



MCC INDONESIA CONTROL OF CORRUPTION PROJECT:

ASSET MANAGEMENT CONSULTANT REPORT

11-24 JULY 2007

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CONTENTS

Executive Summary	1
Achievements.....	2
Annex	
Annex I Supreme Court Asset Inventory Options	3

EXECUTIVE SUMMARY

This consultancy was a part of work on Task 1, Judicial Reform Activity 2b: Asset Management. It was envisioned and planned as a follow up on the work started by Dr. Maureen Berry. In particular, the main purpose of the consultancy was to make final preparations for a pilot test and finalization of the inventory verification procedures using random sampling. With the sampling approach proposed by Dr. Berry and the sample generated by Ms. Kathy Gaertner, I was supposed to develop the forms for data collection, based on the forms already used by the Supreme Court for inventorying their assets, draft step-by-step procedure for asset verification, present it to leading counters, and help start the pilot. This was planned for a three-week trip (11-31 July).

However, practically at the moment of my arrival, the Equipment Bureau (the Supreme Court had previously identified the Bureau as the prime counterpart for Activity 2a) announced that they would not need assistance on the verification of assets and asked, instead, for help with inventorying the assets in the remaining 13 regions where the inventorying process was not complete yet.

Given this uncertainty, my technical work was re-oriented on two tasks:

- Establishing better cooperation and communication with the Bureau, which included writing the project's alternative suggestions on inventorying and verification of assets, assessing inventorying data and procedures at the courts, and drafting access-to-data requirements.
- Collecting and assessing opinions of international and local experts familiar with the task on what the project should and could do. On the organizational side, I helped develop a selection process and a Request for Expression of Interest for potential subcontractors for the inventorying and verification work.

Because there was no indication from the Court as to when determination of what the asset management activity should be, I decided to shorten my trip and plan to return once this decision has been made by the Court and is accepted by USAID.

ACHIEVEMENTS

The primary issue confronting me and Ms. Kathy Gaertner, Asset Management Specialist, was the changing indication from the Supreme Court as to what they want as assistance from the MCC ICCP on asset management. Given this environment, the main achievements of this consultancy are:

- I helped the Chief of Party design the project's new approach to establishing cooperation and communication with Supreme Court, which can be summarized as follows:
 - Formulate our suggestions in simple language, understandable without specialized knowledge, and present them in writing, translated in Bahasa Indonesia.
 - Formulate three options of what the MCC ICCP could do regarding inventorying, present to these to the Supreme Court, and wait for a decision as to what they want us to do.
 - Communicate frequently and present our requests for information or meetings in writing.
- Using this approach, I drafted the annex to the Inception Report that formulated suggested tasks to undertake, along with the information and cooperation requirement, which became a document to discuss with the Supreme Court (Annex I), including the section on asset management in the discussion paper "*Major Activities and Issues to be Resolved*" for use by the Chief of Party with the Court.
- I participated in meetings with the following Indonesian experts: Mr. Ed Gustelly, Dr. Sebastian Pompe, Mr. Luke Tatnell, and Ms. Dewi Sri Umi. These meetings validated some of our ideas and help sharpen views on some technical and organizational issues.
- As well, we continued to request permission from the Equipment Bureau for permission to visit a court and finally, with Ms. Gaertner, visited one (District Court of North (*Utara*) Jakarta). One of key findings of this visit was that the court had a computerized system of inventorying that the Court staff in charge of inventorying said was useful and convenient to work with. This system, *Sistem Akuntansi Kuasa Panggunn Barrang* was developed and installed by the Ministry of Finance and is not related to Supreme Courts in-house software system SILog.
- Finally, I helped switch from a one-step procedure for selecting a subcontractor for inventorying and other field work that might be required for the Asset Management Activity to a transparent two-step procedure. As such, I helped to formulate the Request for Expression of Interests, which was to be published in major newspapers in Jakarta.

ANNEX I – SUPREME COURT ASSET INVENTORY OPTIONS

Current Status

In a meeting with the Planning Bureau (PB) during May, 2007, MCC ICCP was informed that the PB had conducted a full inventory of physical assets in 2006, with condition of assets evaluated according to the guidelines of the Ministry of Finance. Further, in a meeting with the Equipment Bureau (EB) on 22 May 2007 MCC ICCP was informed that a full self-reported inventory was conducted by the EB in 2004. Finally, on 21 June 2007 MCC ICCP was told by the EB that they would be completing another full self-reported inventory at the end of July 2007.

During the meeting in May, the PB expressed certain interest in obtaining assistance on approaches to forecasting and estimating future budget needs associated with asset replacement, renovation and acquisition. Needs in assistance at the EB appear shifting during the period of May – July, as indicated below. The Supreme Court identified the EB as the main counterpart and client of the inventory work by the project.

Based on the information about two recent inventorying efforts – one completed in 2006, one expected to be completed by late July 2007 - and in order to avoid duplicating efforts and completing yet another (the third) full inventory count as was originally envisioned in the project contract, MCC ICCP proposed instead verify the EB's July 2007 inventory using a random sample methodology. However, no written approval was provided by the Court for modifications suggested by the MCC ICCP as the “modified list of activities for asset management.”

Given that the sample-based verification appeared to be the most rational approach at that moment, the project proceeded with drafting a random sampling plan, based on US Defense Contract Audit Agency (DCAA) methodology and software and had the plan reviewed informally by an outside statistician. Draft training and guidance documents to be used for training inventory verifiers also were prepared. On June 21, 2007, at the meeting with the EB and the Court Administrator where this approach and the suggested sample were briefly presented, no objections were received.

However, on 12 July 2007 the EB said that only 17 out of 30 reporting regions had submitted reports, nine of which had been reviewed by the EB. The remaining 13 regions had not yet submitted reports. The EB stated that MCC ICCP's proposed verification was not necessary and that instead MCC ICCP should provide assistance to completion of the inventory assets effort for the remaining 13 regions.

A defining obstacle for progress and preparations to further asset management work, whatever scope the inventorying effort would eventually have, is related to practically complete lack of access to any technical specifications and information, as well as court technical specialists, by the MCC ICCP technical experts on asset management. It was only on 12 July that the project received some guidance materials used by the EB and a portion of its report to the Ministry of Finance regarding asset inventory in nine regions. However, as of 23 July, MCC ICCP had not yet received from the EB basic pieces of information that are key to designing the data-inputting documents for the inventory effort: descriptions of the data fields required for inputting to the SILog database and samples of the count sheets used by the Equipment Bureau.

MCC ICCP Proposal

Given the current situation, the MCC ICCP experts on asset management envision three alternative options for approaching Task 1 Judicial Reform: Activity 2a, Inventory 100% Physical Assets. Each of these options addresses somewhat different objectives, and creates different requirements for information and inside-the-system support that the Supreme Court would have need to provide for the work to be implemented.

The three options are presented below, along with benefits, weaknesses, and information requirements. We hope that the Supreme Court would consider the options and decide which alternative best fits its needs and commit to providing the required information and support for the implementation of the selected option on an accelerated scale.

Option 1: Verification of Asset Counts through Sampling

This option is based on the plan verbally discussed by the Supreme Court on 21 June 2007. Verification means that MCC ICCP would conduct a survey to check the accuracy of assets count the records submitted in the July 2007 inventory. The survey would count all of the fixed assets (such as both real estate and moveable property, with lives longer than one year) in selected courts. The survey would not include any asset valuation or verification of values. The subject of the verification would be the total number of assets found in each court (this number would be compared to the number reported in the July 2007 inventory), for each type of court separately (General, Administrative, Military, Religious). As a result of implementing this option, Supreme Court management would be able to say, for example, regarding District Courts: “Based on our sample inventory counts, we are 95 percent confident that not more than ten percent of the District Court inventories contain material counting errors in their totals.”

The number of courts where the assets would be verified would be based on an internationally-standard mathematical approach of statistical sampling. The sample would treat each type of court (General, Administrative, Military, Religious) as separate groups. The approach would use the results in the selected courts to project an opinion regarding the entire universe of fixed assets, including those in the courts not selected, with a certain level of statistical confidence. Using the full court population of 825, the number of courts to be selected would range between 312 and 488. If a certain group of courts passes the first test with an acceptable number of errors, then the verification would be complete. If a certain group does not pass the first test, a second test would be conducted. In other words, the total number of courts to be tested will depend on the results in the initial sample; therefore it is impossible to define the total at this stage.

Further, useful information that the Supreme Court would receive would go beyond verification of the total number of assets in each type of the courts. The survey will count and record the assets by categories used in the accounting practice at courts, and the number of assets in each category (for example, “chairs”) would be broken down by condition according to the Ministry of Finance’s classification system (excellent/good, slightly damaged, and heavily damaged).

Benefits for the Supreme Court from using this approach include the following:

Primary:

- The Supreme Court would see the accuracy of the asset counts submitted in the July 2007 reports by type of court before the reports undergo the outside audit review.

Secondary:

- Baseline information would be collected for providing assistance to the Planning Bureau for estimating future acquisition / replacement costs of assets.
- Practical recommendations would be provided on how to improve management of assets. These recommendations could be both within the current SC guidelines and improvement of the overall system.

Weaknesses:

- No asset values would be checked.
- No assistance would be provided to the remaining regions.

The necessary steps by the Supreme Court to accommodate this option are:

- Providing all records related to the July 2007 inventory, separately for each court, including:
 - form templates used for the inventorying effort by court personnel;
 - instructions given to court personnel; and
 - completed forms in hard and electronic copy.
- Because all the records cannot be provided at this moment (as the current inventorying effort is not completed), MCC ICCP would start from verifying counts in the sample from the regions that already reported, and later would extend to the further inventoried regions or reduce its total court population from 825 to the total number submitted and then select a sample from this pool.
- Access to asset records at the lowest level of record keeping would be needed.
- Easy and expedited access to personnel tasked with asset management at the Court and upper levels would also be necessary.

Option 2: Partial Inventory in a Large Sample of the Remaining Regions

In this option MCC ICCP would conduct a count of assets in regions that have not yet submitted reports. This option would not include any valuation of assets. The count and recording of assets would be according to the accounting categories used in the

financial reports by the Supreme Court. Furthermore, the total number of assets found in each category would be reported by condition, according to the condition classification recommended by the Ministry of Finance. The final number of courts where the assets could be counted would ultimately be determined by budgetary restrictions. While it is estimated that 13 regions could be completed within MCC ICCP's budget, the accessibility of these regions could have a negative impact on the total number. The benefits to the Supreme Court from using this approach include the following:

Primary:

- The Supreme Court would have a complete count of its assets from all or most regions, which will reduce the volume of its own work related to the inventorying.

Secondary:

- Baseline information would be collected for providing assistance to the Planning Bureau for estimating future acquisition / replacement costs of assets.
- Practical recommendations would be provided on how to improve management of assets. These recommendations could be both within the current SC guidelines and improvement of the overall system.

Weaknesses:

- No values recorded for the remaining regions.
- Quality of records from the submitted 17 regions would not be known.

Necessary steps by the Supreme Court to accommodate this option include the following:

- All materials regarding the practice of record keeping on assets must be made available, along with records themselves regarding the assets at the courts in the sample.
- Form templates used for the inventorying effort in the courts that completed the effort, instructions that were given to them, and samples of completed forms in hard and electronic copy.
- Easy and expedited access to personnel tasked with asset management at the court and upper levels

Option 3: Full Inventory in a Smaller Sample of Remaining Regions

This option would allow for a full *one-time* inventory (including both counting and valuation) in a smaller sample of the courts that have not yet submitted their July 2007 inventory reports. Because of the significant increase in cost per court due to the additional cost of asset valuation, the sample size compared to Option 2 may decrease about threefold. MCC ICCP would attempt to fully inventory from one third to one half of the remaining courts in 13 regions. The valuation portion of MCC ICCP's inventory would use a market value approach and *does not intend* to produce all of the forms that need to be submitted by the Supreme Court to the Ministry of Finance regarding the fixed assets. Similarly to two other options, the total number of assets found in each category would be also reported by condition, according to the condition classification recommended by the Ministry of Finance. Benefits for the Supreme Court from using this approach include the following:

Primary:

- The Supreme Court would have complete inventory records for a sample of courts, with comments regarding valuation-associated issues and how they can be addressed.

Secondary:

- The Supreme Court will have a clearer picture regarding “country wealth” that is concentrated in public assets, and the difference between the book value and market value of assets of various types.
- Baseline information would be collected for providing assistance to the Planning Bureau for estimating future acquisition / replacement costs of assets.

Weaknesses:

- All of assets in the courts would not be counted.
- Quality of records from the submitted 17 regions would not be known.

Necessary steps by the Supreme Court to accommodate this option include the following:

- All materials regarding the practice of record keeping and book keeping on assets must be made available, along with records themselves regarding the assets at the courts in the sample (at the lowest level of record- and bookkeeping).
- Form templates used for the inventorying effort in the courts that completed the effort, instructions to them, and samples of completed forms in hard and electronic copy.

- Easy and expedited access to personnel tasked with asset management at the court and upper levels

Additional Activities for Asset Management

In addition to one of the above options:

MCC ICCP will computerize the results of the Asset Management Activity, and to extent feasible will make these computerize records compatible with the databases used by the courts. In broader terms, the asset management team will present its view on the issues related to the computerization process of asset record keeping. The Supreme Court would need to provide descriptions of the data fields required for inputting to the SILog database and copies of the count sheets used in the July 2007 inventory.

The issue of whether residences should be included in the sample with which MCC ICCP works (under any of the Options) must be discussed in order to identify how to proceed and adjust the main sample respectively. Given that inventorying a large number of residencies would deviate substantial resources from inventorying assets in court buildings, we recommend that the issues of residencies are analyzed and recommendations presented based on a small sample of case studies. If the Supreme Court decides to include such partial inventorying of residencies in the MCC ICCP work, selection of the sample should be further jointly discussed, based on the lists and addresses (locations) of residences under control of the Court.

Other MCC ICCP Needs in Order to Progress under any of the Options

For MCC ICCP to progress on any of the above options, we would need access to legal title documents regarding real estate under Supreme Court stewardship, along with a possibility to meet with a person(s) in the Court system familiar with past process of property transfer to the Supreme Court from the Ministry of Justice and Ministry of Religion.

We would also need the following:

- A technical point of contact within the Supreme Court who will be able to discuss and answer technical questions from the asset management team, both expatriate and local staff members, and provide needed data, materials, and access to other experts at the SC system.
- The possibility for the MCC ICCP expatriate technical experts on asset management (Dr. Maureen Berry, Dr. Olga Kaganova, Ms. Carol Rabenhorst, Ms. Kathy Gaertner, and others, if any) to directly discuss issues with technical experts at Supreme Court system, including the EB and PB, as and when needed.¹

¹ MCC ICCP is hiring a special local staff member to work on asset management, and this person will participate in meeting as soon as he or she starts working. Nevertheless, the technical experts named above should have a possibility of direct discussions with their counterparts at the SC system, otherwise they wont be able to provide quality advice to the SC.

Under the following two sub activities, MCC ICCP would provide recommendations to improve these two components of asset management.

Asset Needs and Costs Forecast for Planning Purposes

MCC ICCP will develop a simple financial spreadsheet model that would allow forecast the annual cost at the court level, associated with acquisition of new assets for replacing the damaged assets or accommodating assets needs if court personnel increases. The model will be based on asset “life-expectancy” schedules and on standards for supplying new personnel by furniture and equipment. We suggest to outline the concept of this model, provide illustrative examples, and then discuss this model outline with practitioners from the courts (such as Northern District Court of Jakarta) and the Planning Bureau, in order to adjust the model to the needs of practitioners. After validating the concept with practitioners, we will finalize the spreadsheet and develop a guideline for its use.

Improving Internal Controls at the Court System for Protecting Assets from Misuse and Theft

MCC ICCP will prepare guidelines on introducing and improving internal control instruments that would provide for the safeguarding of assets against theft and misuse. These recommendations would be adjusted to specific needs on the Supreme Court system and designed for internal use within this system. However, they will be conceptually compatible with the guidance documents on internal controls that currently are being developed by the Ministry of Finance. Implementation of the recommended internal control instruments would result in better protection of the state assets under the Court system and in longer term will help the Court to pass outside or independent audits.