PD-ABG-673

Regional Inspector General for Audit
Singapore

AUDIT OF USAID/INDONESIA'S CONTROLS OVER THE INDONESIAN GOVERNMENT'S COST SHARING CONTRIBUTIONS

Audit Report No. 5-497-93-13
August 16, 1993

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

August 16, 1993

MEMORANDUM

TO: Charles F. Weden, Mission Director, USAID/Indonesia

FROM: Richard Thabet, RIG/A/Singapore Richard C Thabet

SUBJECT: Audit of USAID/Indonesia's Management of the Indonesian Government's Cost Sharing Contributions (Audit Report No. 5-497-93-13)

Enclosed are five copies of the subject report. Our audit work and written representations confirmed that USAID/Indonesia management responded positively to the new 1991 Agency guidance on Cost Sharing Contributions. The Mission designed extensive procedures to require at least annual reporting on host country contributions; review the reasonableness and reliability of the reports on host government contributions; and adhere to the prescribed Agency accounting standards for computing the dollar value of contributions.

While USAID/Indonesia has made much progress in implementing these procedures, additional improvements are needed. For example, the Mission needs to require the Indonesian Government to report all of its contributions, review or document the adequacy of the contributions, and provide written assurances on the reasonableness of the Indonesian Government's contributions.

We made three recommendations to improve Mission operations. The Mission's reply to these recommendations and the draft report were fully considered in finalizing this report. Based on the Mission comments, all three recommendations are resolved and will be closed upon completion of planned actions. The comments are summarized after each finding and presented in their entirety in Appendix II.

Please provide us information within 30 days indicating any actions planned or taken to implement the recommendations. I appreciate the excellent cooperation and courtesies extended to my staff during the audit.

Attachments: a/s

EXECUTIVE SUMMARY

The Foreign Assistance Act requires assurances from foreign governments that they will finance at least 25 percent of A.I.D.-funded activities. Audits made between 1982 and 1987, however, disclosed significant problems with A.I.D.'s willingness or ability to hold foreign governments accountable for their financial commitments. Since 1987, A.I.D. has established procedures to correct these problems, the most recent procedures being established in 1991. To comply with these procedures, USAID/Indonesia was responsible for ensuring that the Indonesian Government provided contributions to 21 projects. As of September 30, 1992, the Indonesian Government had agreed to provide $196 million for these projects (page 1).

As the first in a series of worldwide audits on this subject, the Office of the Regional Inspector General for Audit/Singapore made an audit to determine whether USAID/Indonesia followed A.I.D.'s 1991 procedures for: (1) obtaining and recording information on host government contributions; (2) requiring the host government to report at least annually on its contributions; (3) reviewing the adequacy of the contributions and testing the reliability of the reports on these contributions; and (4) computing and documenting the value of the contributions. The audit was conducted from September 30, 1992 to November 19, 1992 (page 2 and Appendix I).

USAID/Indonesia responded positively to the new 1991 Agency procedures and designed extensive Mission procedures to implement additional controls over host country contributions. Under these procedures, for example, Project Officers were to formally require the Indonesian Government to report at least annually on its contributions. Project Officers were also to adhere to the prescribed Agency accounting standards for computing the dollar value of these contributions. Moreover, both Project Officers and the Controller's Office were assigned clear responsibilities for reviewing the reasonableness and reliability of the reports of host government contributions (see page 4).

USAID/Indonesia made progress in implementing these new controls, however, improvements are needed in the following areas:

- The Mission did not formally require the Indonesian Government to report on its contributions to 6 of the 21 projects and, for another 4 projects, did not enforce the established reporting requirements. As a result, the Mission did not establish a solid level of accountability for contributions of $71 million (page 6).

- The Mission either did not review the adequacy of the contributions or did not document that various problems were reviewed and resolved. Thus, management could not identify and effectively resolve longstanding problems.

- The Mission did not provide the required written assurances on the reasonableness of all reports of the Indonesian Government's contributions. As a result, the Mission did not have enough reliable data to report that the Indonesian Government actually contributed $151 million of the $196 million budgeted for the 21 projects (page 19).

- USAID/Indonesia did not define the basis for valuing the Indonesian Government's contributions in project agreements and used varying exchange rates when valuing the reported local currency contributions. A.I.D. policy and procedures in this area, however, are not very clear (page 26).

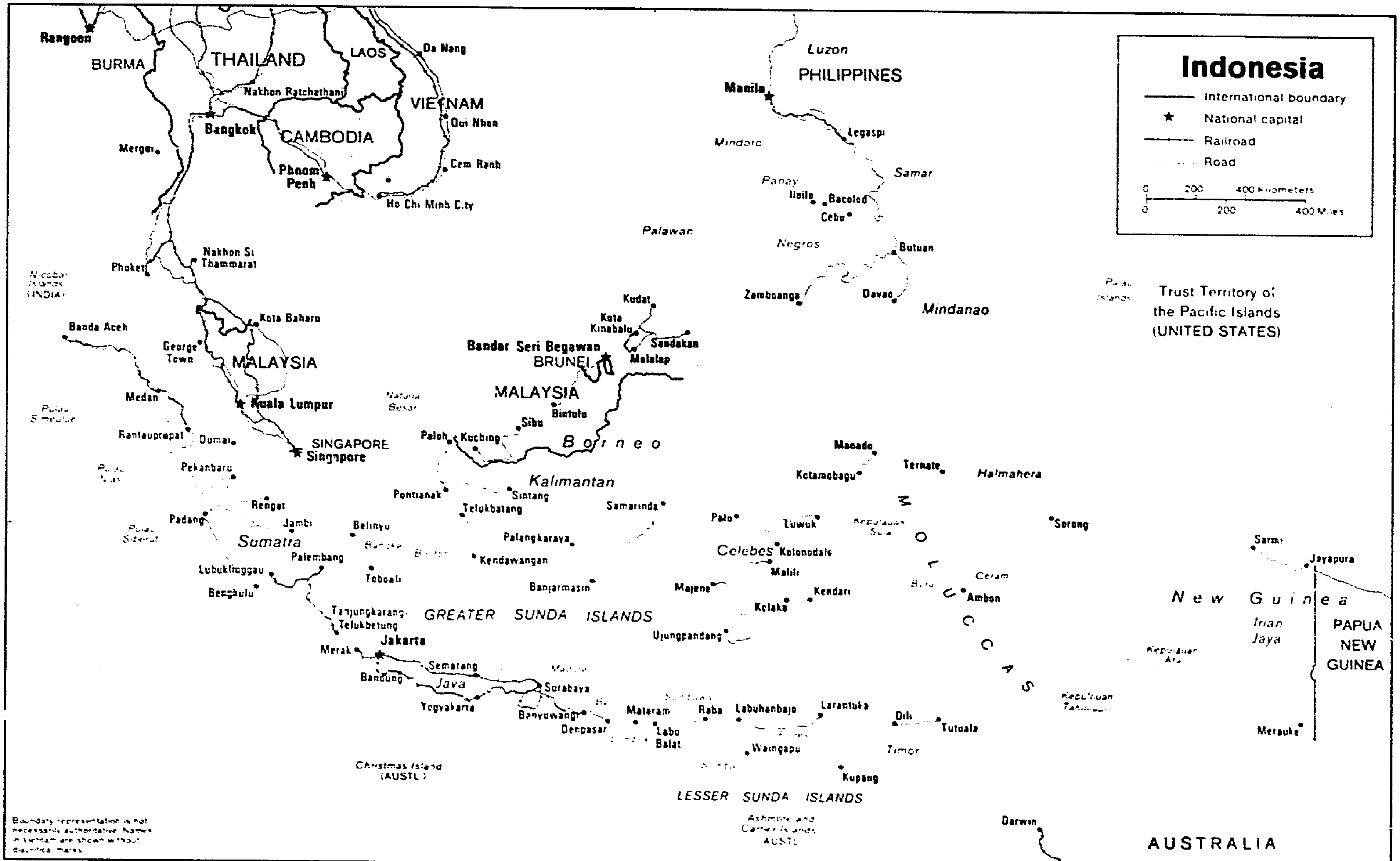
This report contains three recommendations to: better enforce reporting requirements for host government contributions (page 6); document the adequacy of host government contributions during Project Implementation Reviews (page 13); and establish additional controls to ensure the reliability of reports on these contributions (page 19).

In commenting on a draft of this report, USAID/Indonesia acknowledged that further progress was needed at the time of audit; however, Mission officials believe that they had followed through on the requirements of the Agency's new guidance and had obtained results—especially immediately following completion of the audit fieldwork. The officials expressed their regret that the audit cutoff date did not permit the inclusion of the many recent actions taken. They believe that had the audit period been extended, many of the statements in the report suggesting that the Mission had not fully implemented the new procedures would not have been included. The Mission's comments, which elaborate further on this and other points, are summarized after each finding and are presented in their entirety as Appendix II.

The Mission has taken corrective action on the three recommendations. Accordingly, these recommendations are resolved and will be closed upon completion of the planned actions.

Office of the Inspector General

Office of the Inspector General
August 16, 1993



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INTRODUCTION

Background

In much the same way that cost sharing contributions are required for Federal domestic aid programs, contributions by foreign governments towards the cost of U.S. foreign aid programs in their countries are usually required to ensure that these governments have a vested interest in the success of A.I.D.-financed activities. Section 110 of the Foreign Assistance Act of 1961 provides that:

> *No assistance shall be furnished by the United States Government to a country under sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied that such country provide at least 25 per centum of the costs of the entire program, project, or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an 'in-kind' basis.*

While this section of the Act applies only to bilateral, government-to-government activities funded with development assistance appropriations and the Development Fund for Africa (Section 496d), A.I.D. has administratively extended this requirement to activities funded by the Economic Support Fund.

Recurrent problems with host government contributions have been repeatedly identified in audits made by the Office of the Inspector General and the General Accounting Office. Project designs typically contain overly optimistic assessments of the host government's ability to provide the necessary financial support to projects. Furthermore, A.I.D. Missions have often overlooked the importance to proper accounting for host government contributions.

In a 1987 memorandum to the Assistant Administrator of the Office of Program and Policy Coordination, the Inspector General noted that, in 146 project audits covering the years 1982 to 1987, a recommendation that managers require host governments to provide and account for their contributions was made 59 times. However, project design, implementation, monitoring, and reporting problems have persisted. The Inspector General further pointed out that the problems existed worldwide, affecting all bureaus, and that the Agency needed to issue additional guidance in several areas.

Since 1987, A.I.D. has responded to these problems with additional policies and procedures to, among other things, (1) require the preparation of pro forma host government contribution budgets early in the project design process, and (2) provide specific details about the application, definition, and calculations of host government contributions.

In 1991, A.I.D. established additional procedures (Department of State Cable number 138349, dated April 27, 1991) requiring Missions to:

- *Ensure that systems are in place to obtain information about host government contributions and ensure that such information is recorded in the official records/files of the Mission;*

- *Include in agreements or Project Implementation Letters, a requirement for the host government to report at least annually on their contribution;*

- *Review the adequacy of host government contributions during Project Implementation Reviews and test the reliability of the reports with Mission site visit reviews and evaluations; and*

- *Adhere to A.I.D. Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and applying the proper rate of exchange to calculate host government contributions.*

USAID/Indonesia had 21 active projects which required host government contributions, as of September 30, 1992. A.I.D. authorized $527 million for these 21 projects, and the Indonesian Government agreed to provide $196 million, or 27 percent of the total project costs of $723 million. A.I.D. obligations and expenditures for the 21 projects amounted to $418 million and $289 million, respectively, as of September 30, 1992. Total Indonesian Government contributions were reported as $151 million, but this amount has not been verified.

Audit Objectives

The Office of the Regional Inspector General for Audit/Singapore audited USAID/Indonesia's controls over the Indonesian Government's cost sharing contributions to answer the following audit objectives:

- **Did USAID/Indonesia follow A.I.D.'s new 1991 procedures to ensure that systems were in place to obtain information on host government contributions and that such information was recorded in the official records/files of the Mission?**

- **Did USAID/Indonesia follow A.I.D.'s new 1991 procedures to include in agreements or Project Implementation Letters a requirement for the host government to report at least annually on its contributions?**

- **Did USAID/Indonesia follow A.I.D.'s new 1991 procedures to (1) review the adequacy of the host government contributions during Project Implementation Reviews and (2) test the reliability of the reports with Mission site visit reviews and evaluations?**

- **Did USAID/Indonesia follow A.I.D.'s new 1991 procedures requiring adherence to A.I.D. Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and applying the proper rate of exchange to calculate host government contributions?**

In answering these audit objectives, we tested whether USAID/Indonesia followed applicable internal controls and complied with certain legal requirements. We also included steps to detect abuse or illegal acts which could affect the audit objectives. Mission management provided written representations which we considered essential to answering the audit objectives and assessing internal controls and compliance. These written representations have been included as part of the Mission comments attached to this report as Appendix II.

For problem areas, we did additional work to identify the cause and effect of the problem, and are making recommendations to correct the problem and the cause. Appendix I contains a complete discussion of the audit scope and methodology.

REPORT OF AUDIT FINDINGS

Did USAID/Indonesia Follow A.I.D.'s New 1991 Procedures to Ensure That Systems Were in Place to Obtain Information on Host Government Contributions and That Such Information Was Recorded in the Official Records/Files of the Mission?

USAID/Indonesia followed A.I.D.'s new 1991 procedures and designed a new system to ensure that information on host government contributions was obtained and that such information was recorded in the official records and files of the Mission. The Mission, however, has not yet fully implemented its new system.

USAID/Indonesia has made progress following A.I.D.'s new 1991 procedures to ensure that systems were in place to obtain information on host government contributions and that such information was recorded in official files. The new A.I.D. procedures were established in April 1991 and in November 1991, the Mission designed procedures which assigned responsibilities to various Mission offices and individuals for carrying out specific tasks to obtain, review, and record information on the Indonesian Government's contributions to the projects. Among other things, these Mission procedures required that:

- Project Officers include in Project Implementation Letters a requirement for the Indonesian Government to report at least annually on its contributions to A.I.D. projects;

- Project Officers adhere to Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 in computing the value of in-kind contributions and rate of exchange used in calculating the Indonesian Government contributions;

- Project Officers obtain the Indonesian Government's reports on contributions; determine the reasonableness of the information reported in much the same way that vouchers paid with A.I.D. funds are administratively approved; include a statement on the reasonableness of the information in relation to project activity; and file the reports in the official files;

- The Controller's Office record the information received from Project Officers on the Indonesian Government's contributions; and

- The reports on contributions be tested during Controller Office site visits, and the status of these contributions be reviewed during Project Implementation Reviews.

USAID/Indonesia, however, has not yet fully implemented these procedures. The Mission's monitoring of host country contributions, the receipt of reports from the Indonesian Government, and the review and testing of contributions by the Mission has continued to consistently improve. However, the Mission did not establish reporting requirements for 6 of 21 projects and did not enforce the reporting requirements established for another 4 projects (see page 6 for a discussion of this problem). Also, while information received on the contributions was properly recorded by Project Officers and the Controller's Office, the Mission did not (1) either sufficiently review or document the adequacy of host government contributions during Project Implementation Reviews (see page 12 for a discussion of this problem), and (2) provide written assurances on the reports of contributions and sufficiently test the reliability of these reports (see page 19 for a discussion of this problem). In addition, the Mission may not have adhered to Handbook 1, Part VII, in computing the value of in-kind contributions and applying the proper rate of exchange to calculate the Indonesian Government's contributions (see page 26 for a discussion of this problem)

Since these problem areas are discussed in other sections of this report, separate recommendations are not being repeated here.

Did USAID/Indonesia Follow A.I.D.'s New 1991 Procedures to Include in Agreements or Project Implementation Letters a Requirement for the Host Government to Report at Least Annually on Its Contributions?

USAID/Indonesia largely followed A.I.D. procedures for requiring host governments to report at least annually on their contributions to A.I.D.-financed projects. For 15 of 21 projects, the Mission established these formal requirements and even provided the Indonesian Government sample reporting formats. However, the Mission did not formally require such reporting for the remaining 6 projects and did not enforce formal reporting requirements established for another 4 projects.

The Indonesian Government Has Not Yet Submitted Reports on Its Contributions to Some Projects

USAID/Indonesia did not require the Indonesian Government to report on its contributions for 6 of the 21 projects and, for another 4 projects, did not enforce the reporting requirements which were established. Although the Mission designed new procedures to establish and enforce the reporting requirements, these procedures have not yet been fully implemented. As a result, the Mission did not establish a solid level of accountability, as envisioned by A.I.D.'s new 1991 procedures, for required Indonesian Government contributions totalling $71 million.

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

1.1 Require the Indonesian Government to report its contributions on one of the six projects which lack formal reporting requirements, the only project remaining active as of June 1993; and

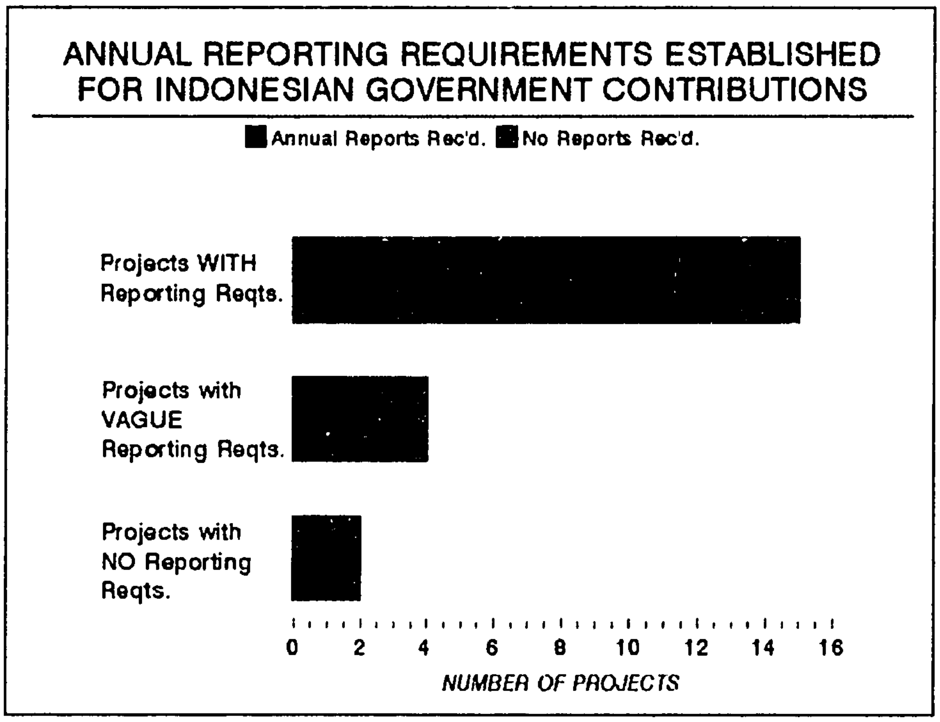
1.2 Enforce the reporting requirements for host government contributions to the four projects for which the Indonesian Government did not provide reports on its contributions as required.

The new A.I.D. procedures were intended to strengthen host government accountability for its financial commitments by ensuring that the host government reported its contributions to every A.I.D.-financed activity which required these contributions. The 1991 procedures directed that:

Missions should include in agreements or PILS a requirement for host governments to report annually (more frequently if appropriate) on their contribution (cash and in-kind) to the AID financed program/project/activity...Where such requirements do not exist, an ideal time for adding this language would be when the project is amended to provide incremental funding, or when issuing the annual budget PIL if such procedures are utilized.

In response to this directive, USAID/Indonesia designed new procedures which required, among other things, Project Officers to include in Project Implementation Letters (1) a requirement that the Indonesian Government report at least annually on its contributions and (2) a sample reporting format. The new Mission procedures stressed that this requirement would apply to **all** new and on-going projects; that Project Officers were to follow up on contributions which were lagging behind schedule; and that Project Officers were to include a final report of the Indonesian Government's contributions as part of the project completion report at project close-out.

USAID/Indonesia, however, did not fully implement these new A.I.D. and Mission procedures in that no annual reporting requirements were formally established for 6 of 21 projects, and, for 4 other projects, the reporting requirements were not enforced. The chart below shows the Mission's noncompliance with the establishment and enforcement of the annual reporting requirements for the 21 A.I.D.-financed projects.



For the 15 projects with proper reporting requirements, the Mission received reports from the Indonesian Government for 11 projects. Of the 6 projects which lacked annual reporting requirements[1], 2 were devoid of any formal reporting requirements and the other 4 had only a vaguely worded reporting clause included in each of the applicable Project Implementation Letters. For these four projects, the Project Implementation Letters did not fulfill the intent of Agency and Mission procedures. The Project Implementation Letters said:

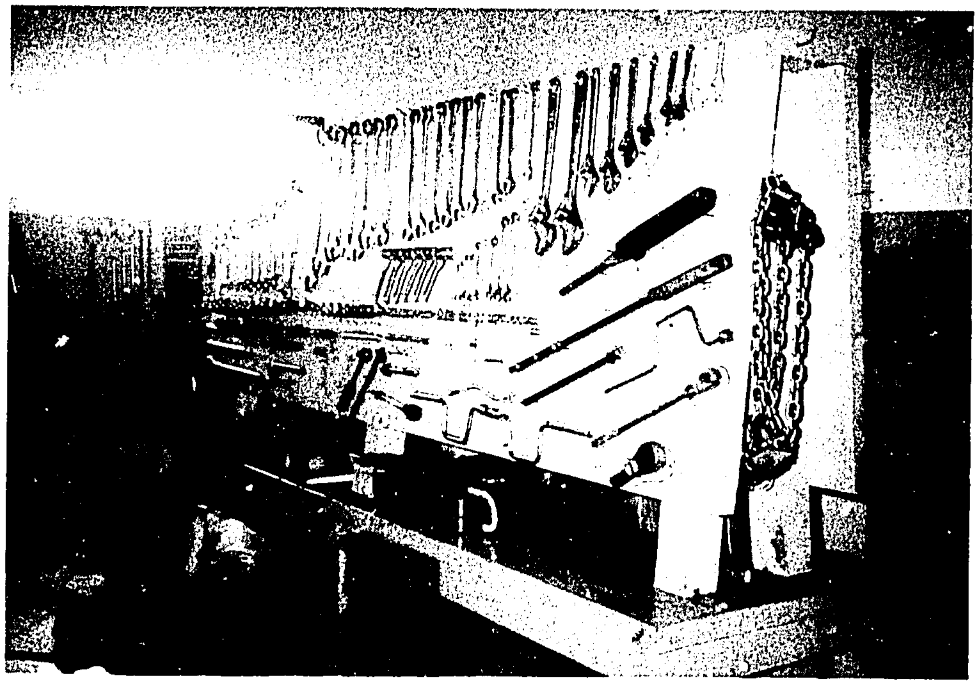
> *From time to time A.I.D. will request a summary report of Indonesian Government resources made available for the project based on the major expense categories contained in the Agreement budgets.*

USAID/Indonesia officials did not believe that the new Agency and Mission procedures needed to be implemented for these six projects. These officials said that the same level of accountability is not required for host country contributions as for U.S.-appropriated dollars. The officials pointed out that formal reporting requirements were not established because the requirements had been communicated to the Indonesian Government informally, and the Officers did not believe that separate Project Implementation Letters were necessary. Also, the Mission found that it could not readily apply the improved Agency procedures retroactively, particularly for projects which were designed and approved several years earlier and were nearing completion. So, the Mission decided to direct its efforts to recent projects.

USAID/Indonesia needs to direct additional efforts to the older projects. The new A.I.D. procedures were intended to establish a solid level of accountability over host country contributions by formally requiring and obtaining documented, auditable evidence from host governments on contributions to all ongoing projects. To this effect, the new A.I.D. procedures provide specific guidance for establishing these formal reporting requirements. Even the new Mission procedures clearly specified that these requirements were to be established for *all* ongoing projects and that a final report of the Indonesian Government's contributions was needed as part of the project completion report submitted at project close-out. As for applying the new procedures to projects which were nearing completion, 3 of the 6 projects which lacked formal reporting requirements were not scheduled to be completed until more than 2 years after the issuance of A.I.D.'s new procedures.

Of these 6 projects, 3 were scheduled to end between September and December 1992 and the remaining 3 between May 1993 and June 1996.

USAID/Indonesia also did not enforce the reporting requirements established for 4 of the remaining 15 projects. The Mission properly obtained reports on Indonesian Government contributions for 11 of these 15 projects totalling $71 million in contributions. But, the reports on contributions for the remaining four projects—representing $15 million in contributions—were prepared by Project Officers **based on their own estimates** (or budgets provided by the Government of Indonesia) rather than by the Indonesian Government based on documented, auditable evidence. The following photo illustrates a contribution which the Indonesian Government did not report as required.



This workshop, built under the Rural Roads Project, is one example where the Indonesian Government did not report the value of contributed property.

Obviously, the use of A.I.D. personnel to determine and report (based on estimates) host country contributions circumvented the intent of the new 1991 A.I.D. procedures. To the extent that the host government does not or will not establish an accounting system for its contributions and report on these contributions, A.I.D. will continue to lack the solid basis of accounting which was envisioned by the new procedures. Accordingly, USAID/Indonesia needs to instill values of accountability within the host government over these contributions by requiring annual reports for all projects and then consistently enforcing the reporting requirements.

As a result of not fully implementing the new A.I.D. directives and its own procedures, USAID/Indonesia has yet to receive an accounting from the Indonesian Government on $71 million in contributions to 6 projects: (1) 2 projects which lack formal reporting requirements and for which the Mission has been unable to obtain reports; and (2) 4 projects for which the Mission has not received any reports because it did not enforce the established reporting requirements.

In conclusion, USAID/Indonesia needs to ensure that well-designed Mission procedures for requiring and obtaining reports on Indonesian Government contributions are fully implemented. For the one project which remains active as of June 30, 1993, but lacks a formal reporting requirement, the Mission should establish and enforce this requirement. Finally, the Mission should hold the Indonesian Government accountable for complying with the requirements and obtain the missing reports on contributions for the four other projects subject to reporting requirements.

Management Comments and Our Evaluation

Concerning Recommendation No. 1.1, Mission officials stated that a decision was made not to formalize the new reporting requirements for host country contributions for the six projects due to their upcoming completion dates. However, these officials stated that reports on contributions for all six of these projects have now been received including the only project unexpired as of June 1993 (the Small Scale Irrigation Management project).

In replying to Recommendation 1.1, Mission officials also stated that the report for another project (General Participant Training II) had been received in late October 1992 and "...was inadvertently not made available to, or overlooked by, the auditors at the time of their review." We agreed not to include this project as one of the six projects being discussed in this recommendation in order to give the Mission the 'benefit of the doubt'. However, since the issue has now been raised, the following information is being provided for the reader to understand the full story.

On October 16, 1992, we requested the host country contributions report from the Project Officer for the General Participant Training II project and were provided with a copy of a report on file for the period of April 1, 1990 through March 31, 1991. This report was not signed by a counterpart agency official and was not prepared in the typical counterpart agency style, e.g., prepared on the counterpart agency letterhead, presented in the local language, and stated contributions in local currency, rather than in U.S. dollars. This report was also recorded in Mission records as the source document supporting reported contributions, (i.e., *memo prepared by the Project Officer*) and was presented as such by the Project Officer. We initially concluded, therefore, that the report had been prepared by the Project Officer and not by the counterpart agency as required.

In June 1993, Mission officials then provided a copy of another report which they said had been received from the counterpart agency in October 1992, and that it must have been overlooked by the auditors. This report, however, was quite similar to the report we received several months earlier except that the reported contribution amounts on this report had been increased, the stated exchange rate was different although it covered the same time period, and the following statement had been added: *"The undersigned hereby certifies that the information on this report is correct and detailed supporting documentation on file and available for review upon AID request"*. This report was also signed by an official from the counterpart agency and dated October 13, 1992—three days before we requested this report from the Project Officer.

We concluded that the second report had been prepared by the same office that prepared the first report. However, because of the Mission's strong disagreement with our conclusion and our inability to prove that this report was, in fact, prepared by the Project Officer, this project was not included in the audit finding as one of the projects for which the Mission did not receive a report from the host country.

In responding to Recommendation No. 1.2, Mission officials agreed that the Government of Indonesia should prepare and report on its contributions. However, because not all Government of Indonesia agencies have the same accounting capabilities, Mission officials found it necessary to use other means of acquiring the information. For example, to assist two counterpart agencies in reporting their contributions, the Mission contracted with a CPA firm to review the contributions.

Since action has been taken to obtain the required reports, Recommendation Nos. 1.1 and 1.2 are resolved and will be closed upon receipt of contribution reports prepared by the CPA firm for the Small Scale Irrigation Management project, a copy of the Agribusiness Development project contribution report, and reports of contributions to be prepared by the counterpart agencies for the Rural Roads Maintenance Systems and Private Participation in Urban Services projects.

Did USAID/Indonesia Follow A.I.D.'s New 1991 Procedures to (1) Review the Adequacy of the Host Government Contributions During Project Implementation Reviews and (2) Test the Reliability of the Reports with Mission Site Visit Reviews and Evaluations?

USAID/Indonesia generally did not follow A.I.D.'s new 1991 procedures to (1) review the adequacy of the host government contributions during Project Implementation Reviews or (2) test the reliability of the reports by Mission site visit reviews and evaluations.

USAID/Indonesia did design procedures for reviewing, during Project Implementation Reviews, the adequacy of the Indonesian Government's contributions and for testing the reliability of reports on these contributions. During site visits, the Mission's Project Officers occasionally verified the provision of some in-kind contributions and reminded the Indonesian Government to report on its contributions. Also, the Mission Controller's Office did attempt to verify some of the reported contributions during its financial reviews. These reviews consistently found a lack of documented, auditable evidence supporting contributions.

As discussed below, USAID/Indonesia did not follow through on the new procedures; specifically, the Mission did not (1) either review or document the adequacy of the Indonesian Government's contributions during Project Implementation Reviews or (2) sufficiently ensure the reliability of reports on these contributions to A.I.D.-financed activities.

The Mission Needs to Document Its Reviews of the Indonesian Government's Contributions

Contrary to A.I.D. procedures, USAID/Indonesia's Project Implementation Reviews for the 21 projects did not examine the adequacy of the Indonesian Government's contributions, or, if performed, the examinations were so limited that nothing was documented. The Mission's new procedures properly assigned responsibility for the review function but did not require the identification of variances between planned and actual contributions or the documentation of the problem areas for review by senior A.I.D. management. Improved Project Implementation Reviews can better focus management attention on identifying and resolving longstanding problems.

<u>Recommendation No. 2</u>: We recommend that USAID/Indonesia establish procedures to identify variances between planned and actual contributions and to document, in reports on Project Implementation Reviews, the examination of these variances.

To better ensure continual Mission monitoring of the host government's provision of agreed-upon contributions, the new A.I.D. procedures require that Missions review the adequacy of these contributions during Project Implementation Reviews. According to the 1991 procedures:

> *In meeting our management responsibilities A.I.D. should go a step forther than assurances, or waiting until the project is completed to monitor HG contributions to the A.I.D. financed program, project, or activity...*
>
> ***The adequacy of the HG contribution should be reviewed during Project Implementation Reviews** (PIRs)...*
>
> *...It should be noted that when agreements call for contributions in excess of 25 [percent], the Mission also must ensure that the agreed total HG contribution is provided so that project/program objectives are met.*

In response to these new A.I.D. procedures, USAID/Indonesia revised its own procedures and incorporated these revisions in the Mission's operations manual:

> *The Program and Project Support Office will assure that the status of GOI and other anticipated contributions are reviewed during portfolio/project implementation review.*

However, contrary to the new A.I.D. procedures and its own new and revised procedures, USAID/Indonesia's Project Implementation Reviews for the 21 projects either did not examine the adequacy of the contributions or the reviews were so limited that nothing was documented, notwithstanding problems already identified in audits, evaluations, and Mission financial reviews. These problems included a lack of promised staff, funds, buildings and various other in-kind contributions, as well as inadequate accounting systems and a lack of documented, auditable evidence to support the reported levels of contributions for nearly every project.

The following examples illustrate the types of widespread problems not reviewed or documented in USAID/Indonesia's reports on Project Implementation Reviews:

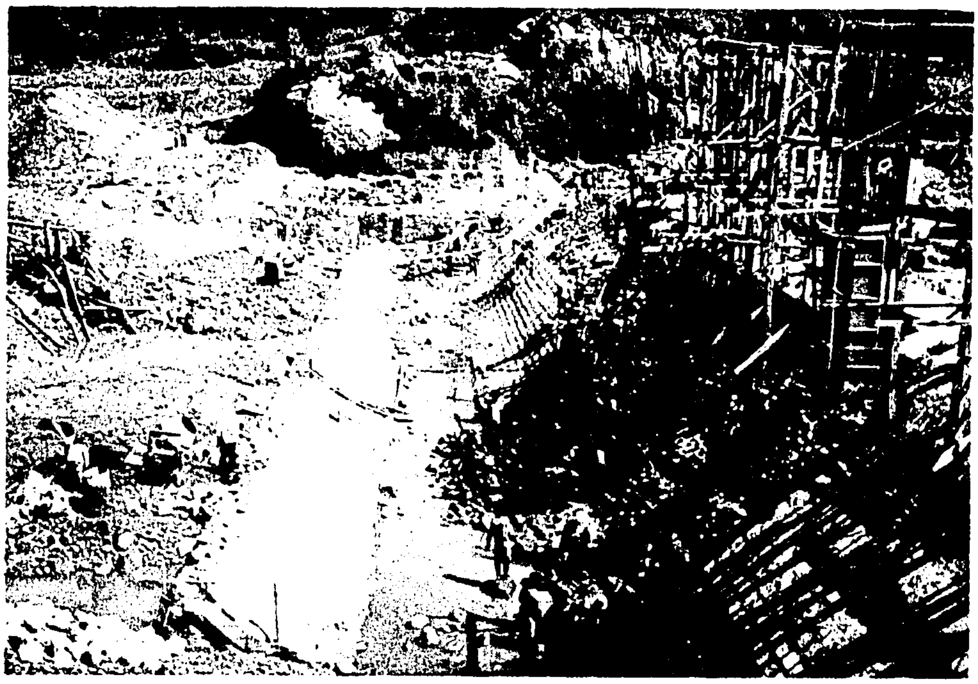
- An audit of the Applied Agricultural Research Project (Audit Report No. 2-497-90-07, dated July 30, 1990), reported that ***"The GOI's contribution to the project was about $4.9 million below the planned levels"*** and that ***"The GOI was not providing funds necessary to keep the project operating at planned levels".***

- An audit of the Small Scale Irrigation Management Project (Audit Report No. 5-497-92-10, dated August 31, 1992), based in part on the results of a 1989 project evaluation, reported that ***"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."*** Also, ***"the Mission reduced the Indonesian Government contribution from $40 million to $13.5 million."***

- A USAID/Indonesia financial review of the Health Sector Financing Project (July 1991) reported that: ***"The GOI contributions for the project could not be identified or verified."*** The review was so restricted that the Mission was ***"...not able to examine any official budget documents for the project."***

According to USAID/Indonesia Officials, the Project Implementation Reviews were conducted by the Mission Director or Deputy, the Controller always attended, and the status of Indonesian Government contributions was regularly discussed. The Mission Director consciously wanted these reviews to operate on an exception basis so that the Mission could concentrate the discussions and write-ups on problem areas.

Little documentation existed, however, to show what was reviewed during the Project Implementation Reviews, the extent of these reviews, or how the systemic problems mentioned above were to be corrected. Some documentation indicated that Project Officers and the Controller's Office were trying to correct some of these problems. However, no evidence existed to show that senior Mission management had reviewed the problems during Project Implementation Reviews or developed and coordinated a plan of action for ensuring that these problems were resolved and did not recur. Of the 21 projects examined during the 1991 Project Implementation Reviews (the 1992 reviews had not yet been made), none of the projects were reported as having any such problems as mentioned above with the Indonesian Government's provision of and accountability for contributions to A.I.D.-financed activities. The following photo illustrates a project receiving Indonesian Government contributions which were not reviewed or documented for adequacy during Project Implementation Reviews.



The Indonesian Government has made contributions to A.I.D.-financed projects, such as to this Small Scale Irrigation Project, but Project Implementation Reviews do not document the adequacy of the contributions.

One possible reason why Project Implementation Reviews were so incomplete in examining and reporting on Indonesian Government contributions was because the new USAID/Indonesia procedures assigned the responsibility for ensuring that the adequacy of the contributions was reviewed, but did not include any specific instructions for how this responsibility was to be carried out. The procedures provided for reviewing the status of contributions but did not specify how variances between planned and actual contributions were to be identified and reviewed. Nor did the procedures specify how the Mission was to document these variances and the related problem areas for review by senior A.I.D. management.

Lacking this information in the reports on the 1991 Project Implementation Reviews, the report recipients—senior Mission management and A.I.D./Washington management—had no reason to question the adequacy of the Indonesian Government's contributions. Problems with the provision of and accountability for these contributions were known, but because these problems were not consolidated and reviewed in Project Implementation Reviews, senior Agency management, particularly in A.I.D./Washington, was not aware of the magnitude of the problems, and thus took no systematic action to resolve and prevent the recurrence of these problems. As the following illustrates, the problems continued to persist throughout 1992:

- USAID/Indonesia estimated that, over a 6 year period ending September 30, 1992, the Indonesian Government contributed only $4.4 million out of its revised commitment of $13.5 towards the cost of the Small Scale Irrigation Management Project. With only one and a half years remaining until project completion, another $9.1 million must still be contributed.

- A USAID/Indonesia financial review of the Fisheries Project, carried out in July 1992, reported that: "*The reported in-kind contribution was Rp. 30 billion or $15,000,000; however,* ***no records have been established as yet to show how the Government derived that amount.***".

- A USAID/Indonesia financial review of the Development Studies Project, carried out in October 1992, reported that: "*GOI contributions (cash and in-kind) were $6,644,000 or 34% of the total project costs. However,* ***no auditable records have been established as yet to show how the Government derived that amount.***"

Yet another problem was identified during a meeting held with the Indonesian Government's Directorate General of Higher Education to discuss contributions to the Higher Education Development Support project: the report of contributions on file at USAID/Indonesia reflected only those contributions made from the head office in Jakarta and did not include any contributions made from the field offices. The reasons given for not preparing a consolidated report of all contributions were that the Directorate General did not know how to go about accounting for the contributions as required and that no one had yet been assigned the responsibility for doing so. Indonesian Government officials also said that the reported head office contributions were only estimates because ***"The expenditures for projects are commingled and a separate account for the project is not created."***

Clearly, there is a need for USAID/Indonesia to adopt a more unified approach towards addressing the types of problems identified above in order to ensure that the Indonesian Government is fulfilling its financial commitments to A.I.D.-financed projects. The method established by the Agency for doing so is the Project Implementation Reviews. Therefore, the Mission should amend its own procedures to include more specific instructions for addressing these problems during Project Implementation Reviews.

Management Comments and Our Evaluation

USAID/Indonesia officials believe that additional procedures to identify variances between planned and actual contributions are not necessary since current procedures already require the inclusion of yearly contributions in budgets of all new projects and because the Mission's quarterly reports already include a summary of all contributions to date. In addition, Mission officials believe that the success which the Mission had in the past year in getting the Government of Indonesia to improve accountability and reports was evidence that no additional procedures are necessary.

With regard to our statement on page 14 about the level of contributions to the Applied Agriculture Research project, Mission officials stated that host country contributions consisted of $13.5 million in cash, $5 million in PL-480 funds, and over $4 million of in-kind contributions—totaling over $22.5 million. The Mission did not believe it was necessary to verify the more than $4 million of in-kind contributions since the amount was well in excess of the planned $18.16 million.

Recent Mission-prepared documentation, however, does not support these numbers. A Mission project close-out review for the Applied Agricultural Research project (dated as of 3/31/92) verified the $13.5 million in cash contributions. A later Mission-prepared status report included reported contributions of $17.8 million as of the project completion date (9/30/92); this amount was also included in the most recent status report (May 1993). This was $326,000 below the planned amount and is not *well above the planned level* as suggested by the Mission.

While Mission officials also contended that the objectives of the project were not compromised by delays in contributions, recent audit reports have shown this not to be true. The audit report on the Applied Agriculture Research project concluded that the $4.9 million shortfall in contributions (mid-way through project implementation) impacted on the Government of Indonesia's ability to conduct research and utilize and maintain facilities and equipment provided under the project. Likewise, the audit report on the Small Scale Irrigation Management project concluded that the delay in host country contributions of staff and cash caused the project to suffer.

Mission officials did agree that increased documentation of the reviews and the status of contributions in the Project Implementation Reviews was necessary, and commented that increased efforts have recently been made in this area. For example, Mission officials stated that the Office of Program and Project Support was directed to comment specifically on all projects during Project Implementation Reviews, and that a format to track and comment on variances between planned and actual contributions was being developed.

Management's recent efforts to increase documentation of the reviews and include a status of contributions in the Project Implementation Reviews has demonstrated an increased effort to review the adequacy of contributions. Therefore, we believe that the current action taken by the Mission is appropriate and Recommendation No. 2 is resolved and will be closed upon receipt of evidence of these actions.

Reports on Indonesian Government
Contributions Are Not Yet Reliable

Contrary to A.I.D. procedures, USAID/Indonesia did not provide the required written assurances on the reasonableness of the Indonesian Government's reported contributions to the 21 projects. The Mission made limited tests of the reliability of reports for 10 projects, but did not do so for the other projects, even though the tests performed found that the contributions reported were not sufficiently documented or supported by auditable evidence. Although the new Mission procedures require the written assurances and verification, the Mission did not fully implement these procedures. As a result, the Mission did not yet have enough reliable data to record and report that the Indonesian Government had contributed $151 million of the $196 million budgeted for the 21 projects.

Recommendation No. 3: We recommend that USAID/Indonesia:

3.1 Implement the Mission procedures requiring Project Officers to review and provide written assurances on the reasonableness of reports on the Indonesian Government's contributions to A.I.D.-financed activities;

3.2 Establish procedures for rejecting reports and the amounts reported as the Indonesian Government's contributions when the reports are found to lack documented and auditable evidence in support of the amounts reported as required; and

3.3 Require Project Officers to test, during periodic site visits, the reliability of reports on the Indonesian Government's contributions when other workload priorities restrict sufficient coverage by the Controller's Office.

To ensure that data provided in the reports on host government contributions is reliable, the new A.I.D. procedures require that Project Officers review and provide written assurances on the reasonableness of these reports and that the Mission test the reliability of the reports during site visits and evaluations:

> *The adequacy of the HG contribution should be reviewed during Project Implementation Reviews (PIRS) and the reliability of the reports [should be] tested by Mission site visit reviews and*

evaluations. If HG centralized systems are not maintained, as a minimum, the Project Officer/Manager should obtain the HG 'cost sharing' report and, after signing the report indicating the report's reasonableness in relation to project activity, staffing progress, etc., file the report in the official Mission project/program files.

Consistent with these new A.I.D. procedures, USAID/Indonesia revised its operations manual in 1991. The new Mission procedures require that: (1) Project Officers determine and provide written assurances on the reasonableness of the reports on contributions; (2) Project Officers forward these written assurances along with the reports to the Controller's Office; (3) the Controller's Office track the amount of reported contributions and report this information to senior Mission management; and (4) the Controller's Office, assisted by the knowledge acquired by Project Officers, verify the accuracy of the reports. According to the revised Mission operations manual:

Although the report of GOI contributions...contains a certification by the GOI official that such information on the report is correct and that detailed supporting documentation is on file, USAID project officers are also responsible for determining the reasonableness of such information in much the same way they provide administrative approval on vouchers paid with USAID funds. In forwarding periodic reports to the Office of Finance, the project officer will include a statement on the reasonableness of such information in relation to project activity.

The Office of Finance will verify the accuracy of GOI, NGO and private entity contribution reports during site reviews. Project officers will assist in this verification effort by using knowledge gained during site visits and evaluations to confirm the overall reasonableness of such contributions.

Contrary to these new A.I.D. and USAID/Indonesia procedures, Project Officers did not provide written assurances on the reasonableness of any reports of Indonesian Government contributions, and the Mission did not sufficiently verify the reliability of these reports, as discussed below.

Written Assurances on Contribution Reports - Project Officers did not provide written assurances on the reasonableness of any reports of the Indonesian Government's contributions to the 21 A.I.D.

financed projects. The Indonesian Government reported that it had contributed $113 million to 15 projects, and Project Officers prepared reports for the remaining 6 projects[2], estimating that the Indonesian Government had contributed $38 million.

The Project Officers, however, submitted the reports for these 21 projects to the Controller's Office without providing the required written assurances that any of the reported $151 million was reasonable in relation to project activity, staffing progress, etc. Project Officers said that they did not provide these assurances because they relied on the certifications made by the Indonesian Government. Project Officers also said that they had obtained a "comfortable" knowledge of what had been contributed and believed that the Indonesian Government was meeting its commitments satisfactorily. However, these Project Officers did not provide such a statement on the reports themselves.

Verification of Contribution Reports - USAID/Indonesia tested the reliability of reports on the Indonesian Government's contributions for only 10 of the 21 projects, even though 9 of the 10 financial reviews made by the Controller's Office found insufficiently documented and auditable evidence to support the contributions reported. The Controller's Office did not have sufficient staff to verify every report. Therefore, the financial reviews were scheduled based on workload priorities and staff availability. Accordingly, financial reviews of the accounting for the remaining 11 projects had not yet been made.

Project Officers also occasionally verified the existence of some donated property and other in-kind contributions during site visits, but these Officers did not verify the existence of supporting documentation for the reported amounts during their site visits. For example, Project Officers verified the existence of Government-provided housing and office space to be used by the technical assistance team of the Rural Roads project, however, no tests were made of the $166,000 reported value of this housing and office space. Project Officers did not believe they had the responsibility for verifying that documentation existed to support the reported contributions. Project Officers said that they did not test the accuracy of reported contributions during site visits because this was the purpose of the financial reviews carried out by the Controller's Office.

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2 As previously discussed, USAID/Indonesia did not obtain reports from the Indonesian Government on the contributions made to these six projects.

Also, the Project Officers said that more detailed accountability was neither warranted nor possible, i.e. a detailed accountability was not cost effective, and often contributions could only be identified as "best estimates" since it was difficult to identify and allocate costs borne on an in-kind basis. Therefore, attempting to test the reliability of reports was futile. The following photo illustrates Indonesian Government contributions which were based on estimates.

The value of the Indonesian Government's contribution to maintaining this road under the Rural Roads Project was based on estimates.

In addition, USAID/Indonesia did not reject reports on the Indonesian Government contributions when these reports did not comply with format requirements or were found to lack documented and auditable evidence in support of the amounts reported as required.

Thus, unreliable data was used to report the status of host government contributions in the Mission's Quarterly Report on Host government and Counterpart Contributions (provided to A.I.D./Washington). The reported quarterly contributions were misrepresented to the readers of the reports because the individual project reports lacked the required written assurances, the reports had not been sufficiently verified, and the reports contained numerous inaccuracies. USAID/Indonesia reviews and our audit disclosed such problems as:

- Partial or incomplete contributions;
- Estimated or budgeted contributions reported as actual;
- Unidentified contributions; and
- Nonexistent auditable records in support of reported contributions.

All of the above problems (as discussed throughout this report) were identified by USAID/Indonesia, yet the unreliable data was used in the Mission's reporting to Washington. Furthermore, because this information was used to track contributions, the Mission's ability to accurately monitor the levels of required contributions was also hindered, resulting in budget shortfalls. Thus, although the Mission properly revised its procedures to prevent such inaccurate reporting, these procedures were not yet fully implemented.

In light of the problems noted above, there is a clear need for increased effort to implement the new USAID/Indonesia procedures. While many of the problems stem from the Indonesian Government's reluctance or inability to provide accurate information, the Mission's persistence in implementing the Agency's new procedures will facilitate better reporting by the Indonesian Government. Project Officers should play a larger and more active role (in accordance with the Project Officer's responsibilities defined in A.I.D. Handbook 3) in enforcing the new reporting requirements and assisting the Indonesian Government, where possible, in providing the needed information. The Mission should ensure that Project Officers (1) play a more active role in testing the reported contributions, (2) provide written assurances on the reasonableness of these reports, and (3) reject reports on contributions which are not based on documentary evidence.

Management Comments and Our Evaluation

Mission officials stated that Project Officers are now providing statements verifying the reasonableness of reported contributions, as required by the Mission Order. The officials stated that in the past, Project Officers were reluctant to do so until they had a chance to review the reports and make field visits, and that it took time for the host government counterpart agencies to prepare reports in the detailed format set forth in the Mission Order.

The Mission also stated that both the Project Officers and the Finance Office are now requesting additional information on all questionable contributions and that the Government of Indonesia is working to improve its reports. Because such actions are being taken, the Mission does not believe it is necessary to establish formal procedures for rejecting unacceptable reports.

Since Project Officers are now providing statements verifying the reasonableness of reported contributions and have implemented a process for following up on questionable reported contributions, Mission officials believe that Recommendations No. 3.1 and 3.2 should be considered resolved and closed upon issuance of the audit report.

Mission officials did not believe it was appropriate for Project Officers to test the reliability of the reports (Recommendation No. 3.3) during the site visits since the Mission already requires Project Officers to assist the Finance Office in verifying the accuracy and supportability of the contribution reports. The officials stated that they relied on reviews by the Controller's office and CPA firms and on RIG audits for testing the documentation supporting reported contributions and that the responsibility of the Project Officer was to follow-up on these reviews to make sure that any necessary corrective action was taken. Because Project Officers should not be expected to perform the role of financial analysts or auditors, the Mission believes that Recommendation No. 3.3 should be dropped from the report.

The intent of Recommendation No. 3.3 was not for Project Officers to assume the duties of financial analysts, but rather, to supplement efforts made by the Finance Office. This includes assisting the Indonesian Government in providing the necessary information and ensuring that contributions being reported are adequately supported. Because no financial reviews had been conducted for 11 of the projects as of the end of audit fieldwork, Project Officers had no opportunity to perform their assigned duty of assisting in these reviews. Therefore, not only were unverified contributions being reported, but these contributions were being reported without any assurance by Project Officers that such contributions were supportable. We believe this recommendation should not be dropped from the report. However, corrective actions being taken by Project Officers in response to Recommendation Nos. 3.1 and 3.2 also satisfy the intent of Recommendation No. 3.3.

In light of Mission comments and the demonstrated effort since the completion of audit fieldwork—receiving statements from the Project Officers and implementing a process for following up on questionable reported contributions—corrective action is being taken to ensure that reports on contributions are reliable. Accordingly, all parts of this recommendation are considered resolved and will be closed upon receipt of copies of the Project Officers' statements verifying the reasonableness of contributions reported by the counterpart agencies for all projects and documentary evidence that reported contributions are being reviewed and appropriately followed up on.

Did USAID/Indonesia Follow A.I.D.'s New 1991 Procedures Requiring Adherence to A.I.D. Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 For Computing the Value of In-Kind Contributions and Applying the Proper Rate of Exchange to Calculate Host Government Contributions?

USAID/Indonesia properly followed A.I.D.'s new 1991 procedures requiring adherence to A.I.D. Handbook 3, Chapter 2, Appendix 2G. USAID/Indonesia did not follow Handbook 1, Part VII, Section 2.41 for computing the value of in-kind contributions and applying the proper rate of exchange to calculate host government contributions, however, A.I.D. policy and procedures in this area are unclear.

USAID/Indonesia followed Handbook 3, Chapter 2, Appendix 2G for the three project agreements signed after issuance of the 1991 procedures by:

- Calculating the level of Indonesian Government contributions based upon the total cost of the projects;
- Identifying the operating and/or capital costs to be provided by the Indonesian Government; and
- Excluding contributions by other donors in the calculation of Indonesian Government contributions as a percentage of total project costs.

USAID/Indonesia, however, did not apply the exchange rate existing at the time of the project agreement to calculate the value of the Indonesian Government's contributions.

Agency Instructions for Valuing Host Government Contributions Are Not Clear

USAID/Indonesia did not define the basis for valuing the Indonesian Government's contributions and did not use historical exchange rates when valuing the reported local currency contributions for the 21 projects. This occurred because A.I.D. policy and procedures in this area are not very clear. As a result, the Mission's valuation of the contributions in its records and reports may not have been proper.

In an attempt to clarify, reaffirm, and extend A.I.D. exchange rate policy, in 1987, A.I.D. issued new procedures (Department of State cable number 1860822 which was subsequently included as Part VII of Handbook 1). These procedures defined the Agency's new policy governing the appropriate exchange rate at which A.I.D. accounts for—among other things—host government contributions to projects. Basically, the policy indicates that the dollar value of the resources to be provided by the host government are to be calculated using the exchange rate existing when the project agreement is signed. This exchange rate is to be used throughout the life of the project to ensure that the agreed-upon level of contributions is not affected by fluctuations in exchange rates. Section 2.41 of this policy specifically requires that:

> *At the signing of an assistance agreement, the host government's real resource contribution is to be expressed both in terms of absolute dollars and a percentage of the total project based on the domestic and foreign prices and the exchange rate existing at that date. This forms the basis for determining host government's absolute real resource contribution and percentage share of the total project throughout its life, and insulates the host government's contribution from the effect of any exchange rate fluctuations which may occur.*

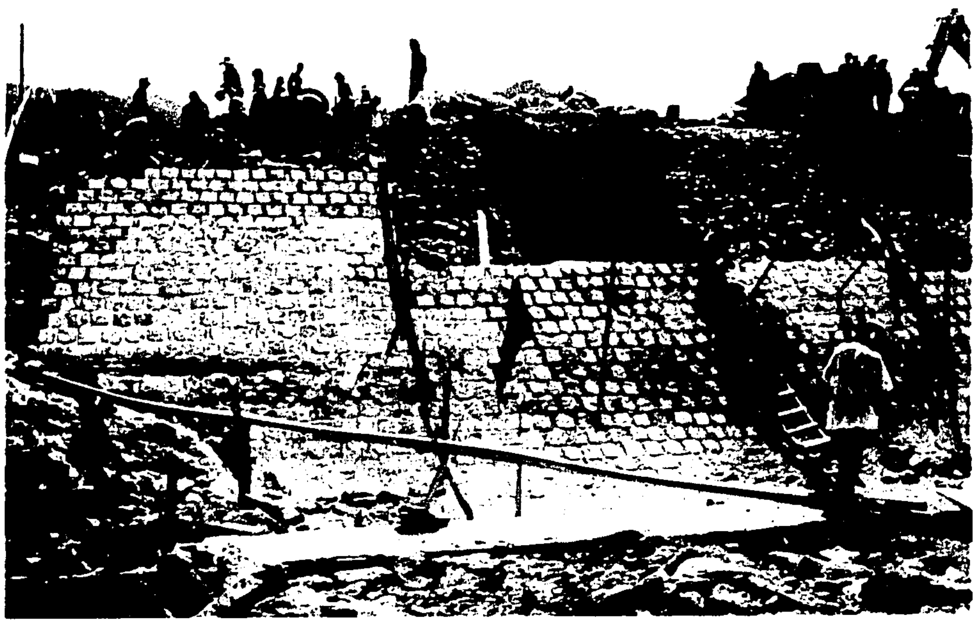
The 1991 A.I.D. procedures reminded Missions of this policy:

> *Missions should follow guidelines in referenced Handbook [3] and Handbook 1, Part VII, 2.41 for computing value of in-kind contributions and rate of exchange to be used in calculating the HG contributions.*

In accordance with the above mentioned A.I.D. policies and procedures, USAID/Indonesia properly amended its operations manual to require that Mission staff comply with Handbooks 1 and 3. The revised Mission operations manual said:

> *The project officer, with the assistance of other Mission offices, should adhere to Handbook 3, Chapter 2, Appendix 2G as well as Handbook 1, Part VII, 2.41 and 2.42 in computing the value of in-kind contribution and the rate of exchange used in calculating the GOI's contribution to Mission program/projects.*

However, contrary to A.I.D. policy and Mission procedures, USAID/Indonesia's staff did not define the basis for valuing Indonesian Government's contributions in project agreements. None of the loan/grant agreements for 21 projects included the local currency valuation of real resource contributions or the conversion to U.S. dollars[3]. Furthermore, only 3 of 21 agreements differentiated between cash and in-kind contributions. Although the three agreements identified the amount of in-kind contributions to be made, the specific type and valuation of these resources were not identified. Instead, only a lump sum was assigned to contributions consisting of real property, man-hours charged, and volunteer work. The following photo illustrates a kind of non-cash contribution which was not defined in project agreements.



The basis for defining non-cash contributions such as labor are not identified in the Project Agreement for the Small Scale Irrigation project.

In addition to not valuing non-cash contributions, none of the agreements identified the exchange rate used, if any, to convert the local currency value to the U.S. dollar equivalent. Consequently, different exchange rates were applied throughout project implementation to calculate the value of the reported Indonesian Government contributions.

[3] According to A.I.D. Handbook 1, Part VII, Section 3.21, "*Missions should make best efforts to modify existing project and non-project assistance agreements to reflect the above policy as appropriate.*"

A.I.D. policy and USAID/Indonesia procedures were not adhered to because A.I.D. policy and procedures in this area were unclear. According to legal counsel for the Asia Bureau, USAID/Indonesia properly used the Agency's standard project agreement language, as found in A.I.D. Handbook 3, when making provisions for host country contributions. A.I.D. Handbook 3 provides only a very general definition of host government contributions in suggesting the use of this standard clause for loan/grant agreements:

> *The resources provided by the Cooperating Country for the Project will be not less than the equivalent of U.S. $_______, including costs borne on an "in-kind" basis.*

The relevant section of Handbook 3, however, dates to September 1982 and was superseded by Handbook 1, Part VII, Section 2.41, as discussed on page 27 of this report. To date, Handbook 3 has not been revised to reflect the new provisions. When shown the specific language of the A.I.D. policy, the legal counsel said that this policy was not clear about what was required.

USAID/Indonesia officials were concerned that a strict application of the A.I.D. exchange rate policy would result in the Indonesian Government to contributing less money to the A.I.D.-financed projects. These officials pointed out that the local currency continues to depreciate in value against the dollar and that if the original exchange rates were used to convert dollars to local currency, the Indonesian Government would be required to provide less local currency than it is actually now providing. For example, the Financial Institutions Development project began in 1984 when the agreed-upon Indonesian Government contributions were valued at $9.3 million based on the existing exchange rate of 1,124 Rupiah per US$1. The agreement was not amended to incorporate this exchange rate and in June 1992, the reported contributions were $14.3 million—based on conversions made at the exchange rates prevailing at each year end. By 1991/1992, this exchange rate had increased to 1,948 Rupiah per US$1.

A closer look at the provisions of Handbook 1, Part VII shows that they are somewhat ambiguous and, depending on the intent of the guidance, Section 2.41 (see page 27) could be interpreted in one of two ways: either the *exchange rate* stated in the project agreement should be used throughout the life of the project or, the *dollar value* of the real resource contribution should be obtained no matter what happens to the exchange rate. The latter interpretation coincides with Section 2.22 which requires the accounting for contributions to be made at the highest rate per U.S. dollar. Because the intent of the Agency guidance is unclear, we are not making a recommendation to the Mission at this time but will bring this point to the attention of AID/Washington, if necessary.

SCOPE AND METHODOLOGY

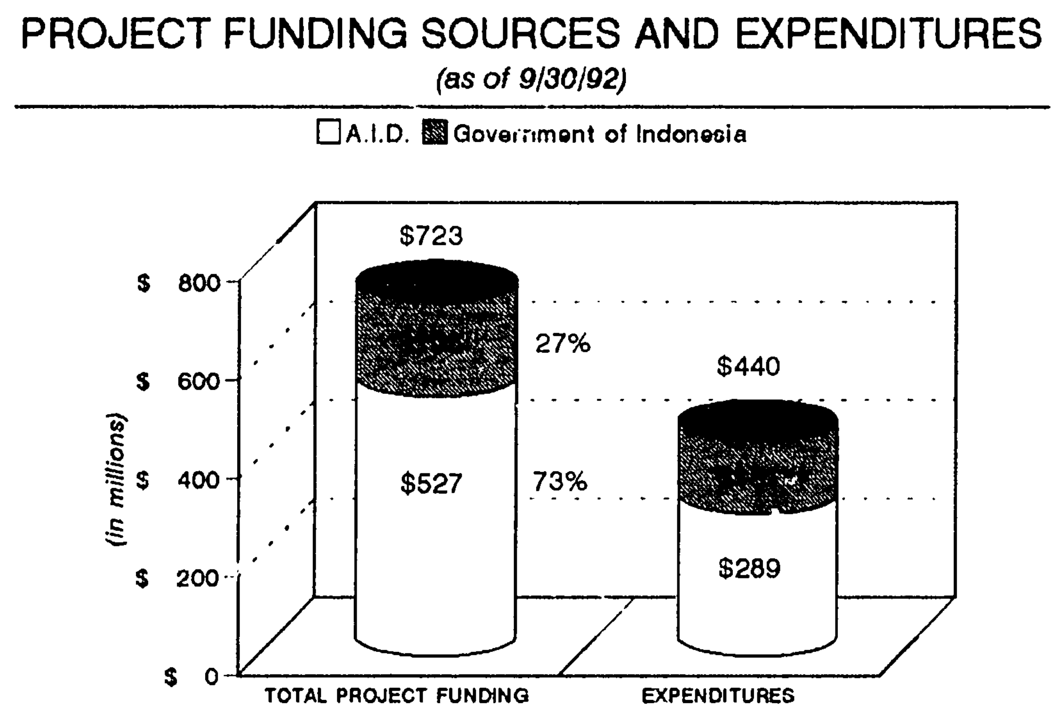
Scope

We audited USAID/Indonesia's controls over the Indonesian Government's cost sharing contributions in accordance with generally accepted government auditing standards. The audit was made from September 30, 1992 through November 19, 1992. Field work was done at the offices of USAID/Indonesia and three Indonesian Government ministries in Jakarta. Our audit was confined to testing the Mission's implementation of four control requirements identified in the 1991 A.I.D. procedures on host government contributions (Department of State cable 138349).

USAID/Indonesia had 24 active projects as of September 30, 1992 which included 3 projects that did not require host government contributions, but instead required contributions from Private Voluntary Organizations. These three projects were excluded from the audit universe. Therefore, the audit universe for reviewing host government contributions included 21 active projects, with A.I.D.'s Life of Project funding totalling $527 million. As of September 30, 1992, A.I.D. expenditures for the 21 projects were $289 million.

According to the Mission's report on Host Government Cost Sharing and Matching Contributions, as of September 30, 1992, the Indonesian Government's budgeted contributions for the 21 projects totalled $196 million, or 27 percent of the total project costs of $723 million. This report also showed Indonesian Government expenditures of $151 million, however, this amount had not been verified.

In addition to the methodology described in the following section for each audit objective, USAID/Indonesia's management provided written representations which we considered essential for answering our audit objectives and for assessing internal controls and compliance.



The audit universe consists of host government contributions to the 21 projects.
*** Indonesian Government contributions of $151 were reported but not verified.*

Methodology

The methodology for each audit objective is described below.

Audit Objective One

The first objective was to determine whether USAID/Indonesia followed A.I.D.'s new 1991 procedures to ensure that systems were in place to obtain information on host government contributions and that such information was recorded in the official records/files of the Mission. To accomplish this objective, we evaluated the Mission's controls with respect to the procedures set forth in A.I.D.'s 1991 cable.

We interviewed USAID/Indonesia Office Directors and Division Chiefs, the Chief Financial Analyst, and selected Project Officers to obtain their perspectives on (1) their roles and responsibilities for establishing and maintaining the systems for obtaining and recording the information, (2) who is responsible for ensuring compliance with the applicable standard defined in the new Agency procedures, and (3) whether the Mission is fully complying with this standard. We obtained a copy of the Mission Order and any other existing documentation to further identify the system in place and to verify the validity of the testimonial evidence given by Mission personnel. Also, we incorporated the results of objectives two, three and four to determine whether the Mission fully implemented the procedures established through the Mission Order.

Audit Objective Two

The second objective was to determine whether USAID/Indonesia followed A.I.D.'s new 1991 procedures to include in agreements or Project Implementation Letters, a requirement for the host government to report at least annually on its contribution. To accomplish this objective, we evaluated the Mission's controls with respect to the procedures set forth in A.I.D.'s 1991 cable.

We obtained from the project files a copy of the Project Agreements and Project Implementation Letters for all 21 projects, and other correspondence identifying host government contribution reporting requirements. We reviewed these agreements and Project Implementation Letters to determine if reporting requirements had been included. For the two projects lacking any reporting requirements, we followed up with the respective Project Officers and financial analysts to verify that reporting requirements had, in fact, not been established and obtained reasons for this. We also verified that the Mission enforced the established reporting requirements by obtaining copies of all host government contribution reports on file.

Audit Objective Three

The third objective was to determine whether USAID/Indonesia followed A.I.D's new 1991 procedures to (1) review the adequacy of the host government contribution during Project Implementation Reviews and (2) test the reliability of the reports with Mission site visit reviews and evaluations. To accomplish this objective, we evaluated the Mission's controls with respect to the procedures set forth in A.I.D.'s 1991 cable.

We obtained copies of all of the projects' host government contribution reports and then (1) determined if the reports contained written assurances by Project Officers on the reasonableness of reported information as required, and (2) checked the amounts reported in the Mission's summary reports on host government contributions. We then traced the reported host government contributions to the Mission's quarterly status reports.

We judgementally selected three projects and visited the respective Ministries of the Indonesian Government to verify (1) the validity of reviews completed by the Controller's Office, and (2) that these agencies have documented, auditable evidence in support of the amounts disclosed in the contribution reports provided to A.I.D. We selected Indonesian Government agencies by examining the financial reviews already completed by the Controller's Office and by considering the amounts to be contributed by the Indonesian Government and the period remaining on the project. For these three projects and for another three randomly selected, we ascertained the validity of reported contributions. This was done through discussions with Project Officers and reviews of supporting documentation on file at the Mission.

The reports on host government contributions were obtained for all projects and analyzed to determine if they were submitted on time and in the format specified in the respective Project Implementation Letter or official correspondence. We traced the Mission's reported levels of host government contributions for each of the 21 projects to the respective sources.

To determine if reported contributions were verified during field trips or during visits to the Ministerial Offices of the Indonesian Government, we held discussions with the Project Officers of six selected projects and reviewed their field trip reports where available. We talked to the Mission Evaluation Officer and reviewed seven Project Evaluations to determine if the reports addressed the reliability of the Indonesian Government's reports on host government contributions. We also reviewed 10 financial reports on Indonesian Government contributions, undertaken by the financial analysts from the Controller's Office in fiscal year 1992.

Finally, we obtained and reviewed the 1991 Project Implementation Review report, USAID/Indonesia's quarterly reports prepared since April 1991, and the Controller's Office detailed summary of 21 "Host Government Contribution" reports to determine if the reports contained evidence that the Mission had reviewed the adequacy of the Indonesian Government's contributions and had determined whether these contributions were adequate.

Audit Objective Four

The fourth objective was to determine whether USAID/Indonesia followed A.I.D.'s new 1991 procedures requiring adherence to A.I.D. Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions. To accomplish this objective, we evaluated the Mission's controls with respect to the policies and procedures set forth in A.I.D.'s 1991 cable and Handbooks 1 and 3.

We examined all three Project Agreements issued since April 1991 and evaluated the execution of those agreements against Handbook 1, Part VII and Handbook 3, Appendix 2G criteria. We also examined a sample of 6 host government contribution reports and 5 financial management review reports to determine whether the host government and the Mission were using the above criteria in accounting for the actual contributions provided by the host government.

We also verified that Project Assistance Completion Reports provided a summary statement on contributions made by the host government and other donors which included a comparison of planned versus actual contributions. Finally, we followed up on recommendations made in the reports on financial reviews to determine if corrective actions had been taken.

USAID

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

JAKARTA

Letter No.: II/ 1124
July 14, 1993

Mr. Richard C. Thabet
Regional Inspector General
RIG/A/Singapore
#17-03 Peninsula Plaza
111, North Bridge Road
Singapore 0617

Dear Mr. Thabet:

Mission appreciates the positive comments in your letter transmitting the draft report, as well as the many positive comments in the draft report itself. As your report mentions, this review was the first in a series of world-wide audits on the subject. Our only regret is that the cutoff period selected for audit, September 30, 1992, did not permit your auditors to report on the recent outcome of the many actions the Mission took in response to the new AID guidance issued in 1991. Had your auditors been able to report on the actions taken by both the Mission and the GOI subsequent to their leaving the audit site in November, 1992, we believe many of the statements in the report suggesting that the Mission had not fully implemented the new procedures, could have been dropped from the report. We would like to make a few observations on the Executive Summary and the Introduction, as well as specific comments keyed to the recommendations which address the actions we have taken in the expectation that these subsequent actions will be used to resolve and close the audit recommendations. We are also attaching our Representation Letter which we believe has been found to be acceptable to you.

Executive Summary:

Although we acknowledge that further progress was needed at the time of audit, we believe it important for the reader of this report to know that all 10 projects mentioned in the first paragraph on page ii have as of this date reported. Their contributions total over $110 million. Also, four of the 10 had PACDs which have expired. These four have all exceeded the 25 percent minimum requirement. The Executive Summary should note this to show that the Mission has followed through on the requirements and has gotten results, although possibly not in as formal a way as the auditors would wish.

The second paragraph on page ii makes a case for improved oversight of the status and problems with GOI contributions during our Project Implementation Reviews. As indicated later in the draft report, the Mission's PIRs operate, for the most part, on an exception basis. Although the with GOI contributions during our Project Implementation Reviews. As indicated later in the draft report, the Mission's PIRs operate, for the most part, on an exception basis. Although the status and problems were discussed, we admit that we have not documented these discussions as well as we should have and have taken steps to improve our documentation. We do believe, however, it is important to note that when the PIRs, the RIG auditors, or our Mission staff disclose problems with the level of, or the supporting documentation behind, GOI contributions, follow-up action is taken. The problems we find, however, are usually situations requiring awareness and training, not a lack of willingness to follow our regulations or a willful disregard of our requirements.

We appreciate the acknowledgement on page 5 of the draft report that the Mission's monitoring of contributions, receipt of reports and review and testing of contributions has continued to improve. It should be noted that the Mission had never anticipated that it would be testing the reliability of all reported contributions during the first year or two of the new guidance. The Mission believes that testing 10 of 21 projects is quite good, and to date we have tested two additional projects with another three projects in the process of being tested. For the 15 projects, we have been working with GOI officials to inform them and improve their documentation and reporting where necessary. The fact that we have not yet reviewed contributions on all 21 projects should not be used to seriously question the reliability of the data reported, as is done in the third bulletized paragraph on page ii.

Lastly, it should be noted for the reader of this summary that the Mission has been using current exchange rates in an economy where the rupiah has been weakening about 5 percent a year against the dollar. The rates are not varying exchange rates in the sense that they go up one year and down the next, but have constantly moved in one direction. By using the current exchange rate at the time of the contributions, the Mission believes it has been maximizing the contributions to our projects.

Introduction:

The last sentence on page 2 gives the impression that the total Government contribution of $151 million (as of the September 30, 1992 audit cut off date) has not been verified. We acknowledge that not all of that amount has been verified, but we do not believe the intent of the AID/Washington guidance was to verify the total amount of the contributions in the first year or two of issuing its guidance. We have not only reviewed a significant portion of the contributions, but reported contributions to these projects have increased by over $40 million as of the date of this writing.

Our detailed responses to the specific recommendations together with a description of the actions taken to address the recommendations follow:

The Indonesian Government Has Not Yet Submitted Reports on Its Contributions to Some Projects.

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

1.1 Require the Indonesian Government to report its contributions on two of the six projects which lack reporting requirements, the two projects which remain active as of June 1993; and

1.2 Enforce the reporting requirements on host government contributions, to the four projects for which the Indonesian Government did not provide reports on its contributions as required.

Mission Response:

The two projects mentioned in recommendation no. 1.1 have submitted reports on their contributions. SSIMP, which is mentioned in a later section of the draft report, has since reported extra contributions totalling approximately $4 million (April, 1993), which has been verified by a local CPA firm. GPT II had submitted a report in late October, 1992 which was inadvertently not made available to, or overlooked by, the auditors at the time of their review. We also take exception to the numerous references to six projects in this section, four of which have already ended. The Mission had made a decision not to formalize the reporting requirement by PIL due to their upcoming PACDs. We believe the reader of this report should know that from these four completed projects we have received reported contributions totalling almost $60 million, a fifty percent increase over the $40 million originally budgeted for the four projects.

As for the four projects mentioned in recommendation no. 1.2 for which the auditors believed reporting requirements had not been enforced at the time of their audit, we have since received reports from the GOI on all four projects.

As a result, the Mission has received reporting on the six projects as well as the four projects mentioned on pages 5, 6, 7, 8 and 10. The reader of this report should know that if the bar chart shown on page 7 reflected today's status instead of the audit cut-off date of September 30, 1992, recommendation no. 1.2 would not be necessary as reports of contributions have been received on all 21 projects (100 percent). In addition, the statement that the Mission has yet to receive an accounting from the Indonesian Government on contributions totalling $81 million mentioned on pages 6 and 10 is no longer true, as we have received reports of contributions on all of these projects.

We also want to mention that, although a few summaries of contribution were initially prepared by Project Officers in an effort to assist his or her counterpart, this was appropriate and necessary due to the nature of some projects where the GOI's contributions are reflected on numerous vouchers claiming partial reimbursement under cost-sharing arrangements specified in the original projects for work completed and certified. We were somewhat disappointed, however, that there is no recognition that the Mission has contracted with HTM, a local CPA firm, to perform reviews of host country contributions under FID and SSIMP. In both instances the results of the CPA reviews indicate the 25 percent requirement has been met. These reviews were done to assist the GOI counterparts as they determined the documentation required by USAID behind such contributions. We acknowledge that the GOI should prepare and report on their contributions; however, the auditors need to recognize that not all GOI agencies have the same capabilities for accounting for their contributions. Therefore, the Mission used an approved IQC to assist a couple of GOI counterparts in this area. We also expect to use the lessons learned in documenting and valuating in-kind contributions for other USAID projects.

The Mission believes that sufficient additional reporting has been done so that this two-part recommendation can be considered resolved and closed at issuance of the final audit report.

The Mission Needs to Document Its Reviews of the Indonesian Government's Contributions.

Recommendation No. 2: We recommend that USAID/Indonesia establish procedures to identify variances between planned and actual contributions and to document, in reports on Project Implementation Reviews, the examination of these variances.

Mission Response:

The Mission believes it has the procedures in place to identify variances between planned and actual contributions. In all new projects the budget must identify the host governments contributions both by line item and the year in which the contribution is expected. The Mission's quarterly reports shows in summary format the contributions provided to date. We do not believe that additional procedures are necessary in this area.

The success the Mission has had during the past year in getting the Indonesian Government to improve in its reporting and in the documentation behind its reports, supports the Mission's position that additional procedures are not necessary. The Mission has been successful in this area because we take the time to meet and work with our counterparts in addressing any problems they may have in reporting on time and in a format we want. The audit report is not correct in stating that problems included a lack of documented, auditable evidence to support the reported levels of contributions for nearly every project. This Mission has been fully aware that a Government as large as Indonesia's, with projects involving several outlying provinces, needed time to fully understand and implement our newer reporting requirements. The fact that they cannot do it all overnight does not mean that serious problems exist in this area which requires more detailed guidance to discover and correct.

We do admit that we need to do a better job of documenting our review and the status in our PIRs. As discussed with the auditors, the issue of host government contributions is addressed at all PIRs and senior staff have been present at every PIR during the past several years. Projects which appear to be falling short in making timely contributions have been discussed. Although minutes from prior years' meetings have not been very specific in documenting that these reviews took place, due to the exception nature of these reviews, the Mission has made a concerted effort during the last twelve months of quarterly PIRs to make these discussions a

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matter of record. For example, both the September 1992 and the March 1993 PIRs required a statement from each project officer on the status of the host country contributions which was then discussed during the PIRs.

To assure that the PIR minutes adequately document the review of the status of Host Country Contributions, I have directed the Office of Program and Project Support (PPS) to include a statement for each project in each PIR. In this regard, PPS and FIN are developing a worksheet to be used during the PIRs to more easily identify variances between planned and actual contributions and to use in recording those instances when follow-up actions are necessary.

We do not believe the three projects listed on page 13 indicate examples of types of widespread problems not reviewed or documented in our PIRs. It is also unfortunate that instead of being commended for doing reviews of host country contributions, which many times identify problem areas on which we than follow up, these reviews are used to criticize the Mission for having widespread problems not reviewed or documented in Mission PIRs. Mission reviews as well as PIRs are used to identify problems and to inform the Project Officer if he or she is not yet aware of the problems and to provide assistance in taking action to improve the situation. The following discussions indicate that any prior problems identified with contributions on these projects have been addressed.

AARP which ended on 9/30/92 was not $4.9 million below planned levels but ended with a host country contribution well above the planned contribution level requires. The largest part of the contribution was $13.5 million of cash which has been reviewed by the Controller's office, another $5 million in PL-480 contribution reviewed by the technical office, plus over $4 million of in-kind contribution which the Mission does not believe necessary to verify further as the total approximates what was planned and is far above the required 25 percent. Again, in no instance, were the objectives of the project compromised by delays or levels of host country contributions provided.

SSIMP is a project which has been significantly scaled back and the issue of the reduced GOI contribution was raised in a previous audit of SSIMP. Even though host country contributions have been slow in coming, this was anticipated in this project. It was designed to have the GOI pay for construction costs and USAID reimburse a portion of the costs after acceptance of the work. The construction was slow in developing, but is now proceeding at a faster pace due to the fact that technical assistance was added to assist the GOI in complying with enhanced financial management requirements and to expedite reimbursements. As a result the host government's reported contributions have almost doubled, from $4.4 million to $8.2 million since the time the auditors left. The Mission responded to this issue at the time it responded to the draft audit report and all recommendations in this audit have been resolved and most have been closed. We do not believe it is necessary to raise the same issue again in this audit report.

Health Sector Financing has been reviewed and the contributions reported by the GOI examined in further detail. It is true that a review by the Mission's financial analysts disclosed some weaknesses in documentation, but further follow-up efforts between the GOI, the technical office and the Controller's office resulted in a much more supportable report by the GOI.

We appreciate the statement that there was some evidence that the Project Officers and Controller's office were trying to correct some of the problems; but we strongly disagree that Senior Mission Management were not aware of weaknesses in this area and what was being done to follow up on such weaknesses. It is not true that the PIRs were "so limited" or "so incomplete" that problems were not known or acted upon. The fact is that the Mission has had a concentrated program of working with our GOI counterparts since the additional guidance was issued. Our goal has been to improve the reporting and documentation of their contributions as well as improve the process of better identifying the type of contributions being proposed during project designs and how these future contributions would be able to be verified. The reporting that is currently taking place indicates that the Mission is being quite successful in this area.

It is not clear why the SSIMP project is then mentioned again on page 15 together with three additional projects. As discussed above, there were reasons for the delay in reporting which is beginning to improve significantly. In fact, significant progress has been made on the other three projects as well.

The Fisheries project ended on 9/30/92 and a Project Agreement Completion Report is being finalized. That report indicates that the GOI contribution exceeded the 25 percent requirement. As part of the close-out review, the Mission will determine if it has any reason to not accept these contributions as valid.

The Development Studies project is a another project in which the Mission has worked closely with the GOI in helping them understand the kind of documentation we expect to support their contributions. The project has even added a project accountant to assist in implementing improved accounting procedures suggested by the Mission.

HEDS is a fairly new project. The Mission has been working closely with the Universities involved in the project to value and report their contributions in a timely manner. A report of host country contributions was provided on a timely basis in April, 1993, indicating that they have contributed almost $2.3 million thus far.

As for the failure to do adequate testing on the reliability of reports during site visits and evaluations, the Mission is involved to the extent possible. There is no way with declining staff levels and increasing accountability requirements that the Mission can review and test 100 percent of the figures reported by the GOI and we don't think that is the intent of the legislation nor of AID guidance. We have recognized that the GOI does not have systems which are as strong or as sophisticated as we would like, but they are improving and we are not finding examples where our project objectives have been seriously affected due to the lack of GOI matching contributions. In fact, in some cases, we are finding just the opposite; where we have been unable to provide our funds on a timely basis due to problems encountered in fully complying with A.I.D.'s host country contracting regulations, the GOI has contributed more than originally planned to keep the project moving as close to schedule as possible.

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As indicated previously on page 14, we do not agree that the PIRs were incomplete because the Mission Order only assigned responsibilities, but did not include specific instructions for how responsibilities were to be carried out and which other offices were to be involved. The PIRs in this Mission do involve all appropriate offices. A Mission Order should assign responsibility, but it should not be a desk top procedures manual for how responsible offices are to carry out each and every task.

The Mission believes the success we have had in getting our projects to report contributions on an annual basis, and the receptivity we have had from our GOI counterparts to work with us to provide the documentation we believe is necessary when problems have been found, does not necessitate a need for additional instructions or procedures. We believe that the fact that PPS has been directed to comment specifically on all projects during the PIRs, and the fact that PPS and FIN are developing a format to use in tracking and commenting on variances between planned and actual contributions, is sufficient action to resolve and close this recommendation upon issuance of this audit report in final.

Reports on Indonesian Government Contributions Are Not Yet Reliable.

Recommendation No. 3: We recommend that USAID/Indonesia:

3.1 Implement the Mission procedures for Project Officers to review and provide written assurances on the reasonableness of reports on the Indonesian Government's contributions to A.I.D.- financed activities;

3.2 Establish procedures for rejecting reports and the amounts reported as the Indonesian Government's contributions when the reports are found to lack documented and auditable evidence in support of the amounts reported as required; and

3.3 Require Project Officers to test, during periodic site visits, the reliability of reports on the Indonesian Government's contributions when other workload priorities restrict sufficient coverage by the Controller's Office.

Mission Response:

The audit report in many instances refers to the requirement for the Project Officers to provide a statement of reasonableness on the contributions reported by the Indonesian Government. We admit that our Project Officers have been slow in submitting these statements. One reason has been that some Project Officers did not want to provide their statements of reasonableness until they had a chance to first review the reports from their counterparts and, if possible, make a field visit, or have FIN make a field visit, to discuss the systems used to summarize and document the reported contributions. It has also taken time for the GOI counterparts to make their reports in the detailed format we have asked for in the Mission Order. We are pleased to report that such statements are now being provided and as of this date we have received statements from most Project Officers and expect 100 percent response by the end of the month.

The Mission is already questioning reports of contributions which appear to raise questions in the minds of either the Project Office or the Finance Office. Additional procedures are not necessary. As the GOI is willing to work with the Mission to improve its reporting, we don't believe it is necessary to formally reject the submitted reports. The reader should note that of the nine Mission reviews which identified problems, follow-up action has taken place on all nine with resolutions either completed or in process.

Our Mission Order also requires Project Officers to assist the Finance Office in verifying the accuracy and supportability of HC contribution reports, by using their knowledge gained during site visits to confirm overall reasonableness. It is not appropriate for the Project officers to test the reliability of reports during site visits. They are not auditors and are not expected to perform an audit or financial analysis role. For testing of documentation behind reported contributions, the Mission relies on its Controller's office, CPA reviews and RIG audits. But once weaknesses are identified, it is the responsibility of the Project Officers to follow-up to make sure that the GOI takes corrective action. Verification of that corrective action, is usually done by asking the Finance Office to do a subsequent review.

The Mission takes exception to the list of weaknesses shown on page 21 to indicate that unreliable data was used to report the status of host country contributions in the Mission's quarterly reports. The Mission has always viewed the quarterly report schedule as a benchmark as to what is being reported, not as a list of certified and audited statements. The schedule summarizing host country contributions was added to our quarterly report in December 1991, and it is constantly being updated and given more credence by the Project Officers. We initially permitted estimates in the report but have now reached the point where we are receiving reports on all of our projects and our summary indicates the dates of the latest GOI reports. Again, the draft audit report is assigning responsibilities, or attributes such responsibilities, to people or reports which were never intended for this purpose and for which the Mission disagrees. Project Officers are not expected to perform an audit or financial analysis role. Likewise, our quarterly report summarizing what has been reported by the various Ministries as their contributions does not, and has never been intended to, give the impression that the existence of these amounts on the quarter report schedule means they have been fully audited.

As we are now receiving written assurances on the reasonableness of the GOI's contributions from the Project Officers and have a process where both the Project Officer and the Controller's Office review the reports and raise questions where necessary, recommendation nos. 3.1 and 3.2 should be considered resolved and closed upon issuance of this report in final. We recommend that recommendation 3.3 be dropped, as Project Officers cannot perform the role of auditors or financial analysts. We do believe that Project Officers should be aware of the systems used by their counterparts in accumulating and reporting on the GOI contributions, but testing should be left to the auditor and financial analysts, both AID and GOI.

Agency Instructions for Valuing Host Government Contributions Are Not Clear.

(Although no recommendation is being directed to this Mission we believe it appropriate to address some of the statements made by the auditors in this section and want to provide a clear explanation of why we believe the AID/Washington guidance needs to be clarified to permit the practice followed in this Mission).

Mission Response:

We would have hoped that the audit report would have indicated that valuation of in-kind contributions has been a difficult problem for the Agency for many years. This Mission has addressed this problem by contracting with a CPA firm to provide guidance in this area, using our financial analysts to meet with GOI officials to discuss this area and how such contributions should be valued and documented, and pushing for cash contributions wherever possible.

When AID/Washington clarifies the issue of exchange rates, we hope it will not restrict the practices followed in this Mission of using current exchange rates in a country in which the value of the local currency is declining steadily. If the Mission had locked in the exchange rate at the start of our projects, it would result in net losses in rupiah contributions to our projects. For example, if the contributions under FID, as mentioned on page 25, were valued at the old 1984 rate of Rp. 1,124 to $1, the GOI may not have given as much rupiah as they did to the total project. A typical recent Rupiah contribution of Rp. 1 billion which the Mission valued at $500,000 (exchange rate of Rp. 2,000 to $1) if valued at the old rate of Rp. 1,124 as proposed by the audit report, would count as $900,000 and therefore the GOI would not have to contribute as much Rupiah to meet their total 25 percent share.

Sincerely,

Charles F. Weden
Director

Attachment: Representation Letter

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

JAKARTA

Letter No.: II/ 1125
July 14, 1993

Mr. Richard C. Thabet
Regional Inspector General
RIG/A/Singapore
#17-03 Peninsula Plaza
111, North Bridge Road
Singapore 0617

Dear Mr. Thabet:

You have asked that USAID/Indonesia provide a Representation Letter in connection with your audit of the Mission's controls over host government cost sharing and matching contributions. Your staff has informed us that this audit covered all projects administered by USAID/Indonesia as of September 30, 1992 and for the period April 27, 1991 (date of the additional cable guidance issued by A.I.D./Washington) through September 30, 1992, and that the audit was intended to answer the following audit objectives:

> Did USAID/Indonesia follow A.I.D.'s 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission?
>
> Did USAID/Indonesia follow A.I.D.'s 1991 cable guidance to include in agreements or Project Implementation Letters a requirement for the host government to report at least annually on its contribution.
>
> Did USAID/Indonesia follow A.I.D.'s 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reviews and evaluations?
>
> Did USAID/Indonesia follow A.I.D.'s 1991 cable guidance to adhere to A.I.D. Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions?

I have been assigned as Mission Director to Indonesia since July 1992, and accordingly was not personally involved prior to that time with the implementation of the activities audited. Since my arrival in Indonesia, my staff has briefed me on the activities covered by the audit and on the audit activities occurring prior to my arrival. The offices most concerned with the audit, specifically the Offices of Finance (FIN), Program and Project Support (PPS), Agro-Business Enterprise and Environment (AEE), Private Enterprise Development (PED), Economic Policy Support (EPSO) and Human and Institutional Resources Development (HIRD) have made representations to me about the activities audited.

I have also been advised that various elements of the audit activities have been carried out and administered (and primary financial records relating thereto have been kept) by GOI offices other than USAID/Indonesia. The representations made below apply only to those aspects of the audited activities which have been under the full implementation and administrative control of USAID/Indonesia.

Based on the representations made to me by my staff and their written concurrence with the representations made herein, I confirm the following representations with respect to those aspects of the audited activities which were under the full control of the Mission:

1. USAID/Indonesia is responsible for 1) the Mission's internal control system relating thereto; 2)for the Mission's compliance with applicable U.S. laws, regulations, project agreements, project implementation letters relating thereto; and 3) for the fairness and accuracy of the Mission's accounting and management information relating thereto.

2. To the best of my knowledge and belief, USAID/Indonesia has made available to RIG/A/Singapore auditors all Mission records relating to the activities audited.

3. To the best of my knowledge and belief, Mission records relating to the activities audited are accurate and complete and give a fair representation as to the status of the activities audited.

4. To the best of my knowledge and belief, USAID/Indonesia is not aware of any material instances where financial or management information directly relating to this audit has not been properly and accurately recorded and reported, other than the findings in the report.

5. To the best of my knowledge and belief, USAID/Indonesia has disclosed any known irregularities related to the Mission's controls over host government cost sharing and matching contributions program which we consider substantive involving Mission employees with internal control responsibilities or other organizations responsible for management of these controls. For the purposes of this representation, "irregularities" means the intentional noncompliance with applicable laws or regulations and/or material misstatements, omissions or failures to disclose.

6. To the best of my knowledge and belief, USAID/Indonesia is not aware of any instance (other than what has been included in the draft audit report or reported by the Mission during the course of the audit) in which, in the Mission's judgement, there has been a material noncompliance with A.I.D. policies and procedures or violation of U.S. law or regulation.

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7. To the best of my knowledge and belief, USAID/Indonesia is not aware of any instance (other than what has been included in the draft audit report or reported by the Mission during the course of the audit) in which, the Mission's judgement, there has been a material noncompliance by the Mission with the terms of the project agreements relating to the activities audited.

8. After review of your draft audit report and further consultation with my staff, I know of no other facts as of the date of this letter (other than those expressed in our Management Comments to the draft report) which, to the best of my knowledge and belief, would materially alter the conclusions reached in the draft report.

I request that this representation letter be considered a part of the official Mission comments on the draft report, and be published as an annex to the final report.

Sincerely yours,

Charles F. Weden
Director

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