation Management Project;**
- 1.2 Determine how much of the obligated and uncommitted \$19.4 million are needed to either terminate the Small Scale Irrigation Management Project or implement a revised project and deobligate funds not needed;**
- 1.3 Provide the Asia Bureau justification for any decision to redesign the project, justification which consists of (1) empirical data that the revised total project costs can be recovered through sustainable economic benefits, (2) an analysis of Indonesian Government actual and prospective project contributions, and (3) an assessment of Indonesian Government ability and commitment to provide the required resources; and**
- 1.4 Follow A.I.D. policies and procedures for obtaining proper review and authorization of any new or revised project, including a revised Project Authorization for the project purpose and life of project funding, of which \$12.7 million remain authorized but not yet obligated.**

The A.I.D. Administrator authorized the project in 1985 but, since then, USAID/Indonesia accumulated increasing evidence indicative of flaws in the project design. A 1989 project evaluation and Mission reviews indicated that:

- The project designers provided an overly optimistic implementation schedule;
- The project designers overestimated the administrative and financial capability of the Indonesian Government to implement the project; and
- The project designers did not adequately assess certain economic, sociological, and technical aspects of the proposed irrigation sites.

In 1990, USAID/Indonesia responded with a "Strategy Statement" which changed the project purpose, output, and input objectives, as the following illustrates.

- Instead of targeting A.I.D. funds on the development of irrigation systems as authorized, USAID/Indonesia used the "Strategy Statement" to target the development of local institutions. As shown below, there were major differences between these two purposes:

Authorized Project Purpose

The authorized project purpose reflected A.I.D.'s intent to target: (1) new irrigation technologies, particularly a greater variety of crops; (2) only three Indonesian provinces; and (3) specific irrigation systems within those provinces. Accordingly, the authorized purpose was *"to design, test and apply irrigation technologies and management systems for support of diversified food crop production in selected eastern islands of Indonesia."*

Changed Project Purpose

In changing the purpose, the Mission shifted A.I.D. assistance to institutions—*"To increase the capacity of Public Works, local government, private contractors, and farmers' groups to design and implement sustainable irrigation systems using new technologies, new management systems and new policy guidelines."*

Although developing institutional capacity is consistent with both A.I.D. development and project objectives, the A.I.D. Administrator and the Congress did not authorize \$50 million for this purpose. While this \$50 million may have been initially justified by the high capital costs and expected benefits of constructing all of the planned irrigation systems, the "Strategy Statement" did not include justification for why this same amount was needed to increase the capacity of institutions—institutions already receiving some support from a variety of donors—through fewer irrigation systems.

- Although the "Strategy Statement" established some new outputs, such as in-country training for 200 Indonesian Government staff, USAID/Indonesia *significantly reduced the overall output levels*. For example, instead of establishing 10 surface water systems, the "Strategy Statement" outputs called for designing 7 and constructing 5. Thus, by 1990 only 9,385 of the original 19,500 hectares of land were planned for irrigation. Also, the "Strategy Statement" reduced the objectives for developing groundwater systems from 5,200 to 2,960 hectares of land.
- Notwithstanding the significant reductions in outputs, USAID/Indonesia did not reduce A.I.D. financing significantly. In using the "Strategy Statement" to change project objectives, the Mission maintained the U.S. contribution at \$50 million but reduced the Indonesian Government contribution from \$40 million to \$16.8 million. By September 1991, the Mission had reduced the Indonesian Government contribution further to \$13.5 million and the A.I.D. contribution to \$45 million.

As shown below, although A.I.D. had provided \$13 million of the \$45 million, the Mission had no evidence that the Indonesian Government was providing contributions even at the reduced amount:

CONTRIBUTIONS THROUGH SEPTEMBER 30, 1991

	<u>A.I.D.</u>			<u>Indonesian Government</u>
	<u>GRANT</u>	<u>LOAN</u>	<u>TOTAL</u>	
Construction	\$ 15,541	\$ 1,199,193	\$ 1,214,734	
Commodities	55,019	395,970	450,989	
Training	79,484	968,887	1,048,371	
Spec. Studies	645,782	3,498	649,280	
Tech. Asst.	<u>9,618,218</u>	<u>702</u>	<u>9,618,920</u>	
Totals	<u>\$10,414,044</u>	<u>\$2,568,250</u>	<u>\$12,982,294</u>	

USAID/Indonesia did not obtain reports on the Indonesian Government contributions to the project. At our request, the Project Officer prepared a very rough estimate, based partly on *budgeted* amounts and partly on the Officer's knowledge of activities, which indicated that the Indonesian Government had contributed \$4.3 million.

In using only the "Strategy Statement" to change the project purpose, output and input objectives, USAID/Indonesia did not prepare the required analyses and justification to address (1) the Indonesian Government administrative and financial capability, (2) Indonesian ability to sustain the beneficial affects of the project, and (3) the costs versus the benefits of the revised project. Also, USAID/Indonesia changed the project objectives without the required prior approval to do so. To change project objectives, the Mission should have consulted A.I.D./Washington and then submitted an amended Project Authorization and an amended Project Paper or a new Project Identification Document for approval. These areas are discussed below.

Administrative and Financial Capability - USAID/Indonesia did not prepare an analysis of the Indonesian Government administrative and financial capability, even though project implementation showed that the project design assumption about the existence of this capability was overly optimistic.

During project implementation, the Indonesian Government did not provide the required contributions, causing the project to suffer since inception from a shortage of staff; a full-time Project Director; and funds for financing construction, training, and equipment. This problem was touched on lightly by the 1989 evaluation. Furthermore, USAID/Indonesia relieved the Indonesian Government of its responsibility to finance certain design and construction costs, pre-departure costs for

overseas training, in-country per diem, domestic and international airfare, English language training costs, and vehicle procurement costs.

In changing the project objectives with the "Strategy Statement", the Mission did not provide an analysis of the Indonesian Government's actual and expected contributions. Rather, the Mission developed the "Strategy Statement" using the same assumption that the Indonesian Government would provide the necessary resources for the project. Had A.I.D. procedures been followed, an assessment of the Indonesian Government administrative and financial capability should have been prepared.

Sustaining Project Benefits - Although the 1985 project design considered the results of prior irrigation projects and addressed the host country means of sustaining project benefits—especially for construction projects—after A.I.D. assistance ends¹, the 1990 "Strategy Statement" did not provide new assurances that the benefits would be sustained.

The project design considered prior irrigation efforts and provided assurances of sustaining the beneficial affects of the project. The project design (1) included a component to test a system for recovering most operational and maintenance costs from farmers, and (2) provided evidence—in the form of an Indonesian Government written commitment to finance the equivalent of \$40 million—that the Indonesian Government was committed to the project objectives.

The 1990 "Strategy Statement" did not provide any such assurances. Rather, according to the "Strategy Statement":

"All [end of project] indicators will have been attained by [project end] except for the installation and demonstration of the operational and maintenance system and its financing through user fees."

Had USAID/Indonesia followed A.I.D. procedures to redesign the project, the Mission would have had to prepare a new assessment addressing the Indonesian ability to sustain the beneficial affects of the project. Such an assessment would have had to address the impact of not finishing the operational and maintenance system upon sustainability. Moreover, the Mission would have had to address the ability of

¹ Section 611 (e) of the Foreign Assistance Act prohibits providing funds to any capital assistance project, costing more than \$1 million, unless A.I.D. certifies the capability (both financial and human resources) of the host country to effectively maintain and utilize the project, taking into account, among other things, the maintenance and utilization of projects previously financed by the United States.

the Indonesian Government to finance the government share of maintaining the irrigation structures in light of the Indonesian Government failure to provide agreed-upon contributions.



Insufficient funds halted the completion of this prior surface water project—Will the Indonesian Government sustain the A.I.D. project?

As mentioned previously, the Indonesian Government did not provide the required contributions, causing the project to suffer since inception from a shortage of staff; a full-time Project Director; and funds for financing construction, training, and equipment.

Costs Versus Benefits - The "Strategy Statement" did not provide an assessment of whether the total project costs were still commensurate with expected benefits in light of all of the changes to project objectives. The 1985 project design justified the total cost by citing the benefits which would accrue through successful implementation of project activities. Although the Mission reduced the activities significantly, the Mission did not include in the 1990 "Strategy Statement" an assessment of whether the remaining activities would produce sufficient economic benefit to justify a continued \$50 million A.I.D. investment.

USAID/Indonesia did not perform a cost/benefit analysis or analyses of host country contributions and sustainability even though required to do so. A.I.D. Handbook 3, Chapter 13 requires that,

"if [significant matters] occur in a project, their effect on project design or implementation methods must be assessed. As a result of such an assessment, either project design, implementation methods, or both may have to be modified. Modifications...may be so far-reaching that a rigorous re-analysis of the project would be undertaken to determine whether it can and should be modified or, if not, curtailed or terminated."

Project Authorization - USAID/Indonesia did not follow A.I.D. Delegation of Authority and submit a Project Authorization for approval of the new objectives.

According to A.I.D. Delegation of Authority No. 652, the Mission Director does not have authority to authorize a project when the total life of project funding exceeds \$20 million, the project presents significant policy issues, or requires waivers which may only be granted by the Assistant Administrator or Administrator. The Mission Director is also not allowed to amend Project Authorizations under the same conditions, except that the funding limit is \$30 million rather than \$20 million. Even when the Mission Director has authority to authorize or amend a project, the Delegation of Authority stipulates that the authority can only be exercised after consultation with A.I.D. technical and legal staff and after technical review in accordance with Asia Bureau procedures.

In addition, A.I.D. Handbook 3, Chapters 5 and 13, requires an amended Project Authorization when a Mission plans a significant change in the project scope or focus. A.I.D./Washington must review and approve any significant change in:

"Elements of project design that are judged critical to project success. These elements could be aspects of feasibility or relate to project objectives (Outputs, Purpose, Goal), participants, methods, funding, beneficiaries, etc.;

The project description, timing, financing or essential conditions and covenants cited in the Project Authorization;

The project description, financial level, essential conditions and covenants or other significant project-specific terms in the body of the Project Agreement; and

The overall length of the project."

Although the project changes qualified as significant changes in accordance with the above criteria, the Mission did not submit a new or amended Project Authorization to A.I.D./Washington for the required review and approval.

Amended Project Paper or New Project Identification Document - USAID/Indonesia did not submit an amended Project Paper or a new Project Identification Document to obtain an Asia Bureau approval for the changes.

Because of the significant changes to project objectives, USAID/Indonesia was required to submit either an amended Project Paper or a new Project Identification Document, depending upon an Asia Bureau assessment of the significance of the changes. According to A.I.D. Handbook 3, Chapter 13, the Mission should consult by cable with the Regional Bureau about the nature of the change and the implications of the change early in the modification process. If a Mission must modify a project to facilitate the attainment of project objectives by, for example, adding more funds or extending the completion date, the Mission must prepare a Project Paper Supplement. Depending on the nature of the change, the Bureau may require the Mission to submit supporting information for approval before the Mission can initiate the Project Paper Supplement. However, according to the Handbook:

"If the modification would change project elements such that they emerge as essentially a completely restructured project or a new project with different objectives, then a new [Project Identification Document] should be prepared and submitted for Bureau approval...The new [Project Paper] would be prepared and reviewed in accordance with procedures outlined in Chapter 3."

Although USAID/Indonesia changed the project objectives—the significant decrease in host country contributions, the new purpose, changed operational and maintenance objectives, etc.—the Mission did not submit the required Project Paper Supplement or a new Project Identification Document to the Asia Bureau.

* * * * *

USAID/Indonesia officials said that they did not follow A.I.D. policies and procedures because of: (1) the changing developmental policies of the Agency; (2) new Asia Bureau requirements to focus and concentrate developmental resources on fewer sectors, and (3) the time needed to consider and negotiate the resulting options with the Indonesian Government, such as termination, redesign, varying degrees of activity cutbacks, and a one to two year project extension. The officials added that amending the Project Paper to conform with the "Strategy Statement" required too much staff time for a project nearing the scheduled completion date in a sector which

the Mission was moving away from. Furthermore, although the Mission frequently talked with A.I.D./Washington officials about the options under consideration, the Mission did not provide the required formal communication.

By not providing the required formal communication, the Mission lacks the necessary authorization to use the remaining unexpended funds of \$32 million for the new purposes. This \$32 million is comprised of (1) \$19,428,947 which are obligated but uncommitted, and (2) \$12,665,000 which are authorized but unobligated.

In conclusion, while the A.I.D. Administrator authorized \$50 million for the project described in the Project Paper, USAID/Indonesia significantly changed the project objectives—changes which overreached the authorities delegated to the Mission Director. Thus, the Mission has expended obligated funds for an unauthorized purpose. While A.I.D. cannot recover the funds already expended, we estimated potential savings or more efficient use of up to \$19.4 million if the Mission terminates or redesigns the project and deobligates or puts to an authorized use the remaining uncommitted funds. A.I.D. can also avoid costs by deauthorizing \$12.7 million. Should A.I.D. decide to redesign the project, however, the Mission needs to establish controls for ensuring that: (1) the Indonesian Government fully meets commitments for providing contributions; (2) the expected benefits justify the total cost of project activities; and (3) the Indonesian Government maintains the constructed irrigation systems after the termination of A.I.D. assistance. The Mission must follow A.I.D. policies and procedures in presenting these issues to the Asia Bureau for review and approval.

Management Comments and Our Evaluation

With respect to Recommendation No. 1.1, USAID/Indonesia disagreed with the finding that the Mission changed the project objectives and said that neither the objective nor purpose of the project have ever been changed by the Mission. The Mission believed that it had only changed the implementation modalities and project components and that such changes do not require A.I.D./Washington approval. Also, the Mission said that the Asia Bureau was properly informed of the changes and, since the Bureau never requested to formally review the Mission's actions, the Bureau implicitly concurred in what the Mission was doing. Nevertheless, in a March 1992 cable, the Mission did formally notify the Asia Bureau of the changes and requested delegation of authority for the Mission Director to approve a Project Paper Amendment and revised Project Authorization. The Mission requested that Recommendation No. 1.1 be considered resolved and closed upon signature of the Project Paper Amendment.

Recommendation No. 1.1 is closed. This part of the recommendation was only intended initiate a process whereby the Asia Bureau could assess the significance

of the changes and then decide whether the Mission should redesign or terminate the project. We believe the finding sufficiently demonstrates that the Mission significantly changed the project objectives and that these changes required formal Bureau review and approval. Moreover, the results of efforts made by the audit team and Mission staff to search Mission records showed that there was no evidence that the Mission had consulted with the Bureau about the nature and implications of the changes. Nevertheless, based on receipt of the March 1992 cable which notified the Asia Bureau of the changes, we consider this part of the recommendation closed as of the issuance date of this report.

With respect to Recommendation No. 1.2, USAID/Indonesia determined that only \$32.335 million life-of-project funding (a reduction of \$12.665 million) was needed and that a deobligation of \$5 million had been initiated. The Mission requested that the recommendation be considered resolved and closed based on the signing of the Project Paper Amendment.

Recommendation No. 1.2 is unresolved. Under Agency procedures for closing recommendations, this monetary recommendation cannot be considered resolved until there is an agreement on the amount of funds to be deobligated. The monetary savings proposed by the Mission presumes that the Bureau will delegate authority to the Mission to approve the Project Paper Supplement and the revised Project Authorization. However, under Agency procedures and delegations of authority, the Bureau is responsible for assessing the significance of the changes outlined in the Mission's March 1992 cable and then deciding whether (1) the Mission should submit additional supporting information for approval, (2) the Bureau should approve a Project Paper Supplement and revised Project Authorization or delegate the authority to the Mission, (3) the Mission should prepare a new Project Identification Document for Bureau approval, or (4) the Mission should terminate the project. Therefore, the amount of savings could be greater or less depending upon the Asia Bureau's decision on whether to terminate or redesign the project.

With respect to Recommendation No. 1.3, USAID/Indonesia: (1) believed that the recommended cost/benefit analysis was not included in the original Project Paper, would be too costly to perform, and was not warranted at this stage of the project; (2) planned to contract for an accounting firm to analyze the actual and prospective host country contributions; and (3) reviewed the 1992/1993 Indonesian Government budget, planned to review the budget each year, and drafted an amendment to the project agreement with a revised financial plan. The Mission requested that the first part of the recommendation be deleted and that the remaining parts be considered resolved and then closed upon completion of the corrective actions.

Recommendation No. 1.3 is unresolved. We have recommended that, based on the issues identified in this finding about sustainability, host country capability,

and the continued cost/effectiveness of this project, the Mission provide the Asia Bureau justification for any decision to redesign. Under A.I.D. procedures, this justification would then be subject to technical review by the Asia Bureau to ensure that a management decision to redesign is warranted. The extent of justification needed for the Bureau to make an appropriate decision would therefore be a matter for the Bureau to decide. For example, the original cost/benefit analysis said "*AID is also considering similar investments of US\$ 50 million in [the three project zones]. This analysis examines these latter investments to determine if they are economically viable.*" The Project Paper Amendment, however, is based on the perception that "*No attempt was made in the original Project Paper to include all project costs in the economic analysis.*" Thus, by submitting cost/effectiveness justification to the Asia Bureau, the Bureau may require the Mission to submit additional supporting information to resolve inconsistencies between the cost/benefit analysis included in the original Project Paper and the cost/benefit analysis included in the Project Paper Amendment.

With respect to Recommendation No. 1.4, USAID/Indonesia determined that only \$32.335 million life-of-project funding (a reduction of \$12.665 million) was needed and that a revised authorization is included in the draft Project Paper Amendment to reduce the funding to the new amount. The Mission, however, seemed to indicate disagreement that the savings were the result of the audit finding. The Mission believed that the required documentation could not be prepared until now, after more than two years of review results, when the Mission had a firm idea of the remaining requirements of the project. The Mission asked that the recommendation be resolved, and linked closure action to the signing of the Project Paper Amendment.

Recommendation No. 1.4 is unresolved. Like Recommendation No. 1.2, the amount of savings to be realized through deauthorization is subject to an Asia Bureau decision on whether to terminate or redesign the project. Moreover, the recommendation cannot be resolved until there is agreement on the amount of savings resulting from the audit. We do not agree that the Mission needed more than two years of review results to define the remaining requirements of the project. The audit found that the Mission did have some idea of the project requirements when the Mission changed the project objectives through the "Strategy Statement" in 1990. Moreover, during our survey in June 1991, Mission officials told the auditors that they did not believe a Project Paper Supplement was needed. The Mission's belief, however, changed during the course of the audit and in response to our Records of Audit Findings.

The full text of USAID/Indonesia's comments and the actions taken are presented in Appendix II. Mission actions have resulted in the closure of one part of the recommendation. The remaining three parts of the recommendation are unresolved.

Did USAID/Indonesia Follow A.I.D. Policies and Procedures in Monitoring the Use of A.I.D. Inputs?

Although USAID/Indonesia followed many A.I.D. policies and procedures in monitoring the use of A.I.D. inputs, the Mission did not sufficiently follow these procedures in monitoring the use of technical assistance, training, and commodities.

In monitoring technical assistance, training, and commodities in accordance with A.I.D. policies and procedures, the Mission:

- Prepared work statements which defined contractor responsibilities and duties for submitting work plans and reports. Furthermore, the Mission obtained quarterly reports from the contractor which described activities underway, some problems encountered, and activities planned.
- Initiated the installation of the A.I.D. Participant Training Management System to track participants and distributed Post-Training Questionnaires to returned participants. Also, all trainees had returned to Indonesia after the completion of overseas training.
- Established written procedures which require Project Officers to, among other things, trace overdue A.I.D.-financed vehicle utilization reports from Indonesian Government agencies, periodically inspect vehicles during site visits, and file appropriate reports. Also, in its 1989 vulnerability assessment, the Mission identified weaknesses in controls over the receipt and use of A.I.D.-financed commodities.

The Mission, however, did not: (1) sufficiently define contractor work requirements and enforce all contractual requirements for work plans and reports; (2) sufficiently monitor how the Indonesian Government used the returned participants; and (3) obtain commodity utilization reports from the Indonesian Government and conduct end-use checks on these commodities. The following three sections discuss Mission monitoring of the use of technical assistance, training, and commodities.

USAID/Indonesia Must Better Monitor Contractor Performance

A.I.D. policies and procedures require Missions to monitor contractor performance by (1) clearly defining work requirements, and (2) obtaining proper work plans and reports. USAID/Indonesia did not sufficiently define contractor work requirements or enforce contractual provisions dealing with work plans and reports. The Mission did not enforce these provisions because officials did not agree with the applicable

A.I.D. policies and procedures. Had these policies and procedures been followed, however, the Mission would have been better able to measure project progress and assess contractor performance, for which A.I.D. has already expended \$9.6 million.

Recommendation No. 2: We recommend that, for the Small Scale Irrigation Management Project, USAID/Indonesia:

- 2.1 Establish well-defined work requirements and deadlines in Statements of Work and, thereby, enable the Mission and others to objectively measure contractor performance;**
- 2.2 Obtain from contractors annual work plans to establish interim performance targets and deadlines;**
- 2.3 Obtain periodic, at least semiannual, reports from contractors which gauge how contractor activities have progressed relative to the Statement of Work and work plans; and**
- 2.4 Document reviews of contractor progress reports and immediately notify contractors when the reports do not comply with the reporting requirements stipulated in the contract.**

In September 1987, USAID/Indonesia entered into a Cost Plus Fixed Fee contract (AID-497-0347-C-00-7139-00) for the provision of technical services to the project. Following the findings of the project evaluation and a Mission Director implementation review in 1989, the Mission amended the contract in June 1990. This amendment (1) extended the contract by 18 months to October 1991, (2) increased the contract to \$9,864,698 by providing additional funds of \$4,736,810, and (3) changed the level of effort through a revised Statement of Work.

Considering the scope and complexity of contractor activities, A.I.D. Handbooks 3 and 14 have established the submission of periodic—at least semi-annual—contractor progress reports as an important responsibility. Also, the Handbooks require that:

- The Statement of Work must clearly define contractor work and reporting requirements; and
- The reports must include objective information on achieving established work requirements.

Although the Project Officer may be fully knowledgeable of contractor performance, good reporting by contractors enables other interested parties—such as external evaluators and senior A.I.D. officials—to objectively measure contractor performance.

As discussed below, USAID/Indonesia did not clearly define Statements of Work or obtain adequate contractor reports.

Statements of Work - Although A.I.D. policies and procedures require well-defined Statements of Work, the Mission did not follow these requirements.

According to A.I.D. Handbook 3, Supplement A, Appendix C, the Statement of Work is the most important single document in procuring technical assistance and preparing a binding contract. The Statement of Work must include specific targets and deadlines which will enable A.I.D. and others to objectively evaluate contractor performance. Even in contracts calling for a level of contractor effort to pursue an objective, the Statement of Work should provide details of what A.I.D. wants the contractor to do and when. For example, the Statement of Work might divide tasks into discrete phases, each of which the contractor must complete for Mission approval before proceeding to the next phase. The Statement of Work is the essence of the binding agreement to which A.I.D. can hold the contractor accountable for defined tasks.

Although the Project Officer clearly defined several contractor responsibilities and duties, such as the specific content and timing requirements for annual work plans and annual and quarterly reports, the Officer did not define specific targets and deadlines for measuring contractor progress in meeting other responsibilities and duties. For example, the Project Paper Implementation Plan provided an illustrative list of 10 specific studies and pilot activities and the proposed year of implementation. These studies were to be conducted in response to design, implementation, monitoring and evaluation, and technology requirements. The Project Paper provided implementing guidance for this activity, but the Project Officer did not use this guidance in revising the Statement of Work to provide the contractor clear targets and deadlines. The Special Studies and Pilot Activities section of the revised Statement of Work merely required that:

"The Consultant will assist [Indonesian Government] and USAID [Indonesia] staff in identifying Special Studies and Pilot Activities which are necessary to support the [project] in meeting its goals and objectives. The Consultant will prepare proposals for these activities, including preparation of scopes of work for consultants, implementation schedules, budget estimates, etc. The Consultant will assist [Indonesian Government] in identifying consultants and/or organizations which can carry out the Special Studies. The Consultant will assist in the monitoring of the implementation of the Special Studies, assuring that progress is reported and any problems in implementation are brought to the notice of appropriate [Indonesian Government] and USAID staff."

Such vague definitions of contractor duties did not provide the required details of what A.I.D. wanted the contractor to do and when, leaving very little basis to objectively evaluate contractor performance. In 1989, when only two studies had been initiated, the evaluation did not provide a clear assessment of how these limited results were related to contractor performance, concluding only that the contractor did not appear to have the time and capacity to focus on this important aspect of the project. By September 1991, four studies had been performed and another four initiated. However, because the revised Statement of Work lacked targets and deadlines, the Mission still had no basis to objectively evaluate whether contractor performance was commensurate with results.

USAID/Indonesia did not recognize the need to include specific targets and deadlines in Statements of Work. According to senior Mission officials, the Mission writes Statements of Work in general terms to allow contractors sufficient flexibility in accomplishing tasks.

The Mission position of writing Statements of Work in general terms to allow contractors flexibility is not fully consistent with A.I.D. procedures. A.I.D. Handbook 3, Supplement A, Appendix C distinguishes between completion-type contracts, where the contractor is responsible for accomplishing a clearly defined task or output, and a level-of-effort type contract which is stated in general terms to provide the contractor *more* flexibility because the end product cannot be defined with precision. The Handbook emphasizes that, whichever type of contract is used, the Statement of Work must be detailed as to what the Mission wants the contractor to do and when the Mission wants it done. However, USAID/Indonesia provided too much flexibility by not providing these details.

The USAID/Indonesia practice of expending millions of dollars for technical assistance—\$9.6 million for assistance under this project—and allowing contractors so much flexibility accounts, in part, for the findings of the 1989 project evaluation. In pointing out the impact of a poorly defined Statement of Work on project progress, the evaluation reported that:

"...the position [team leader] was very narrowly defined in the scope of work...The role of the [Technical Assistance] chief of party in Jakarta should be redefined to include clear responsibility for overall project planning and monitoring and providing advice and assistance to the [Indonesian Government] in project implementation."

Senior Mission Officials said that the Mission did not need more specific Statements of Work because the Mission compensates for flexible Statements of Work by requiring contractors to submit annual work plans for Mission approval.

Although the Statement of Work required the contractor to submit annual work plans, reflecting benchmark targets for Indonesian Government and Mission approval, the Project Officer did not hold the contractor to this requirement. The contractor prepared a life-of-project work plan during mobilization in 1987, but the Project Officer did not obtain any annual work plans, even after the Mission changed the contractor roles and responsibilities by revising the Statement of Work in 1990.

Because annual work plans were not available to better define contractor roles and responsibilities, some confusion over these roles and responsibilities continued to limit project progress. For example, in reporting on progress to construct the first surface water irrigation system in September 1991, the contractor noted that:

"There is a great deal of confusion on the roles and responsibilities of the [Technical Assistance] Team and [Indonesian Government] Project staff related to construction management and supervision activities for Kalimantan II Subproject. This problem is being exacerbated by the lack of communication from the Subproject Manager to the [Technical Assistance] Team, and the delays in fielding [Indonesian Government] construction supervision staff at the site. The [construction] Contractors are not getting proper direction and instructions in accordance with the contract specifications. There is not yet a proper representative of [Indonesian Government] (Owner/Engineer) stationed in [subproject site] to direct the [construction] Contractors, and the [Technical Assistance] Team cannot assume that role."

To help avoid such confusion over the roles and responsibilities of the technical assistance team, we believe that the Mission needs to prepare a better defined Statement of Work.

Contractor Reporting - Contrary to A.I.D. policies and procedures, USAID/Indonesia did not enforce contractual requirements for progress reports.

To hold a contractor accountable for contractual requirements, A.I.D. Handbook 3, Supplement A, requires the Project Officer to monitor contract implementation and assess contractor performance. The Project Officer should review each progress report and comment on the report's adequacy, particularly as the report discusses progress toward planned targets and identifies actual or potential problem areas. The Project Officer should also bring any deficiencies in the reports to the contractor's attention and suggest possible solutions. The Project Officer should document these cases in the project file and, if appropriate, report the deficiencies to other Mission officials, including the Contracting Officer.

The Mission did not enforce contractor reporting requirements.

The Mission did not enforce contractor reporting requirements. The Project Officer did not obtain any annual reports on contract activities, reports which the contract required to also provide a detailed assessment of the project in achieving objectives. Moreover, although the Project Officer obtained quarterly reports, these reports did not compare activities planned with results, as required.

According to the contract, these quarterly reports were to list and discuss contract activities planned for the quarter and progress during the quarter in completing those activities. The reports also were to have assessed project implementation progress by reporting on the quantitative and qualitative achievement of project targets for each project element, as well as obstacles to implementation.

As discussed previously, Agency procedures required at least semiannual reporting of contractor activities relative to the Statement of Work. Rather than assessing contract and project progress as required, the quarterly reports provided an extensive discussion of current activities; gave such details as visits by contractor staff, consultants, Mission officials, or Indonesian Government officials; and described problems encountered as well as activities planned for the *next* quarter. While such information was certainly useful, the reports did not compare contractor and project progress with activities planned for the current period.

Such comparative data could have helped the Mission better gauge the progress of project activities. For example, had the quarterly reports compared project training objectives with the number of long-term training participants who had returned to use the new skills effectively for project purposes, senior Mission management would have known that 16 of 27 participants never returned to the project, and two others returned but subsequently left. As discussed later in this report, senior Mission Officials did not realize the extent of this problem in the training component nor the impact of this problem on project progress.

The Project Officer did not enforce the reporting requirements because, according to the Officer's supervisors, the Mission considered the contractor quarterly reports, as well as discussions with the Indonesian Government, sufficient to prudently review contractor activities and project progress. Furthermore, the Project Officer said that the quarterly reports were reviewed and reporting problems were discussed with the contractor. However, only once did the Project Officer document such reviews. Therefore, certain members of the Project Committee were unaware of the contractor reporting deficiencies.

* * * * *

Because the Project Officer did not define contractor work requirements and obtain good work plans and reports, USAID/Indonesia cannot objectively evaluate contractor performance. As of September 1991, the Mission had expended \$9.6 million for technical assistance—nearly all of the money planned for that purpose—but the project remained years away from completion, having achieved only limited progress. The Mission cannot measure whether the limited progress is commensurate with the \$9.6 million expended for technical assistance.

Management Comments and Our Evaluation

USAID/Indonesia neither agreed nor disagreed with Recommendation No. 2 but summarized the corrective action taken and provided documentation in support of these actions. Such documentation consisted of a new Statement of Work, an initial draft work plan, a draft Inception Report, and the Phase I contractor's Final Report. The Mission requested that all parts of Recommendation No. 2 be considered resolved and closed upon issuance of the audit report.

Recommendation No. 2.1 is unresolved. Although the Mission believes that the new Statement of Work includes well-defined work requirements and deadlines, we found little difference between the quality of this Statement of Work and the ones reviewed during our audit. In our view, the Statement of Work should include specific benchmarks and targeted completion dates in accordance with A.I.D. Handbook 3, Supplement A, Appendix C.

Recommendation No. 2.2 is unresolved. The initial draft work plan is for the remaining life of the contract and does not represent an annual work plan which establishes specific performance targets and deadlines for the contractor to meet and to report progress against during the year. Nor does the new contract require the contractor to establish such specific performance targets and deadlines in annual work plans.

Recommendation No. 2.3 is resolved. This part of the recommendation can be closed upon receipt of the first quarterly report under the new contract which measures how contractor activities have progressed relative to the Statement of Work and first annual work plan.

Recommendation No. 2.4 is resolved. The recommendation can be closed upon receipt of copies of the Project Officer's written comments on the Inception Report and the Phase I contractor's Final Report.

The full text of the Mission's comments and the actions taken are presented in Appendix II. These actions have resulted in the resolution of two parts of the recommendation. The remaining two parts of the recommendation are unresolved.

**USAID/Indonesia Should Establish
Procedures for Monitoring the Use of Training**

A.I.D. policies and procedures require USAID/Indonesia to monitor whether the Indonesian Government uses A.I.D.-financed training for intended purposes. The Mission did not sufficiently monitor the use of training because (1) the Training Officer had not completed implementing some required A.I.D. procedures, (2) the Mission lacked other procedures for Project Officers to monitor the use of training, and (3) Mission reviews and internal control assessments did not identify training control weaknesses. As a result, the project suffered a shortage of skilled staff while the Indonesian Government used \$301,000 of \$817,000 expended on overseas training for other than intended purposes.

Recommendation No. 3: We recommend that USAID/Indonesia establish monitoring procedures to:

- 3.1 Include in Project Agreements terms and conditions which bind the Indonesian Government to specific uses of A.I.D.-financed training, uses consistent with A.I.D. policy and Project Paper purposes;**
- 3.2 Obtain responses to Post-Training Questionnaires (designed to evaluate the application of training) six months after trainees have returned and regularly thereafter; and**
- 3.3 Maintain a list, by Project Officer, of returned trainees and periodically (a) reconcile this list with Training Office records, (b) obtain contractor or Indonesian Government reports which identify the positions that participants have been assigned to and how the staff are using the training, and (c) verify reported information during site visits.**

A.I.D. included a project component to strengthen the staff of the Indonesian Government Ministry of Public Works at the provincial and section offices where project activities were to be carried out. The objective of this component was to improve the capability of the provincial and section offices to successfully carry out project activities, such as managing contractors who were to survey, design and construct the irrigation systems. Based on the project design institutional analysis, the designers determined that the staff required training in a variety of technical, analytical, and managerial skills. Accordingly, the project designers budgeted \$1.4

million to provide 18 staff members long-term overseas training for Masters degrees, 15 staff members short-term overseas training, and each section-level staff member 4 two-week workshops in-country.

As of September 30, 1991, A.I.D. had expended about \$1 million on training of which \$817,059 financed overseas training. We focused on whether the Mission monitored that the Indonesian Government used overseas training for the purposes specified in the Project Paper.

A.I.D. Handbook 10 requires USAID/Indonesia to monitor whether the Indonesian Government uses A.I.D.-financed training for intended purposes:

"...that information and evaluation systems built into AID projects and programs at the outset contain specific responsibility for monitoring and evaluating the participant training component of the projects and to relate these to other project implementation activities.

...that information collected be used for ongoing monitoring and evaluation of mission participant training projects and projects with participant training components so as to make adjustments and improvements as needed in the management and implementation of such projects or components."

USAID/Indonesia did not follow these requirements for monitoring the use of training. Although the project design quantified the number of staff to be trained and the training programs needed, the project design did not establish specific responsibility for monitoring the participant training program. Moreover, the Mission did not collect the information required to monitor and evaluate the use of training effectively. Project Implementation Reports, site visit reports, reports on Mission reviews, contractor reports, and other records contained little information about the Indonesian Government use of training.

Lacking this information, the Mission could not evaluate training effectively. For example, the 1989 evaluation concluded that:

"The Participant training appears to have been well executed, with all participants sent abroad and then returning, earlier than planned...The [evaluation] team met two of these returnees during its field trip and was impressed by their energy, enthusiasm, and competence. We believe that the returning participants, as a group, will provide a positive infusion of talent at a propitious time for the project."

The evaluation team did not, however, conclude whether the Indonesian Government used the training as intended. Although the evaluation report did not disclose any

scope limitations, the lack of information on the use of training could have impaired the evaluation team's ability to reach an objective conclusion.

Despite the lack of information, USAID/Indonesia monitoring did identify potential problems, such as those identified during the 1990 Mission Director implementation review. Yet, the Mission did not determine the extent of or report the problems when reporting on internal controls several months later, as the following illustrates.

1990 Mission Director Review

"A combination of *unfilled positions* and allocation of existing staff is a major obstacle to concerted, effective implementation of groundwater activities. [A.I.D.-financed *contractors*] *are pulled into operational roles*. Mid-level [Indonesian Government] supervisors and technical staff are in especially short supply. Two of the three [A.I.D.-financed] participants from [the location under review] returned to work *outside the project* in fields other than groundwater."

1991 Internal Control Report

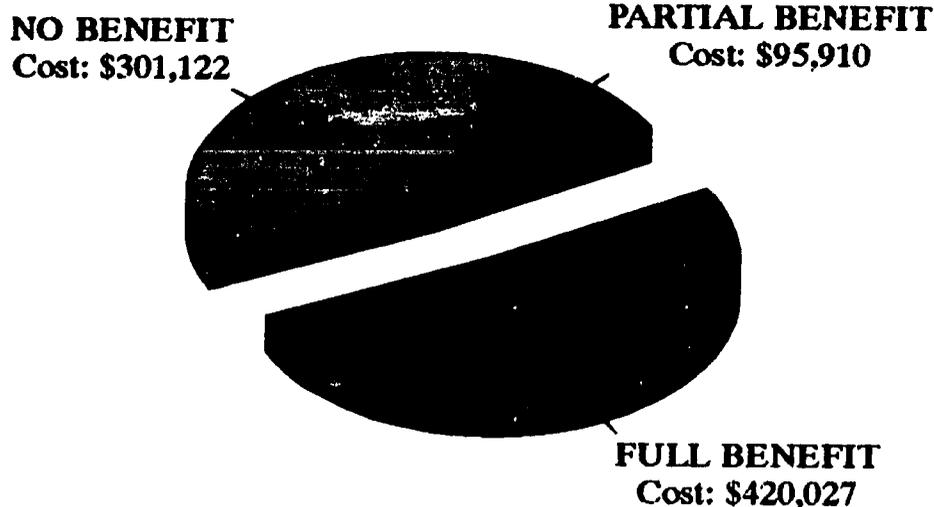
"The *participant training program in Indonesia* has been a *spectacular success*. Most of the training is managed through either host country contracts or buy-in arrangements to a central contract through [the A.I.D./Washington Office of International Training]. The [Indonesian Government] has established an Overseas Training Office (OTO) to help coordinate English language training and pre-departure orientation programs."

The Mission Director believed that even though a few staff members did not return to the project, the fact that staff returned to the country and were using the skills for irrigation² indicated that A.I.D. funds were not wasted. This belief, however, was (1) inconsistent with the intended purposes of the training—strengthening the capability of Indonesian Government staff to implement the project, and (2) based on the little information received from the Mission monitoring system.

Had the Mission established an adequate monitoring system, the Mission Director would have found that most—not just a few—did not return to the project as intended. Although USAID/Indonesia sent 27 Indonesian Government employees overseas to obtain A.I.D.-financed Masters Degrees in irrigation management and 2 employees for short-term training, only 10 returned to the project full-time and 3 returned to the project part-time (see Exhibit II). Therefore, as shown by the following chart, A.I.D. only received the full benefit of \$420,027 of the \$817,059 expended for overseas training.

² We also found that USAID/Indonesia had little information to show that the non-returned staff were even using their skills for other irrigation efforts.

Use of A.I.D. Funds for Training



*\$301,122 in A.I.D. funds were spent to train 16 local staff who did not return to the project.
\$ 95,910 in A.I.D. funds were spent to train 3 local staff who returned part-time to the project.
\$420,027 in A.I.D. funds were spent to train 10 local staff who returned full-time to the project.*

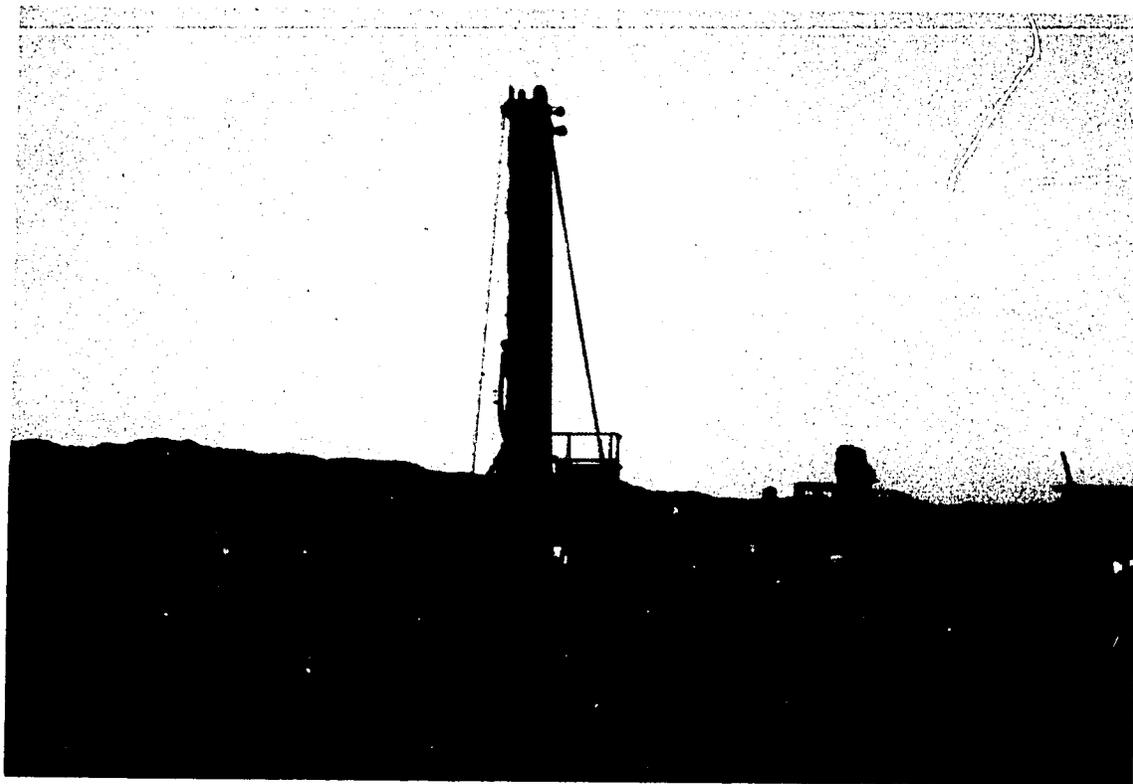
The A.I.D. project did not receive any benefit from the \$301,122 expended to train staff which did not return to the project. As shown in Exhibit II, for example, A.I.D. spent \$64,154 on 38 months of U.S. training for one staff member. Upon completion of this training, however, the staff member did not return to work for the project.

Of the 16 staff members who did not return to the project, USAID/Indonesia sent 14 for third-country training in 1987. Although these 14 staff members were originally employed in provinces outside of the project zone, the Mission approved the training for this staff. We could not determine the Mission rationale for this approval because the Mission did not document enough information and because the responsible Project Officer and the Officer's supervisors no longer worked at the Mission.

According to Indonesian Government Officials, the Indonesian Government assigns returned trained staff to positions where the staff are needed most, regardless of whether or not the positions are with the funding project. One Official said:

"It is the policy of the [Ministry of Public Works] to return participants to higher positions regardless of whether it is with the funding project or not. This is the policy for all sponsors."

The application of this Indonesian Government policy to the A.I.D. project, however, was inconsistent with (1) an Indonesian Government 1985 written request for A.I.D. assistance to strengthen the staff in the project's three provinces, (2) the Project Agreement requirement for the Indonesian Government to provide all resources needed to implement the project, and (3) the long-standing need to fill staff positions for the implementation of the A.I.D.-funded project³.



Contractors were pulled into operation roles, such as to supervise the drilling of this groundwater well, because A.I.D.-financed trained staff did not return to the project.

Had USAID/Indonesia established a good monitoring system over the use of training, the Mission would have been better able to define and resolve the staffing problems. However, the Training Officer had not fully implemented required A.I.D. procedures⁴. Specifically, the Mission did not:

-
- ³ Since the Mission did not establish terms and conditions in the project agreement binding the Indonesian Government to use the training for intended purposes, A.I.D. does not have a sufficient basis to recover the training funds from the Indonesian Government.
 - ⁴ USAID/Indonesia was in the process of installing A.I.D.'s Participant Training Management System. According to Mission Officials, the Mission started to install this system one year ago, but a key Training Office staff member left the Mission.

- Establish binding terms and conditions for the Indonesian Government to ensure the trainees will work in the agreed-upon positions for an agreed-upon period, normally not less than 2 years for each year or partial year of training (A.I.D. Handbook 10, Chapter 33); and
- Obtain responses to Post-Training Questionnaires—designed to evaluate the application of training—from trained staff at least six months after the staff have returned and regularly thereafter (A.I.D. Handbook 10, Chapter 34).

Moreover, USAID/Indonesia did not establish procedures for Project Officers to maintain a list of returned trainees and to periodically reconcile this list with the Training Officer records. And finally, the Mission required neither contractors nor the Indonesian Government to specifically report on the use of training.

Because USAID/Indonesia had not established sufficient monitoring procedures or required reports from the Indonesian Government, A.I.D. was unable to take action when the Indonesian Government did not assign the staff to the project. As a result, the A.I.D. irrigation project suffered staffing shortages.

In conclusion, USAID/Indonesia monitoring weaknesses enabled the Indonesian Government to use A.I.D.-financed training for other than intended purposes, leaving insufficient skilled staff to implement the project. We cannot estimate the extent of U.S. Government funds lost from project delays caused by staffing shortages; however, A.I.D. expended at least \$301,122 for training which the Indonesian Government did not use as intended. The Mission should establish procedures to ensure that trained staff are indeed used as intended.

Management Comments and Our Evaluation

USAID/Indonesia disagreed with Recommendation No. 3.1 because the Mission believed that this recommendation was inconsistent with the project objectives. The Mission officials believed that: (1) the objective of the project was to increase the capability of the Indonesian Government to manage irrigation systems, and (2) the project may wish to train individuals who are not needed to implement the project, but whose training is important to increasing the overall capability of the Indonesian Government to manage irrigation systems, including systems being developed under other Indonesian Government programs. Therefore, the Mission requested that this part of the recommendation be deleted.

Recommendation No. 3.1 is unresolved. A.I.D. funds were not authorized to implement a project with country-wide irrigation objectives. The A.I.D. Administrator and the U.S. Congress authorized funds for this project to "design, test and apply irrigation technologies and management systems for support of diversified food crop production in selected eastern islands of Indonesia". To

this end, the Project Paper (upon which the authorization is based) showed how A.I.D. funds were to be used in developing specific irrigation systems within three specific provinces of Indonesia. Based on an analysis of the project's implementing institutions, a constraint to achieving the project objectives was identified, and the Project Paper accordingly included a training component for the "Public Works provincial and section level staff in the three provinces" and, to a lesser degree, certain provincial staff in the Ministry of Home Affairs. This view of the training program also received some support during project implementation. For example, in a January 1989 letter to the Secretary General of the Directorate General of Water Resources Development, the Project Officer advised that:

"USAID expects that the participants...will be able to return to Indonesia after completion of their Master's program and give their full support to our [project]. We suggest that the participants upon completion of their M.Sc. studies be assigned to work full time for a period of two to three years on [project] activities."

This view of the training program was further supported by the Mission Director's late 1989 Implementation Review which identified staffing problems at one of the project sites due to the failure of trainees to return to the project "as expected".

To bind the host government to the intended uses of A.I.D.-financed training, the Mission should include appropriate terms and conditions in project agreements.

With respect to Recommendation Nos. 3.2 and 3.3, USAID/Indonesia requested that these be deleted since a Mission-wide participant training audit is underway.

Recommendation Nos. 3.2 and 3.3 are unresolved. We would prefer not to delay resolution of the identified weaknesses. We believe that the finding identifies significant weaknesses in the Mission's procedures for monitoring training, and that these weaknesses warrant more immediate action.

The full text of the Mission's comments and the actions taken are presented in Appendix II. All three parts of the recommendation are unresolved.

USAID/Indonesia Needs to Monitor Commodity Utilization

Contrary to A.I.D. policies and procedures, USAID/Indonesia did not monitor the utilization of A.I.D.-financed vehicles. Although the Mission established procedures

to obtain annual commodity utilization reports and to verify these reports, only one report was obtained and this report was never used to monitor vehicle utilization. Mission Officials did not supervise the Project Officer's implementation of the monitoring procedures. Moreover, when the Mission identified internal control weaknesses, the Mission inaccurately reported the effectiveness of corrective actions. Proper supervision and reporting of commodity controls would have identified an inability to account for the use of vehicles which cost A.I.D. \$231,000.

Recommendation No. 4: We recommend that USAID/Indonesia establish better procedures for ensuring that the Project Officer for the Small Scale Irrigation Management Project:

- 4.1 Obtains annual commodity utilization reports showing location, condition, and use of A.I.D.-financed vehicles; and**
- 4.2 Verifies the information on the utilization reports through end-use checks conducted during periodic site visits.**

A.I.D. Handbook 15, Chapter 10, Attachment B requires Missions to conduct "end-use" reviews and to inform the Mission Director and appropriate Mission offices whether the host government uses A.I.D.-financed commodities on time and for intended purposes, and complies with A.I.D. regulations and Project Agreements. Specifically, the Handbook requires that:

"Written end-use reports are to be distributed to the Director, Deputy Director, and to those USAID officials who are responsible for taking corrective action on findings and recommendations."

To implement these requirements, USAID/Indonesia established written procedures which require Project Officers to, among other things, trace overdue A.I.D.-financed vehicle utilization reports from Indonesian Government agencies, periodically inspect vehicles during site visits, and file appropriate reports.

USAID/Indonesia did not enforce these procedures. Although A.I.D. expended \$231,000 on vehicles, the Project Officer obtained only one vehicle utilization report, in May 1990. Also, the Project Officer did not use this report to conduct end-use checks—which is a main purpose of utilization reports. The only evidence of the Officer checking commodities was one site visit report which gave senior Mission officials no assurance on the overall use of vehicles. For example, according to the report:

"A.I.D.-funded vehicles in [two provinces] were suitably marked with A.I.D. emblems and in excellent running condition."

This statement provided no assurance on the overall use of vehicles because the Project Officer did not quantify the number of vehicles reviewed or record which vehicles were inspected. According to the Project Officer, the Officer only inspected those vehicles which came to the Officer's attention, but the Officer did not verify whether all vehicles, as implied by the above statement, existed at the sites. In addition, the Project Officer did not prepare a checklist to indicate which of the vehicles the Officer had inspected.

Although A.I.D. policies and procedures require commodity utilization reports to be submitted to the Mission Director and appropriate Mission offices, and USAID/Indonesia issued written procedures specifying the responsibilities of Project Officers with respect to commodity utilization, Mission officials did not oversee the implementation of these requirements.

According to the Mission 1989 Internal Control Assessment, conducted to comply with the Federal Managers Financial Integrity Act, Project Officers had not established satisfactory controls over the receipt and use of A.I.D.-financed commodities. Then, in March 1991, the Mission reported the resolution of this internal control weakness, despite persistent weaknesses in the implementation of Mission procedures.

Since May 1990, the Project Officer has not provided the Mission Director and other USAID/Indonesia offices the required commodity utilization reports, and the Mission has taken no corrective action. Because of weaknesses in the Mission system for supervising the Project Officer's implementation of Mission procedures, the Mission has not determined the use of \$231,000 worth of A.I.D.-financed vehicles and, therefore, cannot account for how the Indonesian Government used the commodities.

Management Comments and Our Evaluation

With respect to Recommendation No. 4.1, the Mission issued a new Mission Order for monitoring A.I.D.-financed vehicles and said that (1) progress in receiving and verifying utilization reports are discussed in Monthly Implementation Reviews, and (2) utilization reports have been obtained for 1990 and 1991. The Mission requested that resolved and closed.

Recommendation No. 4.1 is resolved. The audit found that the Project Officer was not following provisions of the old Mission Order which are identical to the new Mission Order. Therefore, we have resolved this recommendation on the

basis of (1) the new procedures for supervising compliance with the Mission Order through Monthly Implementation Reviews, and (2) the Mission's assurances that vehicle utilization reports have now been obtained for 1990 and 1991. This part of the recommendation can be closed upon receipt of copies of (1) reports on the Monthly Implementation Reviews which show that the Mission reviewed progress in receiving and verifying the utilization reports, and (2) the 1990 and 1991 vehicle utilization reports.

With respect to Recommendation No. 4.2, the Mission said that the Project Officer has instructed his staff to check commodity utilization during each field trip, trips which have been reduced to one per month because of limitations on Operating Expense funds. The Mission also provided supporting field trip reports. The Mission requested that this part of the recommendation be resolved and closed.

Recommendation No. 4.2 is considered closed as of the issuance date of this report.

The full text of USAID/Indonesia's comments and the actions taken are presented in Appendix II. These actions have resulted in the closure of one part of the recommendation and resolution of the remaining part.

Did USAID/Indonesia Follow A.I.D. Policies and Procedures Governing Reports on the Project?

Except for preparing site visit reports and providing some of the necessary information in Project Implementation Reports, USAID/Indonesia did not follow A.I.D. policies and procedures governing reports on the project.

The Mission prepared site visit reports on time and in accordance with the format requirements of Appendix 11C of A.I.D. Handbook 3 and Mission procedures. Also, with respect to following A.I.D. procedures for Project Implementation Reports, the Mission reported: the Indonesian Government tardiness in making its \$40 million contribution; the status of certain Project Paper indicators for measuring progress; a reorientation of the project towards policy development and institutionalization; and high levels of unobligated and unexpended funds.

The Mission, however, did not prepare these Project Implementation Reports in complete accordance with A.I.D. Handbook 3 and Asia Bureau guidance, reports which lacked complete and accurate information on project progress.

USAID/Indonesia Needs to Improve Project Reporting

A.I.D. reporting policies and procedures are designed to keep A.I.D. abreast of project progress, problems, and issues requiring attention. USAID/Indonesia's, Project Implementation Reports, however, contained incomplete and inaccurate information. Although the Mission established procedures to review project progress, these reviews did not focus on verifying the completeness and accuracy of the reported information. As a result, the reports did not identify significant problems to allow timely corrective action by the Mission or A.I.D./Washington.

Recommendation No. 5: We recommend that USAID/Indonesia establish supervisory procedures for ensuring that Project Implementation Reports on the Small Scale Irrigation Management Project:

- 5.1 Conform with A.I.D. Handbook 3, Chapter 11, and Asia Bureau guidance; and**
- 5.2 Quantify and qualify progress against the authorized objectives and identify delays, substantive issues, and other problems.**

According to A.I.D. Handbook 3, Chapter 11, reporting is a principal way that A.I.D. monitors project progress. As the key element in the monitoring system, the Project Officer provides the focal point for reporting. In this regard, the Project Officer should ensure that contractors and the host government submit such reports as required by contracts, Project Agreements, and Project Implementation Letters. Furthermore, the Project Officer should review the reliability of these reports through site visits, conversations, etc. Based on the information gathered through these reports and reviews, the Project Officer should keep Mission and Bureau officials abreast of progress, problems, and issues requiring attention.

To keep Mission and Bureau officials abreast of progress, problems and issues requiring attention, A.I.D. Handbook 3, Chapter 11, requires the Project Officer to prepare a Project Implementation Report on each project. Generally, these reports should include information on such matters as: progress in meeting plans and targets; substantive problems in implementing the project; and planned extensions to the authorized completion date.

Since Missions and Bureaus use Project Implementation Reports to conduct project reviews, the Handbook assigns to each Bureau the responsibility for determining the frequency, content, and format of the reports. Commencing in 1989, the Asia Bureau dispensed with a requirement for adherence to a Bureau-imposed format for Project Implementation Reports. Instead, the Bureau required Missions to submit copies of existing reports—Mission Accounting Control System Reports and documentation which Missions use to review project progress.

In changing to this reliance on existing reports, the Bureau cautioned⁵ that Directors must still objectively assess project progress and inform the Bureau of significant problems and that "It simply isn't wise to fool, or blindside, motherbureau." The Bureau instructed Missions to prepare assessments as if the assessments were messages from the Mission Director to the Assistant Administrator and to focus on the following issues of most concern to the Bureau:

- Host country contributions;
- Prospects for sustainability;
- Prospects for achieving project and program objectives;
- Conformity with Bureau strategic objectives; and
- Unobligated and unexpended funds.

⁵ See cable, State 259319, dated August 7, 1990.

The Project Officer did not follow A.I.D. procedures and Asia Bureau instructions in preparing Project Implementation Reports. Instead, the reports provided incomplete and inaccurate assessments of project results. The reports did not focus on the issues of concern to the Bureau but rather painted a very incomplete and inaccurate assessment of the project as illustrated by the following examples concerning the October 1990–most recent–Project Implementation Report:

- **Although the Project Officer appropriately reported that the Indonesian Government was supposed to contribute \$40 million and was behind schedule, the Officer did not report that the contribution issue was a problem requiring attention. Rather, the Officer inferred that no problem existed by stating "...major [Indonesian Government contribution] will be forthcoming with construction activities." Not reported were (1) Mission efforts to drop most construction activities, (2) Mission actions to pay some of the Indonesian Government agreed-upon project costs and to reduce significantly the required Indonesian Government contribution, and (3) long-standing problems with the Indonesian Government ability or willingness to staff the project (see page 8).**
- **Although the Project Officer reported how the project was supposed to sustain the beneficial effects of the new irrigation systems, the Officer did not report actual results, namely that the key means for sustaining these effects—a user-financed operational and maintenance system—would no longer be established by the end of the project (see page 9).**
- **Although the Project Officer reported that 6 of 13 indicators were 80 to 100 percent complete, this reported progress was inconsistent with the limited results in achieving planned outputs (see page 3 and Exhibit I).**
- **Although the Project Officer reported that a "Strategy Statement" was prepared which reoriented the project to have a greater emphasis on policy development and institutionalization, the Officer did not report that the authorized objectives could not be achieved and that the Mission, therefore, had changed the project objectives at all levels—goal, purpose, outputs, and inputs without authority (see page 6).**
- **Although the Project Officer appropriately reported that the levels of unobligated and unexpended funds were high and that the Mission was evaluating alternatives for reducing these levels, the Officer attributed the high levels to the long lead-time for construction. However, there were many other long-lasting problems. A more accurate assessment would have been that there were five years of unresolved issues affecting project implementation (see page 5).**

As discussed below, these problems in the completeness and accuracy of Project Implementation Reports were not identified and corrected through Project Committee reviews, Mission Director reviews, and internal control reviews.

Project Committee Reviews - USAID/Indonesia conducts monthly in-house reviews of project activities. These reviews are normally held by the Project Officer, Division Chief, Deputy Division Chief and other members of the Project Committee, depending upon the issues to be discussed and the expertise needed. The outcome of the Committee's monthly review is a report which outlines key activities underway and planned for the next month and the Office responsible for each activity. This report is then distributed within the Mission.

None of the Project Committee monthly reports, however, ever assigned responsibility for improving the completeness and accuracy of reporting.

Mission Director Reviews - The Mission Director periodically performs project implementation reviews. In 1989 and 1990, the Director performed annual in-depth reviews of this project's progress. The results of the 1990 review were recorded in a report and distributed within the Mission. The 1990 annual review, however, did not identify reporting problems.

Commencing in 1991, the Director changed these project implementation reviews to a management-by-exception approach and increased the frequency of the reviews to quarterly. While activity reports were prepared to facilitate the Mission Director's quarterly reviews, the results of these reviews were not reported. Nor did these reviews result in memoranda or other actions to improve the completeness and accuracy of reporting.

Internal Control Reviews - In reporting internal control assessments as required under the Federal Managers Financial Integrity Act, USAID/Indonesia did not identify internal control weaknesses in reporting. In fact, the internal control assessment reports were also inaccurate as illustrated by the following examples from the Mission 1989 internal control assessment report:

- The Mission reported that it has instituted a reporting system to senior management which follows up on major implementation problems and issues. However, the reports which were provided to senior management did not outline previously identified problems and the actions taken to address those problems.
- The Mission reported that it had a system to track and report the status of Project Agreement covenants. However, no such system existed. The Project Officer neither tracked nor reported host country contributions, contributions required as a covenant to the Project Agreement.

- **The Mission reported that projects are designed with objectives which are realistic and attainable given available time and resources. Not only did this statement also contradict the findings of the evaluation, but USAID/Indonesia was developing a strategy to change the objectives.**

More complete and accurate reports and better reviews could have helped the Mission and A.I.D./Washington better define and resolve long-standing problems and issues. For example, in early 1991 USAID/Indonesia underwent a personnel turnover at the senior level, but the lack of complete and accurate reports precluded the new staff from readily assessing project progress and deciding upon an appropriate response to the limited progress. By September 1991, the Mission was still considering alternatives and could not decide whether to terminate or redesign the project. Given the long history of incomplete and inaccurate reports, A.I.D./Washington was not in a position to give the Mission appropriate guidance. Had the Mission submitted complete and accurate reports, however, Bureau oversight may have caused a decision to terminate or redesign the project years ago.

Management Comments and Our Evaluation

USAID/Indonesia did not fully agree with this finding. The Mission noted that the Asia Bureau (1) delegated primary responsibility for project implementation to the Mission, (2) retained only general oversight responsibility, and (3) had not indicated dissatisfaction with Mission reporting. The Mission believed that it had a strong system of informing management of project progress and issues, and that it made its best efforts to respond to A.I.D./Washington reporting requirements for data which were not always available. The Mission also expanded on the audit finding's description of the procedures used under the Mission's various management systems, stressing that a management by exception approach is used at the senior staff level, and provided copies of the various reports produced through these systems. The Mission believed that additional management systems would be redundant and perhaps counter-productive. The Mission provided a copy of the 1991 Project Implementation Report, a report which the Mission believed conformed with Bureau guidance, and requested that the recommendation be resolved and closed. The full text of the Mission's comments is presented in Appendix II.

Recommendation No. 5 is unresolved. While USAID/Indonesia's management systems have identified many delays, substantive issues and other problems, these systems have not resulted in a complete and accurate written record which shows that data are being gathered, analyzed, and reported against the Project Paper's Logical Framework (a management information and analysis technique which A.I.D. established to ensure compliance with Section 621A of the Foreign Assistance Act). Without such a written record, the effectiveness of the Mission's monitoring, evaluation, and decision-making processes has been

limited. For example, the 1989 evaluation did not fully assess project implementation results against the Project Paper's Logical Framework. Also, variances between the Project Paper's Logical Framework and implementation results were not always identified at senior Mission managerial levels under the management by exception approach.

With respect to the 1991 Project Implementation Report, we found that the Mission has continued to provide incomplete and inaccurate reporting. For 1991, the Asia Bureau required Missions to follow the 1990 reporting instructions. In addition, the 1991 instructions stressed that the reports cover the important issue of sustainability and that the Bureau considers the reports as "important sources of information for AID/W project officers and senior managers. This is particularly true in our system of maximum delegations to the field." USAID/Indonesia's 1991 Project Implementation Report, however, did not conform to the Bureau's 1990 and 1991 reporting requirements because the report did not identify issues of concern to the Bureau, such as host country contributions, prospects for sustainability, and prospects for achieving project and program objectives. Furthermore, the Mission reported that 6 of 13 purpose-level indicators were 100 percent complete, but this reported progress continued to be inconsistent with the limited results in achieving planned outputs. Accordingly, we believe more complete and accurate reporting is necessary.

Did USAID/Indonesia Follow A.I.D. Policies and Procedures Governing Evaluations of the Project?

Although USAID/Indonesia followed some A.I.D. policies and procedures governing evaluations of the project, most of these requirements were not met as prescribed.

In evaluating the project, USAID/Indonesia followed some A.I.D. policies and procedures. The Mission established written procedures describing the organization of its evaluation system and assigning responsibility for actions pertaining to the system. In accordance with the time schedule, USAID/Indonesia contracted for a project evaluation to facilitate mid-point implementation decisions. In developing the scope of work for this evaluation, the Mission: identified the activity to be evaluated; specified who was to use the evaluation results and how these results were to be used; identified design flaws, delays, budgetary constraints, and legislative changes to be considered by the evaluation team; specified the evaluation team composition; established due dates for the draft and final versions of the evaluation report; and described funding requirements. The Mission reviewed the draft report, prepared an A.I.D. Evaluation Summary, and submitted the evaluation to A.I.D./Washington.

Mission written procedures, however, were inconsistent with A.I.D. policies and procedures, the development of the scope of work did not meet all requirements, the Mission review of the draft report was incomplete, the A.I.D. Evaluation Summary did not conform with requirements and was submitted late, and the Mission did not establish the required system for following-up on evaluation recommendations. As discussed in the finding below, USAID/Indonesia needs to improve Mission controls over these areas to improve project evaluations.

USAID/Indonesia Needs to Improve Controls Over Project Evaluations

The Foreign Assistance Act and A.I.D. policies and procedures require Missions to support key project implementation decisions with comprehensive, objective and evaluative data. Although USAID/Indonesia contracted for a project evaluation to facilitate mid-point implementation decisions, the evaluation lacked the required comprehensiveness and objectivity. The evaluation problems occurred because the Mission did not maintain evaluation procedures which were consistent with A.I.D. policies and procedures for (1) writing the scope of work, (2) finalizing the evaluation, and (3) using evaluation results. As a result, the Mission obtained neither enough meaningful information in which to gauge actions nor the full benefit of \$90,000 expended for the evaluation.

Recommendation No. 6: We recommend that USAID/Indonesia amend the Mission evaluation procedures to conform with A.I.D. Handbook 3, Chapter 12, by:

- 6.1 Requiring evaluations to adequately assess achievement of purpose and A.I.D.'s broad concerns of relevance, effectiveness, efficiency, impact, and the likelihood of Indonesia sustaining the development efforts;**
- 6.2 Developing scopes of work to meet the specific content and format requirements of A.I.D. Handbook 3, Chapter 12;**
- 6.3 Reviewing evaluation draft reports to ensure that evaluations properly address the requirements of the scopes of work and, in this process, ensuring that Mission staff do not unduly influence evaluation team interpretations of evidence and findings;**
- 6.4 Preparing the Evaluation Summary in accordance with the content and format requirements of A.I.D. Handbook 3, Chapter 12, and submitting the summary to A.I.D./Washington within 60 days of receipt of the final version of the evaluation; and**
- 6.5 Establishing a system to follow-up on evaluation recommendations and take timely corrective action in response to evaluation recommendations.**

In 1989, USAID/Indonesia contracted for a project evaluation to facilitate mid-point implementation decisions. This evaluation, made between July 23 and August 18, 1989, was conducted by a four-person team (as well as an observer from the Japanese development agency) fielded through the A.I.D. Irrigation Support Project for Asia and the Near East (Contract No. ANE-0289-C-00-7044-00 with a cost of \$90,000). According to Mission Officials, the Mission was generally satisfied with the evaluation and the evaluation report.

The Foreign Assistance Act and A.I.D. policies and procedures require Missions to support key project implementation decisions with comprehensive, objective, and evaluative data.

Section 621A (b) of the Foreign Assistance Act requires A.I.D. to:

"...establish a management system that includes the definition of objectives and programs for United States foreign assistance; the development of quantitative indicators of progress toward these objectives; the orderly consideration of alternative means for accomplishing such objectives; and the adoption of methods for comparing actual results of programs and projects with those

anticipated when they were undertaken. The system should provide information to the agency and to Congress that relates agency resources, expenditures, and budget projections to such objectives and results in order to assist in the evaluation of program performance, the review of budgetary requests, and the setting of program priorities."

To ensure compliance with the Foreign Assistance Act, A.I.D. has established, in Handbook 3, Chapter 12, policies and procedures requiring and governing evaluations. However, as discussed below, USAID/Indonesia did not fully follow these policies and procedures in writing the scope of work, finalizing the evaluation, and using evaluation results.

Writing the Scope of Work - USAID/Indonesia did not fully follow A.I.D. policies and procedures in writing the scope of work for the evaluation.

A.I.D. Handbook 3, Chapter 12, requires the Project Officer, in collaboration with the Evaluation Officer, to write a scope of work which requires the evaluation team to obtain empirical information for substantiating key upcoming decisions and actions taken. In this regard, evaluations should address achievement of project purpose and five broad concerns which apply to virtually any type of development assistance: relevance, effectiveness, efficiency, impact, and sustainability. These five broad concerns force evaluators to go beyond the mere examination of inputs and outputs and think about the more important questions of why the project is or is not having anticipated effects, what can be done to improve the overall performance of the activity, and what can be done to ensure that the project produces enduring benefits.

To ensure that evaluators clearly understand the work requirements in addressing these and any other concerns, A.I.D. Handbook 3, Chapter 12, establishes specific standards for writing the scope of work for an evaluation. The scope of work must contain the following sections (1) activity to be evaluated, (2) purpose of the evaluation, (3) background of the activity, (4) Statement of Work, (5) methods and procedures, (6) team composition, (7) reporting requirements, and (8) funding. The Handbook also provides detailed requirements for the contents of each section.

USAID/Indonesia did not fully follow these A.I.D. policies and procedures in preparing the scope of work. The Mission:

- In identifying the activity to be evaluated, adequately met the requirements.
- In specifying the purpose of the evaluation, met the requirements for specifying who was to use the evaluation results and how the evaluation findings and recommendations were to be used. However, the Mission did

not clearly specify the reasons for the evaluation. These reasons were mentioned only in general terms, e.g. to "assess current implementation status". The Mission also did not specify the key management issues to be addressed, such as sustainability and efficiency.

- In describing the background of the project, did not fully meet requirements. Although the Mission did make general reference to design flaws, delays, budgetary constraints, and legislative changes, the Mission provided very little information on the history and implementation status. The Mission also did not identify the agencies and organizations involved.
- In providing a Statement of Work (the Mission used the term "Study Structure"), did not meet requirements. The Mission did not cite the specific overall questions (5-10 were required to be listed in order of importance), although the Mission did provide numerous questions to be answered by evaluation objectives. However, the objectives and the questions were not presented in language which required answers based on empirical evidence rather than subjective interpretations, e.g. "Are newly returned participants readily integrated back into the operations of the provincial offices and using their recent training for the enhancement of [project] activities...Are the standards for design work presently being carried out appropriate?...Is the [Groundwater] exploration program as designed adequate?" The section also did not specify that the evaluation report was to provide empirical findings or conclusions based on the findings. Nor did this section require a "lessons learned".
- In specifying the methods and procedures, the Mission did not meet requirements. For example, the Mission required the evaluation team to (1) assess the roles of implementing agencies, (2) determine whether there was common agreement on the goals of institutional strengthening, (3) determine whether irrigation design standards are appropriate, etc. However, the Mission did not specify the criteria to be used, the analytical procedures and the depth of analysis. In fact, the Mission had no separate section on methods and procedures.
- In defining the evaluation team composition, met requirements except for specifying the language proficiency of all team members.
- In defining the reporting requirements, met requirements for specifying when the draft and final versions of the evaluation report were due. However, the Mission specified few format and content requirements (A.I.D. has established format and content specifications for the Executive Summary, Project Identification Data Sheet, Table of Contents, Body of the Report and Appendixes). For example, the Mission did not require

the evaluation team to prepare the executive summary in accordance with Agency procedures. Had the Mission followed these procedures, the evaluation team would have been required, among other things, to highlight major assumptions which proved invalid.

- In describing the funding, met requirements.

As the above illustrates, USAID/Indonesia needs to better follow A.I.D. policies and procedures in writing scopes of work.

Finalizing the Evaluation - USAID/Indonesia did not fully follow A.I.D. policies and procedures in finalizing the evaluation.

A.I.D. Handbook 3, Chapter 12, requires an evaluation report and a completed A.I.D. Evaluation Summary for all interim and final evaluations. The Handbook provides that the Mission and counterpart staff may choose to review a preliminary draft of the report to ensure that the team has a factually correct understanding of the project. However, the Handbook cautions that Mission and counterpart staff should not abuse this review as an opportunity to unduly influence the team's interpretation of evidence and findings.

The final report should be reviewed thoroughly by project officers and other Mission technical staff. At a minimum, the review should consider the quality of the evaluation, particularly with regard to (1) the adequacy of the methods followed to obtain data for the evaluation, (2) the validity of the evidence upon which conclusions and recommendations are based, (3) the soundness of the professional judgment evidenced in the report, (4) the utility of the recommendations, and (5) the submission of all required documentation. The Handbook also requires that the voucher certification for payment of the evaluation be based upon the evaluation report meeting the conditions stipulated in the Statement of Work. Along with the final report, the Mission must prepare an A.I.D. Evaluation Summary, and the A.I.D. Evaluation Summary must be submitted to A.I.D./Washington within 60 days of receipt of the final version.

USAID/Indonesia did not fully follow these policies and procedures in finalizing the evaluation. For example:

- Many of the evaluation report's conclusions, were not supported with empirical evidence. For example, the report provided an overall conclusion that participation by other donors should be encouraged because "the budget in the loan and grant agreements is fixed and is not sufficient to complete all aspects of the project." This conclusion lacked supporting evidence and ignored the lack of host country contributions. Mission records showed that the Indonesian Government (as transmitted

to the evaluation team by the Mission) requested the evaluation team to revise the draft report to include the above quote.

- The evaluation report did not disclose the specific methods used to obtain data for the evaluation. Therefore, the Mission could not meet the requirement for determining whether the team used acceptable evaluation methods. For example, the report concluded that "Every effort should be made to reduce the detailed management activities of USAID...". The report did not disclose the methods used to form this conclusion.
- The evaluation report recommended a two-year extension of the project to allow for, among other things, the *initiation* of maintenance activities. The recommendation to initiate, rather than complete, planned maintenance activities (activities designed to ensure compliance with legal sustainability requirements) lacked sufficient evidence. The Mission did not comment on the validity of the evidence or recommendation.
- The evaluation report concluded, based on conversations with only two participants, that training had been well done. The Mission did not comment on the soundness of this professional judgement, although the Mission knew that some participants were not returning to the project.
- Regarding the utility of recommendations, the Mission only commented that the recommendations could have been more specific.
- The evaluation report did not include an Annex providing the team's assessment of A.I.D. and Indonesian Government regulations, an assessment required by the contract for the evaluation. The Mission did not comment on the team's failure to submit all required documentation.
- The date of the evaluation report—November 1989—did not conform to contractual requirements. USAID/Indonesia then waited until July 1990, rather than at the most January, to submit the report to the Asia Bureau.

As the above illustrates, USAID/Indonesia needs to better follow A.I.D. policies and procedures in finalizing evaluations.

Using Evaluation Results - USAID/Indonesia did not follow A.I.D. policies and procedures in using evaluation results.

A.I.D. Handbook 3, Chapter 12, requires Missions to respond to evaluation recommendations for action. This response may be complete or partial acceptance of a recommendation, a proposed alternative action that accomplishes the same objective, or rejection of a recommendation. The course of action to be followed

must be presented in Part 1 of the A.I.D. Evaluation Summary. Rejection or modification of recommendations must be explained in Part 2 of the A.I.D. Evaluation Summary. If a recommendation is unacceptable, a well-justified decision to not accept the recommendation must be included. Missions must establish systems for following up on evaluation recommendations to ensure that actions are taken.

USAID/Indonesia did not follow these policies and procedures in using the evaluation results. Although the evaluation report provided 20 recommendations, the Mission responded with neither acceptance nor rejection of the recommendations. Rather, the Mission proposed six alternative actions and did not provide the required justification for these alternatives. By 1991, the Mission still had not established a system for following up on the evaluation recommendations.

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USAID/Indonesia did not fully follow A.I.D. policies and procedures to (1) write the scope of work, (2) finalize the evaluation, and (3) use evaluation results because the Mission neither maintained Mission evaluation procedures in accordance with A.I.D. procedures nor established a good process for reviewing the effectiveness of Mission Evaluations during internal control assessments.

USAID/Indonesia did not maintain Mission evaluation procedures in accordance with A.I.D. procedures. The Agency revised the Evaluation policies and procedures in 1987, several months after USAID/Indonesia established a Mission Order on Evaluation. However, since 1987, the Mission has not revised the Mission Order.

Moreover, in conducting the 1989 internal control assessment to conform with requirements under the Federal Managers Financial Integrity Act, the Mission inconsistently reported that:

- The Mission had a system to follow-up on recommendations;
- The Mission had a current Mission Order which describes the organization of its evaluation system, assigns responsibility for actions pertaining to the system, and is consistent with Bureau and Agency requirements; and
- All completed evaluations are submitted to appropriate A.I.D./Washington offices on a timely basis.

Because USAID/Indonesia did not fully follow A.I.D. policies and procedures in evaluating the project, the Mission did not obtain enough comprehensive, objective and evaluative data required for making key project implementation decisions. Although A.I.D. expended \$90,000 to obtain this data, A.I.D. did not obtain the required benefit of the evaluation.

Management Comments and Our Evaluation

USAID/Indonesia disagreed with several aspects of the finding and said that the audit report was far off-base in the recommendation. In disagreeing with the finding the Mission believed that:

- The scope of work for the 1989 evaluation addressed all A.I.D. Handbook criteria; and
- The Mission obtained the required benefit of the \$90,000 evaluation, in that the evaluation met the Mission's purpose at mid-point of the project and was very useful for the Mission in developing the course of action, resulting in the Amendment to the Project Paper.

As demonstrated in the finding, USAID/Indonesia did not follow A.I.D.'s evaluation policies and procedures to obtain the required benefit of the evaluation. A.I.D. Handbook 3, Chapter 12 provides the general policies and procedures which Missions are to follow in (1) writing a scope of work for an evaluation, (2) finalizing the evaluation, and (3) using evaluation results. A Supplement to this Chapter, issued in 1987 and revised in 1989, provides much more detail to clarify the general policies and procedures. To minimize subjectivity in assessing compliance with the policies and procedures, we measured the Mission's performance against this Supplement.

As explained in the finding, the Mission did not follow the detailed policies and procedures in this Supplement. Therefore, although the Mission may believe that the scope of work addressed all A.I.D. Handbook criteria, the scope of work lacked the required clarity and focus; the evaluation did not fully conform with all requirements of the scope of work and A.I.D.'s policies and procedures; and the Mission did not document its reasons for rejecting or modifying the evaluation's 20 recommendations. By September 1991—two years after the evaluation—A.I.D. had not decided whether to terminate or redesign the project.

USAID/Indonesia agreed, however, that the Mission Order did not include the latest A.I.D./Washington guidance on evaluations and said that a new Mission Order has been drafted to conform Mission procedures with A.I.D. Handbook 3, Chapter 12. The Mission requested that Recommendation No. 6 be considered resolved and that it be closed upon completion and issuance of the revised Mission Order. The full text of the Mission's comments is presented in Appendix II.

Recommendation No. 6 is resolved and will be considered closed upon receipt of a copy of the completed and issued Mission Order which conforms the Mission's evaluation procedures to the Supplement of A.I.D. Handbook 3, Chapter 12.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objectives.

Scope of Our Internal Control Assessment

The audit was performed in accordance with generally accepted government auditing standards which require us to:

- Assess the applicable internal controls when necessary to satisfy the audit objectives; and
- Report on the controls assessed, the scope of work, and any significant weaknesses found during the audit.

We limited the assessment of internal controls to those controls applicable to the audit objectives and not to provide assurance on the A.I.D. or USAID/Indonesia overall internal control structure.

For the purposes of this report, we have classified significant internal control policies and procedures applicable to each audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether the policies and procedures had been placed in operation—and we assessed the control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act and Office of Management and Budget implementing policies, A.I.D. management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls.

The objectives of internal controls for Federal foreign assistance are to provide management with reasonable—but not absolute—assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether internal controls will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusion for Audit Objective One

The first audit objective was to gather and analyze available information and present the status of the project against the Project Paper Logical Framework. Audit Objectives two through five cover the categories of internal controls and the significant weaknesses.

Conclusion for Audit Objective Two

The second audit objective was to conclude whether USAID/Indonesia followed A.I.D. policies and procedures in monitoring the validity of project design. In planning and performing the audit, we considered applicable internal control policies and procedures cited in A.I.D. Handbook 3. For purposes of this report, we have classified those policies and procedures into the following categories: the process for establishing a monitoring system to compare results with design, the process for monitoring design assumptions and related covenants to the Project Agreement, the process for assessing the adequacy and relevancy of project design, and the process for timely resolving differences between project design and results.

Our tests showed that A.I.D. controls were not consistently applied. The Mission did not follow A.I.D. policies and procedures in: comparing enough aspects of project design with results; performing more detailed assessments of the adequacy and relevancy of project design, including the continued validity of design assumptions and input, output and purpose-level objectives; and taking the required actions when the Mission found that differences existed between project design and results.

Conclusion for Audit Objective Three

The third audit objective was to conclude whether USAID/Indonesia followed A.I.D. policies and procedures in monitoring the use of A.I.D. inputs. In planning and performing the audit, we considered applicable internal control policies and

procedures cited in A.I.D. Handbooks 3, 10, 14, and 15. For purposes of this report, we have classified those policies and procedures into the following categories: (1) the process for assessing whether contractors performed satisfactorily, on schedule, and in accordance with objectives, (2) the process for monitoring the use of overseas training, and (3) the process for monitoring the use of commodities.

Our tests showed that A.I.D. controls were not consistently applied. The Mission did not (1) sufficiently define contractor work requirements and enforce all contractual requirements for work plans and reports, (2) sufficiently monitor how the Indonesian Government used the returned participants, and (3) obtain commodity utilization reports from the Indonesian Government and conduct end-use checks on these commodities.

Conclusion for Audit Objective Four

The fourth audit objective was to conclude whether USAID/Indonesia followed A.I.D. policies and procedures governing reports on the project. In planning and performing the audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3 and Asia Bureau guidance. For purposes of this report, we have classified policies and procedures into the following categories: (1) the process for preparing site visit reports in a timely manner; and (2) the process for preparing and submitting Project Implementation Reports.

Except for preparing timely site visit reports, the results of our tests showed that A.I.D. controls were not consistently applied. The Mission did not prepare these Project Implementation Reports in complete accordance with A.I.D. Handbook 3 and Asia Bureau guidance, reports which lacked complete and accurate information on project progress.

Conclusion for Audit Objective Five

The fifth audit objective was to conclude whether USAID/Indonesia followed A.I.D. policies and procedures governing evaluations of the project. In planning and performing the audit, we considered applicable internal control policies and procedures cited in A.I.D. Handbook 3. For purposes of this report, we have classified policies and procedures into the following categories: (1) the process of establishing a Mission Order to describe and govern the Mission evaluation system; (2) the process of designing the evaluation to adequately assess achievement of purpose and A.I.D.'s broad concerns of relevance, effectiveness, efficiency, impact, and sustainability; (3) the process of developing a clear scope of work for the evaluation; (4) the process of reviewing the evaluation draft report to ensure that the evaluation properly addressed the scope of work; (5) the process of preparing an

Evaluation Summary and submitting the summary to A.I.D./Washington within the prescribed time; and (6) the process of establishing a system to follow-up on evaluation recommendations and to take timely corrective action in response to evaluation recommendations.

The results of our tests showed that A.I.D. internal controls were not consistently applied. Mission written procedures were inconsistent with A.I.D. policies and procedures, the development of the scope of work did not meet all requirements, the Mission review of the draft report was incomplete, the A.I.D. Evaluation Summary did not conform with requirements and was submitted late, and the Mission did not establish the required system for following-up on evaluation recommendations.

Reporting Under Federal Managers' Financial Integrity Act

USAID/Indonesia did not report any of the internal control weaknesses identified in this report in its internal control assessments, except for commodities. However, the Mission subsequently reported that the weaknesses in commodity controls no longer existed. This report identifies weakness in commodity controls requiring Mission action. Recommendations were made in the finding sections of this report which would correct the internal control weaknesses.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Indonesia compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted the audit in accordance with generally accepted government auditing standards which require us to:

- Assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives); and
- Report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested USAID/Indonesia compliance with Sections 110 and 611 (e) of the Foreign Assistance Act and A.I.D. Delegation of Authority No. 652 as these laws and the regulation could affect the audit objectives. However, the audit objectives were not to provide an opinion on overall compliance with laws and regulations.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance, and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be

within the letter of laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

Compliance with laws and regulations applicable to the project is the overall responsibility of USAID/Indonesia management.

Conclusions on Compliance

The results of our tests of compliance disclosed the following significant instances of noncompliance:

- **Audit Objective Two - The Mission did not hold the Indonesian Government to the agreed-upon contribution level. Section 110 of the Foreign Assistance Act requires at least a 25 percent contribution of total costs from the recipient government to demonstrate support for A.I.D.-financed projects.**
- **Audit Objective Two - In changing project objectives, the Mission did not provide a new certification on the Indonesian Government capability to maintain and use the irrigation systems. Section 611(e) of the Foreign Assistance Act prohibits providing funds to any capital assistance project, costing more than \$1 million, unless A.I.D. certifies the host country capability (both financial and human resources) to effectively maintain and utilize the project, taking into account, among other things, the maintenance and utilization of projects previously financed by the United States.**
- **Audit Objective Two - The Mission significantly changed the goals, purposes, outputs, and inputs of the project without authority to do so. According to A.I.D. Delegation of Authority No. 652, the Mission Director does not have authority to authorize a project when the total life of project funding exceeds \$20 million, the project presents significant policy issues, or requires waivers which may only be granted by the Assistant Administrator or Administrator. The Mission Director is also not allowed to amend Project Authorizations under the same conditions, except that the funding limit is \$30 million rather than \$20 million.**

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Indonesia complied in all significant respects with the provisions referred to in the third paragraph of this report.

**A.I.D. EXPENDITURES VERSUS PROJECT ACCOMPLISHMENTS
AS OF SEPTEMBER 30, 1991**

<u>Planned Over Life of Project</u>	<u>Status at September 30, 1991</u>
<i>Construction:</i>	
<u>Surface Water</u>	
Planned Costs: \$22,870,000	Expended: \$1,082,192
4 surface diversion and lift systems.	0 constructed; 2 designed. 2 cancelled.
6 reservoir systems.	0 constructed; 1 designed. 4 designs in process. 1 cancelled.
19,500 hectares of land irrigated.	0 hectares of land irrigated.
<u>Groundwater</u>	
Planned Costs: \$5,550,000	Expended: \$132,542
5,200 hectares of land irrigated.	38 hectares of land irrigated.
<i>Management Systems:</i>	
5 PU ⁶ sections served by W.U.A.O's	4 PU sections served.
1 performance monitoring system.	In process.
2 site selection criteria.	2 site selection criteria.
10 surface water site profiles.	8 surface water site profiles.
5 PU section plans for management and maintenance.	0 completed. 2 in process.

⁶ "PU" refers to the Indonesian Government's Public Works Department broken down into districts and the Provincial level. "W.U.A.O.'s" are organizers responsible for recruiting, training, fielding, and supervising farmers to assume operation and maintenance activities after project completion.

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<u>Planned Over Life of Project</u>	<u>Status at September 30, 1991</u>
3 groundwater development plans.	3 groundwater development plans
1 groundwater office.	1 groundwater office.
<i>Training:</i>	
Planned Costs: \$1,400,000	Expended: \$1,048,371
12 M.S. degrees in Engineering.	8 ⁷ M.S. degrees in Engineering.
6 M.S. degrees in Social Science.	1 M.S. degree in Social Science.
12 short-term programs in Engineering.	0 short-term programs.
3 short-term programs in Management.	2 short-term programs.
4 workshops for each PU section.	4 workshops for each PU section.
<i>Special Studies:</i>	
Planned Costs: \$2,460,000	Expended: \$649,280
5 in Policy/Management.	4 in process.
5 in Technology/Implementation.	4 performed.
Site profiles.	Site profiles.
1 mid-term evaluation.	1 performed.
1 final evaluation.	Not due yet.
	Expended:
<i>Other Costs:</i> ⁸ <u>\$17,720,000</u>	<u>\$10,069,909</u>
TOTAL COSTS <u>\$50,000,000</u>	<u>\$12,982,294</u>

⁷ Does not include 16 who did not return to the project and 2 who returned but subsequently left.

⁸ Includes technical assistance, commodities and contingencies.

**SCHEDULE ON USE OF TRAINING
AS OF SEPTEMBER 30, 1991**

<u>TRAINEE NAME</u>	<u>COUNTRY OF TRAINING</u>	<u>DURATION OF TRAINING</u>	<u>COSTS</u>
<u>Trainees Who Returned to Work for Project:</u>			
WINULUDJI	U.S.	9 months	\$ 28,030
AMIN	U.S.	9 months	28,030
SAID	U.S.	27 months	48,298
BUDISANTOSO	U.S.	28 months	45,103
ZAINI	U.S.	24 months	51,094
MUHLISH	U.S.	31 months	39,615
NURJAYA	U.S.	24 months	51,060
SATRIJO	U.S.	29 months	59,447
MARSIDIK	India	17 months	14,581
BASUKI	U.S.	27 months	<u>54,769</u>
Sub-Total			<u>\$420,027</u>

Trainees Who Returned to Work For Project Part-Time or Temporarily:

HANAFI	U.S.	32 months	\$57,748
HASANUDIN	India	17 months	20,967
PUTRA	India	22 months	<u>17,195</u>
Sub-Total			<u>\$95,910</u>

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<u>TRAINEE NAME</u>	<u>COUNTRY OF TRAINING</u>	<u>DURATION OF TRAINING</u>	<u>COSTS</u>
<u>Trainees Who Did Not Return to Work For Project:</u>			
HARTOPO	U.S.	38 months	\$ 64,154
HADIMOELJONO	U.S.	37 months	53,193
SYAFAR	India	20 months	12,910
SUKIJOTO	India	21 months	16,419
CHANIAGO	India	22 months	12,664
DHIUN	India	21 months	12,910
SANTOSO	India	25 months	12,853
TRIWIBAWANTO	India	21 months	12,909
MUNANDAR	India	21 months	12,593
SUPRIADINATA	India	21 months	13,319
SUTOMO	India	24 months	12,914
SUYADI	India	24 months	12,599
SYAFRULLAH	India	21 months	12,951
PERBATA	India	21 months	12,910
SUKATNO	India	24 months	12,914
WINARTO	India	21 months	<u>12,910</u>
Sub-Total			<u>\$301,122</u>
Total Cost of All Trainees			<u>\$817,059</u>

SCOPE AND METHODOLOGY

Scope

We audited USAID/Indonesia's management of the Small Scale Irrigation Management Project in accordance with generally accepted government auditing standards. The audit was conducted between June 16, 1991 and February 5, 1992, and covered the systems and procedures relating to project inputs financed by A.I.D. from August 7, 1985 to September 30, 1991. As of September 30, 1991, A.I.D. had expended \$12,982,294 for these inputs of which we selectively tested \$10,720,172. As noted below, we conducted our field work in the Jakarta, Indonesia offices of USAID/Indonesia, the Indonesian Government Ministry of Public Works—Directorate General of Water Resources Development and the contractor, and visited field offices of the Indonesian Government. In addition, we made field trips to project sites in Nusa Tenggara Timur and Nusa Tenggara Barat. We held interviews and reviewed Mission records, Mission reports, and Contractor reports.

The audit objectives did not cover the following areas:

- We did not determine whether USAID/Indonesia procured the technical services competitively and in a timely manner. Nor did we cover the contractor payment process or confirm the reasonableness of claimed costs. The Office of the Inspector General, Singapore has scheduled a functional review of USAID/Indonesia technical services contracts in Fiscal Year 1992.
- We did not cover the procurement of commodities because relatively little has been expended for commodities on this project.
- We did not cover the procurement of construction services because the Mission decided to use the lower-risk Fixed Amount Reimbursement method of financing and since A.I.D. has spent little on construction to date.

- We only covered the use of participant training and did not cover most A.I.D. policies and procedures pertaining to participant training. The Office of the Inspector General, Singapore plans to perform a functional review of the USAID/Indonesia training program in 1992.

Because of the significant weaknesses in the completeness and accuracy of the Mission monitoring and evaluation systems, particularly for the quality of outputs reported as being achieved, we were unable to design suitable tests and procedures to provide reasonable assurance that all data presented on pages 3 and 4 and Exhibit I is valid. Therefore, this data may tend to overstate the actual progress of the project. The first audit objective was established to present data for informational purposes only.

Methodology

The methodology for each audit objective follows.

Audit Objective One

The first audit objective concerned only the gathering of information on the status of the project as of September 30, 1991. To accomplish this objective, we compiled information from the most recent (July, 1990 through September, 1991) quarterly contractor progress reports and USAID/Indonesia project records, the 1989 mid-term project evaluation, interviews and site visits—the Offices of the Director General for Water and Resource Development and the contractor, one surface water site, and several groundwater sites in two of the project's three provinces. This information was compiled to measure the project status against the performance indicators presented in the Project Paper Logical Framework at the input, output and purpose levels.

Audit Objective Two

The second audit objective concerned determining whether the Mission followed A.I.D. procedures in monitoring the validity of project design. We interviewed Mission Officials to gain an understanding of the Mission's procedures and practices for following the A.I.D. Handbook 3 processes stated below:

- Monitoring compliance with the conditions precedent to the disbursement of funds;

- Monitoring project design assumptions and the related covenants to the project agreement;
- Comparing project results with the project design performance indicators;
- Assessing the continued adequacy and relevancy of the project design, including the continued validity of the project inputs, outputs, and purpose level indicators; and
- Taking timely and required actions to resolve differences between project design and results.

To confirm the information provided through these interviews, we analyzed Mission records and reports, contractor progress reports (for July, 1990 through September, 1991), the 1989 mid-term project evaluation, the 1989 and 1990 Mission Director implementation reviews, all Mission Orders, all Project Implementation Letters, the 1990 "Strategy Statement", Project Officer files, Mission Communications and Records files, and other Mission records. We also visited five project sites to interview contractor officials, host country officials and beneficiaries (farmers) and to observe project activities. This included visits to the one site where surface water construction had started, two groundwater sites where the irrigation of 17 hectares of land was in process (currently groundwater activity is irrigating a total of 38 hectares) and two groundwater pilot sites. Based on the verifiable data obtained, we concluded whether the Mission followed the applicable A.I.D. policies and procedures.

For the problem area under this audit objective, we expanded our tests to determine whether the Mission could provide evidence of any (1) communications to A.I.D./Washington on the actions which the Mission had planned and taken to change the audit objectives, (2) A.I.D./Washington communication to the Mission approving the changes or providing instructions or guidance, and (3) reasons for changing the objectives without following the formal procedures for doing so. Mission officials and Mission records could provide very little of such evidence.

Audit Objective Three

Audit objective three consisted of gathering and verifying information to determine whether USAID/Indonesia properly monitors the use of project inputs. To accomplish this objective, we examined three separate inputs: (1) technical assistance; (2) overseas training; and (3) commodities.

For technical assistance, we analyzed contractor work plans and the five most recent (July, 1990 through September, 1991) quarterly progress reports to conclude whether the Mission followed A.I.D. procedures to ensure that these documents met the requirements of A.I.D. Handbook 3 and 14 and the contract Statement of Work. Similarly, we analyzed the contract Statement of Work to conclude whether the Mission wrote the Statement of Work in accordance with the same Handbooks and the Project Paper's implementation plan. We discussed A.I.D. requirements and reporting problems with Mission officials and the contractor Chief of Party. We also considered other aspects of the Mission monitoring system for ensuring contractor performance was satisfactory and on schedule.

To conclude whether the Mission monitored the use of project training, we applied the requirements of A.I.D. Handbook 10, the Project Officer's Handbook on monitoring the use of training, and the Project Paper's authorized use of training. This work involved determining whether the Mission had installed A.I.D.'s Participant Training Management System and whether the Mission received and prepared reports on the use of training. We discussed training activities and processing procedures with Mission personnel in the participant training and project offices as well as with various host country and contractor officials. We examined individual files of participants who received overseas training to determine whether the participants were selected and approved in accordance with the Project Paper and whether the participants had returned to Indonesia. We interviewed 5 of the 10 trainees who had completed training and returned to work on the project.

To assess Mission monitoring of commodities, we applied the monitoring and reporting requirements of A.I.D. Handbooks 3 and 15 and the USAID/Indonesia Mission Order on commodities. We determined whether the Mission had established a Mission Order governing the monitoring procedures for commodities. We obtained a listing from Mission Officials of commodities purchased under the project and selected all vehicles for testing. These tests included determining whether the Mission obtained vehicle utilization reports from the Indonesian Government and whether the project officer verified vehicle utilization during end-use checks or during periodic site visits.

Audit Objective Four

Audit Objective Four concerned determining whether the Mission followed A.I.D. procedures governing reports on the project. We determined whether USAID/Indonesia prepared reports in accordance with A.I.D. Handbook 3 and Asia Bureau guidance. We examined the six most recent (1987 through 1990) Project Implementation Reports prepared by the Mission and reconciled the information

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reported with other information available in contractor reports, the 1989 mid-term evaluation, the 1990 "Strategy Statement" and other Mission records to conclude whether the Project Implementation Reports provided sufficient information on project progress, delays, and other substantive issues and problems, including issues of concern to the Asia Bureau. We also examined 7 of the 10 site visit reports on file for fiscal year 1991 to conclude whether the Mission prepared these reports in accordance with A.I.D. Handbook 3. In addition, we identified and examined internal Mission reports including all 19 Monthly Implementation Reports prepared since October, 1989, the 2 Mission quarterly project reviews performed to date, and both of the Mission Director implementation reviews conducted over the life of the project. We discussed the identified reporting deficiencies with the Project Officer, Office of Policy and Project Support, and other Mission officials.

Audit Objective Five

Audit Objective Five concerned determining whether the Mission followed A.I.D. procedures governing evaluations of the project. To accomplish this audit objective, we applied A.I.D. Handbook 3 evaluation criteria to the USAID/Indonesia Annual Evaluation Plan, the Mission Order on evaluations, and the 1989 evaluation scope of work, mid-term evaluation report, and Evaluation Summary and concluded whether the Mission met the requirements. In further examining the Evaluation Summary, Mission officials were questioned about the Mission system for following-up on evaluation recommendations. Finally, we held discussions with project office personnel, the Evaluation Officer and Mission officials.



JAKARTA

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Letter No. II/1219

June 30, 1992

Mr. James B. Durnil
RIG/A/Singapore
111 North Bridge Road, 17-01
Peninsula Plaza
Singapore 0617

Dear Mr. Durnil:

This letter transmits the Mission's comments on the draft audit report for the Small Scale Irrigation Management Project. The Mission has a number of problems with the tone and interpretation of facts in this report, particularly in the Executive Summary which paints an overly negative picture of this project at a particular point in time, suggesting the Mission was unaware and took no corrective action.

The Executive Summary discusses four points. First, that the Mission "did not monitor the validity of the design until 1989." This is not a true statement. The Mission conducted a midterm evaluation according to schedule in 1989, two years after the arrival of the main TA contractor. It would not have been appropriate to conduct an evaluation without obtaining results from the early work of the TA team. In fact, the Mission conducted reviews of project progress and conducted numerous documented monitoring field trips which led to the design of the evaluation.

Secondly, the Summary states that the Mission has exercised weak control over technical assistance, training and commodities. It is a fact that the Mission has not in the past included detailed performance action targets in contracts for long-term TA. This was consistent with agency practice at the time which did not define performance requirements for TA contractor personnel in terms of specific actions to be accomplished, many of which are often host country actions which are not within the sole control of the TA advisor. Only recently has the Agency and the Mission moved to reformulate the scopes of work for such contracts. This does not mean, however, that the Mission control has, in fact, been weak. The Mission has a strong record of monitoring field work of TA teams. In fact, the audit team privately mentioned that the field trip reports for SSIMP were some of the best that they had ever seen. In addition to field monitoring the Mission has a strong system of informing management of project progress and issues as detailed in our response to Recommendation No. 5.2.

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Thirdly, the Summary states that progress was not sufficiently and accurately reported to A.I.D. Washington and USAID/Indonesia officials. We strongly disagree. The Mission supplied all required reports to A.I.D./Washington. Some of those report requirements included requests for quantitative data which was not available and could not be easily generated. The Mission made its best efforts to provide that data. There is no evidence that the Mission tried to misreport data from the project or that AID/W was misled as to the status of the project or dissatisfied with the level of detailed reporting provided by the Mission. The primary responsibility for project implementation has been delegated to the Mission by the Asia Bureau, with only general oversight by the Bureau. USAID/Indonesia officials were clearly well informed of the project's progress and implementation issues as documented in detailed Director's Implementation Reviews conducted in 1989 and 1990 and subsequent Quarterly Implementation Reviews conducted by the Mission Director. These points are further elaborated in our detailed comments.

Finally, the Summary states that the Mission's evaluation procedures were inconsistent with A.I.D. policies and procedures. It is true that the current Mission Order on evaluation does not include the latest A.I.D./Washington guidance on evaluations. The Mission currently is revising that Mission Order. The Summary statement does not accurately present the actual situation to the extent that it concludes that the SSIMP evaluation was therefore deficient. The SSIMP evaluation scope of work addressed all the A.I.D. Handbook criteria as discussed in our response to Recommendation No. 6. Further, the evaluation met the Mission's purpose at mid-point of the project and was very useful for the Mission in developing the course of action resulting in Project Paper Amendment No. 1. The Mission did in fact obtain the required benefit of the \$90,000 evaluation.

We would like to conclude with some overall comments on the Audit process. This particular audit took place over a nineteen month period, involved 2 changes in audit personnel culminating in a draft audit report dated May, 1992. The audit involved by our calculations at least 7.5 person months of audit staff time just in Indonesia. Additionally, it consumed a much greater amount of our own staff time and redirected our staff from important implementation monitoring activities. The results from this level of effort are extremely disappointing and in our view are neither constructive nor helpful. At the time the audit started, the mission was clearly taking major and responsible corrective actions in the implementation of this project, based on close monitoring. This included a decision to reduce the number of project-financed activities that could responsibly be completed within the original life-of-project timeframe and the setting of a series of critical deadlines for accomplishment of key project implementation actions. Based on project progress,

further decisions were made about the continuation of certain project activities. This was a very intensely monitored and managed process which extended over many months. The Mission made a conscious decision to concentrate on expediting project implementation rather than spend the time on drafting a PP Amendment. Indeed, the content of any amendment could not be determined until the success of the project in meeting certain key deadlines was clear.

Instead of recognizing the extraordinary efforts of the Mission to turn this project around, the audit concentrates on events which occurred in some cases many years ago, the alleged failure of the Mission to meet certain Handbook requirements which had little to do with effectively implementing the project and implies that the Mission was not aware of or doing anything to address the project's problems as well as misrepresenting the project's status to A.I.D./W. We are greatly disappointed in the critical, and one-sided approach, taken in the draft and hope that the final report will be adjusted to present a more balanced picture of the project implementation by the Mission.

Our detailed responses to the specific recommendations are as follows:

Recommendation No. 1: We recommend that USAID/Indonesia:

1.1. Within 30 days, advise the Asia Bureau of the unauthorized changes to project objectives and request instructions on whether to terminate or redesign the Small Scale Irrigation Management Project;

We strongly disagree with the term "unauthorized changes." We feel, as discussed in more detail subsequently (see Sec. 1.4), that appropriate changes in project implementation have been made in an orderly manner by a Mission authorized to make such changes. During the internal Mission decision process AID/Washington was properly informed (through copies of project documentation including PIRs, PILs, Amendments to Loan and Grant Agreements, etc.

We also disagree with the audit's conclusion that the Mission changed the project's "objectives". Neither the objective nor purpose of the project have ever been changed by the Mission. We do not agree that a change in implementation modalities or changes in project component activities always constitute changes of the project objective warranting AID/W approval, and do not believe that such an interpretation has ever been accepted by the Agency in practice. The extent to which projects may be changed without the final approval of the cognizant Bureau has always been a matter left to the judgment of the Mission

Director and Bureau concerned. Through a variety of means, the Asia Bureau was aware that the project was not making satisfactory progress and that the Mission was moving to address those problems, and the Bureau implicitly concurred in what the Mission was doing and never requested to formally review the Mission's actions.

As indicated in our response to Recommendation 5.1, AID/W has consistently over the last several years limited the amount of information it wished reported to it regarding the specifics of project implementation and has not become involved in project implementation matters. We strongly object to the characterization of the changes as changes in the project's objective and as "unauthorized".

USAID/Jakarta sent a cable dated March 13, 1992 (Jakarta 03236) requesting concurrence from the Asia Bureau to approve Project Paper Amendment (PP Amendment No. 1), which will describe modifications being made to the project.

- 1.2. **Determine how much of the obligated and uncommitted \$19,428,947 are needed to either terminate the Small Scale Irrigation Management Project or implement a revised project and deobligate funds not needed;**

An analysis has been conducted for the preparation of PP Amendment 1. This shows the funding requirement for completing SSIMP to be \$32.3 million. As of June 1, 1992, the project had obligated \$37.3 million, committed \$27.8 million and expended \$14.2 million. A deobligation of \$5 million is in process which will bring the obligation level down to the amount required to complete the project. This is expected to be finalized by September 30, 1992. The Mission opinion is that the commitment level of 86% of project requirements at this stage of the project is acceptable. The expenditure plan which is incorporated in the PP amendment shows that quarterly expenditures will peak during FY 1993 at \$2.4 million, up from the current quarterly level (March '92) of \$1.3 million. The Mission expects that the project will fully expend the obligated funds by the PACD of March 31, 1994.

- 1.3. **Provide the Asia Bureau justification for any decision to redesign the project, justification which consists of (1) empirical data that the revised total project costs can be recovered through sustainable economic benefits, (2) an analysis of Indonesian Government actual and prospective project contributions, and (3) an assessment of Indonesian Government ability and commitment to provide the required resources;**

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(1) No attempt was made in the original Project Paper to include all project benefits in the economic analysis. Clearly, besides the direct farmer beneficiaries of the project, there are substantial benefits accruing from the institutional development program, including benefits to those who have received training. Benefits have also accrued to Indonesian individuals, non-government organization and private sector firms working as consultants and construction contractors under the project, as documented in the Lessons Learned study. Secondary benefits will accrue to those who will benefit in the future from future irrigation systems which will be built and/or managed by those receiving project training. The GOI may proceed with the construction of 2-4 systems which were designed under the project but are not included under the current funding of USAID and OECF. An analysis capturing all this complexity and uncertainty would be very difficult and thus costly to implement. The Mission does not feel that such an analysis is warranted for this project. Nor is funding available for such an exercise.

Project Paper Amendment No. 1 includes a revised economic analysis similar to that conducted for the original PP. Economic analyses were performed for each of the sites being funded by AID. Each of the sites selected for AID financing have favorable internal rates of return. Additionally, the GOI has introduced an Irrigation Service Fee program which has the objective of financing the full costs of operations and maintenance of irrigation systems from fees assessed from farmers. This fee program is expected to be introduced at the SSIMP sites shortly after construction.

(2) The Mission will issue a Purchase Order to an accounting firm by July 31, 1992 to perform an analysis of the actual and prospective host country project contributions.

(3) USAID has reviewed the GOI budgets for the current fiscal year (1992/1993) and finds that adequate counterpart funds are budgeted this year. The Mission will continue to review GOI budgets on an annual basis. Beyond that, the Loan and Grant Agreements and countersigned PILs commit the GOI to provide the necessary resources to complete the irrigation systems. Further, all activities for which the GOI provides counterpart funding are prefinanced by the GOI, with USAID reimbursing only after receiving evidence that payments have been made.

- 1.4. Follow A.I.D. policies and procedures for obtaining proper review and authorization of any new or revised project, including a revised Project Authorization for the project purpose and life of project funding, of which \$12,665,000 remains authorized but not yet obligated; and**

Jakarta 03236 includes a request for Bureau concurrence for the Mission Director to revise the project paper and authorization for SSIMP. The revised authorization is included in the draft Project Paper Amendment Number 1 and revises the funding to the new amount, i.e. \$32.3 million. As discussed with the audit team during their visits, the required documentation could not be prepared until the Mission had a firm idea of the remaining requirements of the project. This determination was finally made after a sequence of events, managed by the Mission, including (1) a midterm evaluation in July 1989; (2) a Director's Implementation Review (DIR) in December 1989; (3) a revised project strategy review in August 1990; (4) a second DIR in Dec. 1990; and (5) project performance against a series of Mission established performance deadlines, which continued through May 1992. With the meeting of these critical dates, a decision was made to extend the PACD, adjust project funding levels, and modify the scope of activities under the project. The results of this entire process are now documented in the PP Amendment Number 1.

- 1.5. Amend the project agreement to release any further A.I.D. funds in tranches, each tranche conditioned upon the receipt of evidence that (1) the Indonesian Government is providing the necessary resources, and (2) the project is progressing satisfactorily towards the authorized objectives.**

Surface water construction activities (which account for 82% of the planned host country contribution) are prefinanced by the GOI. Thus, no USAID funds are disbursed until USAID receives evidence that the GOI has made payment in full for the activity. Further, for surface water activities, USAID funded consultants are required to certify the vouchers stating that the work meets agreed upon designs and specifications. The Mission opinion is that this system (1) adequately assures monitoring for the GOI contribution; and (2) adequately assures that USAID funds are not disbursed until satisfactory progress is made. We feel that amending the agreement is not necessary and would be counterproductive at this stage.

Based on the foregoing evidence we request that Recommendation Nos. 1.1, 1.2 and 1.4 be considered resolved upon issuance of the audit report and closed upon signature of Project Paper Amendment Number 1.

For Recommendation 1.3 (1) we request that this recommendation be deleted based on the evidence provided.

For Recommendation 1.3 (2) we request that this recommendation be considered resolved upon issuance of this audit report and that it be closed upon receipt and acceptance by the Mission of a detailed analysis of actual and prospective host country project contributions.

For Recommendation 1.3 (3) we request that this recommendation be considered resolved upon issuance of this audit paper and that it be closed upon signature by GOI of Amendment No. 5 to the Loan Agreement which will consist of a revised Amplified Project Description and Revised Financial Plan based on Project Paper Amendment No. 1. This document contains wording that the GOI will provide all resources necessary to complete the project.

For Recommendation 1.5 we request that this recommendation be deleted based on the explanation provided.

Recommendation No. 2: We recommend that, for the Small Scale Irrigation Management Project, USAID/Indonesia, in coordination with the Contracting Officer:

2.1. Establish well-defined work requirements and deadlines in Statements of Work and, thereby, enable the Mission and others to objectively measure contractor performance;

The contract for Technical Assistance (TA) services which the audit team reviewed is now completed. The contract for Phase II TA has been competed and awarded. The statement of work for Phase II includes well-defined work requirements and deadlines. Specifically, the contract requires the submission of an Inception Report within 60 days of contract signing and an overall project work plan with 90 days of contract signing. The Inception Report has been received and reviewed. A preliminary version of the overall workplan has been received and is being reviewed.

2.2. Obtain from contractors annual work plans to establish interim performance targets and deadlines;

The Phase II TA contract requires the first annual work plan, which is combined with the overall project work plan, to be submitted by July 21, 1992. A preliminary draft has been received and is under review.

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- 2.3. Obtain periodic, at least semiannual, reports from contractors which gauge how contractor activities have progressed relative to the Statement of Work and work plans; and**

Quarterly reports have been received for each quarter during the Phase I contract. The Phase II contract requires the contractor to prepare quarterly reports which include a report of progress relative to the Statement of Work and work plans. This first report in the revised format is due July 31, 1992.

- 2.4. Document reviews of contractor progress reports and immediately notify contractors when the reports do not comply with the reporting requirements stipulated in the contract.**

The project officer has provided written comments on the Inception Report and the Phase I contractor's Final Report. Meetings have been held with the TA contractor to discuss the preliminary work plan and minutes of those meetings have been prepared. The Mission will notify contractors when reports do not comply with the reporting requirements of the contract.

Based on the foregoing evidence we request that Recommendation No. 2 be considered both resolved and closed upon issuance of the audit report.

Recommendation No. 3: We recommend that USAID/Indonesia establish procedures to:

- 3.1. Include in Project Agreement terms and conditions which bind the Indonesian Government to specific uses of A.I.D.-financed training, uses consistent with A.I.D. policy and Project Paper purposes;**

The Mission strongly disagrees with this recommendation to the extent it would require all trainees to be tied to specific jobs under the project. The objective of the SSIMP project is to increase the capability of the GOI to manage irrigation systems. Training is provided under the project to increase the capabilities of irrigation systems managers, whether they work directly on the project or in other GOI irrigation programs. To the extent that it is essential for particular trainees to return to specific jobs on the project that is identified at the time of training approval. The project may wish to train individuals who are not needed to implement the project, but whose training is important to increasing the overall capability to manage irrigation systems. Accordingly, including a provision in the project

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agreement requiring every returned trainees to fill a specific job is not considered desirable nor consistent with the project objectives. Accordingly, we believe that this recommendation should be dropped.

- 3.2. Obtain responses to Post-Training Questionnaires (designed to evaluate the application of training) six months after trainees have returned and regularly thereafter; and
- 3.3. Maintains a list, by Project Officer, of returned trainees and periodically (a) reconcile this list with Training Office records, (b) obtain contractor or Indonesian Government reports which identify the positions that participants have been assigned to and how the staff are using the training, and (c) verify reported information during site visits.

Since recommendations 3.2 and 3.3 apply Mission wide and since a Participant Training audit is now underway, we recommend that these recommendations be dropped from this audit report.

Recommendation No. 4: We recommend that USAID/Indonesia establish better procedures for ensuring that the Project Officer for the Small Scale Irrigation Management Project:

- 4.1. Obtains annual commodity utilization reports showing location, condition, and use of A.I.D.-financed vehicles;

Mission Order 1500.4 dated December 11, 1991 addresses procedures for monitoring A.I.D. financed vehicles and major equipment items. This M.O. requires Project Officers to request annual utilization reports from the GOI in October of each year which delineate the location and condition of vehicles and major equipment. The aforementioned M.O. also provides guidance concerning marking and disposal of commodities. Progress in receiving and verifying these reports are discussed in the Monthly Implementation Reviews (MIRs). The project officer has complied with the requirements of the M.O. and reports for the years 1990 and 1991 are available in the project file.

- 4.2. Verifies the information on the utilization reports through end-use checks conducted during periodic site visits; and

The project officer instructed his staff in March, 1992 to check commodity utilization during each field trip. Due to limitations of OE, field trips have been reduced to one per month. Field trip reports for the months of March, April and May include comments on end-use of equipment and vehicles.

4.3. Records in the Mission commodity inventory the most recent date of inspection and the vehicle condition at the time of inspection.

All commodity inventories are maintained by individual project officers. The SSIMP project officer maintains this inventory and updates it periodically through reports from the GOI, TA and through field visits by Mission staff.

Based on the foregoing evidence we request that all three parts of Recommendation No. 4 be considered both resolved and closed upon issuance of the audit report.

Recommendation No. 5: We recommend that USAID/Indonesia establish supervisory procedures for ensuring that Project Implementation Reports on the Small Scale Irrigation Management Project:

5.1. Conform with A.I.D. Handbook 3, Chapter 11, and Asia Bureau guidance; and

The annual Project Implementation Report is coordinated by the Program Office based on guidance from AID/W. AID/W guidance is usually year-specific, meaning that for each year there are customarily special reporting priorities or emphases. During the last two annual reporting periods, however, there has been some rethinking in the Bureau regarding the PIR's utility. For the 1991 PIR report, this led to an explicitly shortened guidance cable in terms of the number of specific issues to be addressed. The Mission considers the 1991 PIR report complete to the extent that we responded to guidance of explicitly narrower scope. For required information not addressed in the body of the PIR report, reference was made to other reporting mechanisms to AID/W (e.g. Quarterly Financial Reports, and Quarterly Implementation Reports) to avoid redundancy.

Project information for the PIR originates from the Project Officer, which is cleared by the Technical Office Director, and reviewed by the PPS backstop officer before entered into the report. The responsible PPS backstop officer also supplements existing reporting mechanisms with periodic visits to project sites.

5.2. Quantify and qualify progress against the authorized objectives and identify delays, substantive issues, and other problems.

Progress, delays, issues and other problems are discussed and documented at the Monthly Implementation Review (MIR). On each MIR report/agenda, each action is assigned to a

specific individual, with the projected date of completion, and a system to track the completion of this activity over time into the next MIR. If follow-up action is needed involving persons or activities outside of those specified in the MIR report, they will usually be acted upon directly. Inaccuracies in the MIR report are addressed directly at the meeting. The MIR, in short, is a working meeting with an issues oriented format and standardized report prepared on a monthly basis.

Project monitoring at the senior management level takes place during the Quarterly Implementation Reviews (QIRs). Timing for the QIRs coincides with the release of the Quarterly Financial Report and is supplemented by written briefs by each project. The underlying QIR theme is management by exception, i.e. not to provide an item-by-item update, but rather to identify for senior management issues where they exist and recommend follow-up actions. As of April 1992, QIR follow-up actions are formally recorded and tracked either through the MIRs and/or at the next QIR. The MIRs are also used as a forum for tracking evaluation, audit and -- under past management -- DIR (or Director Review), recommendations.

Mission monitoring of projects is not limited to the structured systems described above. Issue-specific meetings are held by project and senior management staff when the need arises; field visits to project sites are conducted by senior Mission staff and support offices whenever possible and necessary. Steps are taken to deal with issues directly at the Mission level wherever possible. For these reasons, the Mission feels that to add additional management systems would be redundant and perhaps even counter-productive.

Based on the foregoing evidence we request that both parts of Recommendation No. 5 be considered resolved and closed upon issuance of the audit report.

Recommendation No. 6: We recommend that USAID/Indonesia amend the Mission evaluation procedures to conform with A.I.D. Handbook 3, Chapter 12, by:

- 6.1. Requiring evaluations to adequately assess achievement of purpose and A.I.D.'s broad concerns of relevance, effectiveness, efficiency, impact, and the likelihood of Indonesia sustaining the development efforts;
- 6.2. Developing scopes of work to meet the specific content and format requirements of A.I.D. Handbook 3, Chapter 12;

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- 6.3. **Reviewing evaluation draft reports to ensure that evaluations properly address the requirements of the scopes of work and, in this process, ensuring that Mission staff do not unduly influence evaluation team interpretations of evidence and findings;**
- 6.4. **Preparing the Evaluation Summary in accordance with the content and format requirements of A.I.D. Handbook 3, Chapter 12, and submitting the summary to A.I.D./Washington within 60 days of receipt of the final version of the evaluation; and**
- 6.5. **Establishing a system to follow-up on evaluation recommendations and take timely corrective action in response to evaluation recommendations.**

A Mission Order has been drafted which will revise the Mission procedures to conform to Handbook 3 Chapter 12.

The Mission takes strong exception to the point made by the audit team that "Although A.I.D. expended \$90,000 to obtain this data, A.I.D. did not obtain the required benefit to the evaluation." (p40). In fact, the evaluation proved very cost effective and useful. In actuality the evaluation set off a chain of events (1989 DIR, Strategy Statement, 1990 DIR, Critical Dates) which systematically led to the Mission decision to modify the project as documented in Project Paper Amendment No. 1. Additionally, the evaluation team confidentially recommended termination of the services of the TA chief of party at the time. This was carried out immediately and as a direct result the performance of the TA team improved dramatically.

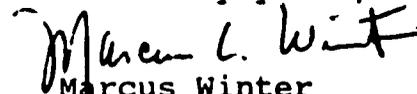
The Mission also takes particular exception to comments that USAID/Indonesia did not follow A.I.D. policies and procedures in writing the scope of work. The SOW addresses all 5 concerns (relevance, effectiveness, efficiency, impact and sustainability) as specified in Handbook 11 Chapter 12. The clear purpose of the mid-term evaluation was to assess current implementation status at mid-term of the project. The meaning of this was outlined in the list of 6 key elements under #2 Purpose, and further elaborated under a separate section (4A Project Implementation). Key management issues were specified in these sections, including **efficiency** (coordination of project implementation at central level, conflicting GOI and USAID regulations) and **sustainability** (explicitly addressed in C2 WUAO program), a central concern of USAID. Nine overall evaluation questions are clearly identified and systematically elaborated in general order of importance. Questions assessing **relevance** and **effectiveness** of various project elements are included

in several of these questions. SSIMP's impact on irrigation and development management in Indonesia was specifically mentioned in the second sentence of Page 1 of the SOW.

In conclusion, the Mission feels that the audit report is far off-base in this recommendation. The report significantly misreads the procedures that were followed and seriously misstates the results of that evaluation and the Mission's follow-up of the recommendations of the evaluation.

Based on the foregoing, we request that all parts of Recommendation No. 6 be considered resolved and that it be closed upon completion and issuance of the revised Mission Order on project evaluations.

Sincerely yours,



Marcus Winter
Acting Director
USAID/Indonesia

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