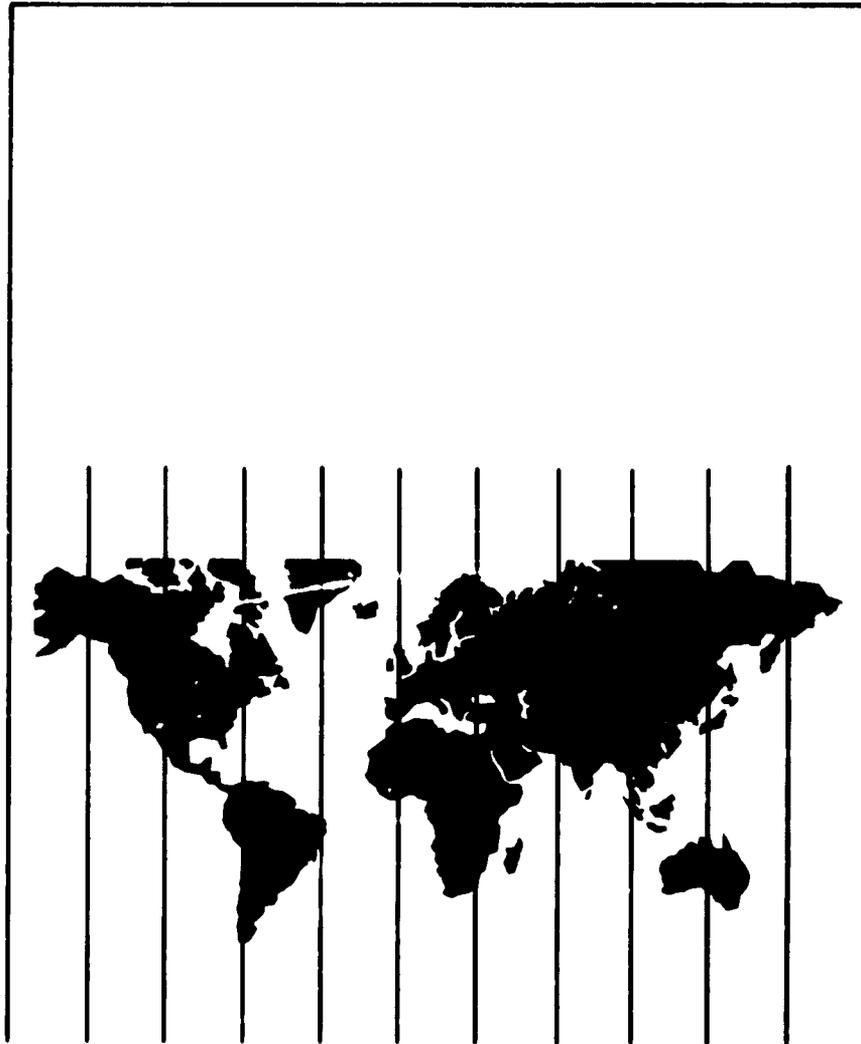


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UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
MANILA

PDHAP 460

**USAID/Indonesia Should Not Continue  
Funding The Eastern Islands Agricultural  
Education Project**

**USAID/Indonesia  
Memorandum Audit Report No. 2-497-84-07  
July 12, 1984**

**The project goal of establishing a viable Association of Eastern Islands Universities in Indonesia to serve the needs of the ten member institutions probably cannot be achieved. We recommend that USAID/Indonesia terminate the project and deobligate unneeded project funds, which might total \$2 million.**

TO : William Fuller  
Director, USAID/Indonesia

FROM : Frank A. Dickey  
Acting RIG/A/M

SUBJECT : Memorandum Audit Report No. 2-497-84-07 "USAID/Indonesia Should Not Continue Funding The Eastern Islands Agricultural Education Project"

July 12, 1984

### SUMMARY

The project intent of establishing a viable Association of Eastern Islands Universities Secretariat in Ujung Pandang to serve the needs of the ten member institutions has not been and probably cannot be achieved. The Association remains a consortium and Government of Indonesia (GOI) regulations are ambiguous regarding the authority for GOI funding of consortia. Association activities are funded through the GOI budget process of each member university. Consequently, each individual member plans and implements Association activities without central direction or focus. Under this arrangement, it is difficult, if not impossible, for the Association Secretariat to influence the activities of the member universities. In our opinion, additional, or continued, AID-funded technical assistance is unlikely to improve this situation. Therefore, we recommend that USAID/Indonesia terminate the funding of the project, estimate the amount in excess of project requirements, and deobligate the unneeded funds. The Mission agrees with this recommendation and has begun action to implement it.

### INTRODUCTION

The primary objective of the AID-funded Eastern Islands Agricultural Education Project (497-0293) is to strengthen the network of eastern islands universities to develop and produce competent, qualified human resources to overcome a major constraint of insufficient qualified agricultural faculty. Until 1976, the eastern islands universities worked in isolation to try to upgrade themselves, but it was believed that if they joined together in an association they could, through their cooperative efforts, improve more rapidly. Eight institutions (presently ten) formed the Association of Eastern Islands Universities in January 1976 to foster cooperation among the institutions and to improve higher education in the eastern region. (See Exhibit C for a list of the member universities.)

Generally, the AID project was designed to provide technical assistance, training, and instructional materials to strengthen the Association. Further, the project was to help improve the efficiency and effectiveness of the member

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institutions in their agricultural development by supporting programs in the three broad functions of higher education: instruction, research, and public service. Other major goals of the project are to make the universities' overall agricultural programs much more relevant, practical and responsive to the needs of the agriculturists of the region.

The project was planned with a budget of \$11.5 million, with AID providing \$7.5 million (or 66 percent) of the project cost through Loan 497-T-059 dated August 15, 1979, in the amount of \$5 million, and a grant agreement signed July 31, 1979, for \$2.5 million, as amended. The GOI agreed to provide the local currency equivalent of \$4 million (or 34 percent) of the project cost. As of September 30, 1983, \$1.9 million and \$1.6 million has been disbursed or accrued, respectively, from the loan and grant.

A \$5.5 million AID-funded contract with Washington State University (WSU), under Title XII of the Foreign Assistance Act, as amended, is the principal means of project implementation. The contract was effective October 15, 1979, and terminated June 30, 1984. The contract includes loan funding of \$3 million to fund long and short term participant training and procurement of commodities and equipment. The grant portion of the contract provides funds of \$2.5 million for salaries, travel, overhead, and support costs of WSU technical assistance personnel. (See Exhibits A and B for breakdowns of these costs.)

#### PURPOSE AND SCOPE

This is the first audit of the Eastern Islands Agricultural Education project. The audit covered the period from inception of the project in November 1979 through September 30, 1983, the date of our financial cut-off, and June 1984 for project operations.

Our audit objectives were to evaluate the project accomplishments; the economy and effectiveness of resources committed to the project; compliance with terms of the loan and grant agreements; and propriety of costs incurred with AID funds. To meet these objectives, we interviewed USAID/Indonesia and GOI project officials, returned long term training participants, and AID-funded contractor personnel. We also reviewed the financial internal controls maintained over project funds.

The report was discussed with Mission personnel and their views and written comments were considered in the final report.

#### SOME PROJECT OBJECTIVES ARE BEING ACHIEVED BUT OVERALL PROGRESS HAS BEEN SLOW

While there are significant shortcomings with the project that should have been, but were not, solved by project management, some project objectives are being achieved. Long and short term training has been conducted largely as planned. Other project activities have proceeded, but at a very slow pace.

#### Participant Training

The upgrading of faculty through training is one objective of the project.

The project paper provides for training in the United States, other Southeast Asian countries, and within Indonesia. The project paper estimated that some 70 to 75 professors would receive graduate degree instruction. Most scholars were to receive master degrees, but a few of the most outstanding, perhaps 10 to 15, were to receive their doctorates. The contract with WSU did not target the number of participants to receive training, but specifies the training will be determined by the available resources and periodically evaluated in order to insure optimal utilization of resources.

USAID/Indonesia and WSU project records report 36 long term participants were sent abroad, 29 to the United States and 7 to the Philippines. As of November 30, 1983, ten participants had completed their training and returned to their respective universities. Funding for the remaining participants is scheduled for completion on June 30, 1984. Thirty-one of the participants are candidates for master degrees and 5 are candidates for doctorates. Another 56 participants were selected for in-country graduate degree programs. Participants sent abroad for short term training as of November 30, 1983, numbered 40, of which 36 had completed training and returned to their sponsoring institutions.

The rectors of the 6 universities visited emphasized the importance of staff development through the long term training provided under the project. However, one rector expressed the opinion that the AID project, while helpful, only provides a thin veneer of overall staff development for each Association member since each school had only a small percentage of its staff trained abroad. The number ranged from one to six per university.

#### In-Country Funded Project Activities

Because of problems with the accounting system at the project office, loan expenditures were stagnant for about three years--from July 1980 to October 1983--for in-country project activities. This problem clearly hampered project implementation, but project officials were slow in taking remedial action.

In-country funded project activities financed by the AID loan included training, instructional materials such as textbook production, library books, laboratory materials, audio visual materials, experimental farm equipment, network development, community service programs, and Association office and related costs. The estimated cost of these activities was \$1.2 million. In July 1980, USAID/Indonesia advanced \$71,231 followed by an additional advance of \$82,000, a total of \$153,231, to the Association for in-country project activities. The advance remained outstanding until August 1983, when it was accounted for with allowable project expenditures. During the same period, no loan funds were released for additional in-country project activities pending the clearing of the advance.

The lack of an adequate financial accounting system was the reason USAID/Indonesia was unable to liquidate the advance and commit additional funds for in-country activities. The efforts of the USAID/Indonesia financial analysis staff and the placing by WSU of an administrative advisor in the

Association project office finally resulted in the development of a reliable accounting system. In September 1983, the USAID/Indonesia Office of Finance issued the results of a review of the Association which determined that the accounting system was adequate. During our review of the Association project office in Ujung Pandang, we examined, on a test basis, the accounting system and records maintained for in-country costs. In our opinion, AID funds are being adequately controlled and accounted for with the WSU/Association accounting system.

### Conclusion

Project implementation was hampered by the lack of an acceptable accounting system for over three years before corrective action was taken. This problem should have been solved much earlier and failure to address it brings into serious doubt the management ability of the project staff. When considered with other significant project implementation problems discussed below, it is clear that USAID/Indonesia should assess the management capabilities of the project staff before considering any extension of the project termination date.

### THE ASSOCIATION OF EASTERN ISLANDS UNIVERSITIES IS NOT A VIABLE ENTITY

The project was intended to achieve much within numerous institutions situated over an enormous expanse of territory. The project attempted to meet its objectives by using a consortia approach, which, in retrospect, may not have been well suited to the existing resource base of Association member institutions, nor to the AID and GOI resources which were to be applied. Consequently, the long term viability of the Association is open to question.

A major goal of the project was to develop a strong and functional role for the Association Secretariat. Developing the planning capabilities of the Association and its members was the first priority. To that end, the project, via the Secretariat, focused on identifying means of carrying out planning and other activities for the Association.

Given its low profile, it is doubtful whether the Secretariat was effectively interacting with the Association members. The project office consists of five Hasanuddin University professional personnel, two long term WSU advisors, the WSU Chief of Party, and an administrative advisor. The association project office in Ujung Pandang is located on the new campus under construction for Hasanuddin University. The WSU and Association Secretariat share the office building, originally constructed as a house. The project office telephone installed two years ago has been operational only sporadically, hindering communication between the Secretariat and Association members.

The decentralized control of GOI funds by the universities provides the Association Secretariat little, if any, leverage over the activities of its members. Therefore, the principal project goal of fostering cooperation between the eastern islands universities is undermined.

Funding has not been provided directly to the Association Secretariat. Rather, the funds from the GOI for Association activities go directly to each member university. This has occurred because GOI regulations are ambiguous regarding the authority of funding of consortia, such as the Association. The ambiguity of funding authority and procedures has caused problems for the Association, as an organization, to plan and program its budget to the extent necessary for smooth project operations. For instance, the rectors of the member universities were unable to agree on a disbursement plan that would enable the office in Ujung Pandang to control and account for Association activities and expenditures.

WSU has requested that USAID/Indonesia approve a one year extension of the project beyond the current project completion date of June 30, 1984, at a cost of over \$1 million. WSU indicates that it may request five or more additional years for the project. However, the WSU progress reports, while trying to be positive, do not provide substantial support for continuation of the project. If the project is not extended, we estimate that from \$1.3 million to \$2 million of the AID funds committed to this project may be in excess of the project requirements.

### Conclusion

Upon completion of the WSU contract on June 30, 1984, and the withdrawal of the AID-funded support, the viability of the Association will be only marginally improved from that which existed when the project first began. Continuation of eastern islands member universities' activities to improve agricultural education remains minimal. Whether the Association can function effectively after AID's funding is withdrawn is questionable. Continued AID support for the Association probably will not significantly affect this situation. In addition, the availability of funds in excess of the project requirements suggests that USAID/Indonesia is in a position to deobligate and reprogram excess funds for more productive purposes. Consequently, we recommend that:

#### Recommendation No. 1

USAID/Indonesia determine the residual requirements for AID funding of the Association of Eastern Islands Universities Project, estimate the amount in excess of the project requirement, and deobligate the unneeded funds.

### Management Comments

The Mission essentially agreed with the report's findings and has informed the GOI that an extension of the project beyond fiscal year 1984 will not be approved by AID. In this respect, the Mission noted:

"USAID/Indonesia has been monitoring very closely, through field trips and contacts with project staff over the past 5 months, the management capability of the Association. An explicit responsibility of two WSU long term advisors during

**this period has been to train the staff members to carry out Association activities without the direct assistance of the contractor. One of the project funded activities, started in November 1983, has been developed with this precise objective. Based on the experience the staff has gained through this activity and in implementing other project funded in-country activities which started at the same time, the Mission and contractor both feel reasonably comfortable that the Association now possesses the capability to administer its affairs. Based on this assessment, the Mission has decided to extend the project for 3 months (only) to 9/30/84, both to allow the project to complete some important activities, and to test this new administrative capability of the Association. \* \* \***

**"USAID/Indonesia has already started the process of deobligating the excess project funds in order to make them available for reobligation in fiscal year 1984. The Mission expects this action to be completed by June 30, 1984."**

**We will close this recommendation upon receipt of documentation substantiating the deobligation/reobligation action.**

EXHIBIT A

USAID/Indonesia  
 Eastern Islands Agricultural Education  
 Loan 497-T-059, Project 497-0293  
 Status of Loan Funds  
 September 30, 1983

	<u>Budget</u>	<u>Expenditures</u>
<b><u>Washington State University Contract</u></b>		
Participant Training	\$2,500,000	
1. Long Term		\$1,932,394
2. Short Term		109,192
3. Travel		143,333
Commodities, Equipment, and Indirect Costs	500,000	
1. Commodities and Equipment		27,981
2. Indirect Costs		143,944
Total - MSU	\$3,000,000	\$1,773,848
<b><u>In-Country Project Costs</u></b>	1,359,000	158,546
<b><u>Unearmarked Obligation</u></b>	641,000	
	<u>\$5,000,000</u>	<u>\$1,932,394</u>

**USAID/Indonesia  
Eastern Islands Agricultural Education Project  
Grant Agreement 497-0293  
Washington State University Contract  
September 30, 1983**

	<u>Budget</u>	<u>Expenditures</u>
<b>Salaries and Wages</b>	<b>\$ 958,000</b>	<b>\$ 600,017</b>
<b>Allowances</b>	<b>409,000</b>	<b>140,851</b>
<b>Staff Benefits</b>	<b>201,000</b>	<b>108,863</b>
<b>Travel, Transportation, Per Diem</b>	<b>205,000</b>	<b>201,927</b>
<b>Other Direct Costs</b>	<b>299,000</b>	<b>182,042</b>
<b>Indirect Costs</b>	<b><u>428,000</u></b>	<b><u>331,997</u></b>
<b>Total</b>	<b><u>\$2,500,000</u></b>	<b><u>\$1,565,697</u></b>

USAID/Indonesia  
 Eastern Islands Agricultural Education  
 Project 497-0293  
 Association of Eastern Islands Universities Members

<u>Acronym</u>	<u>Name and Location</u>
1. UNLAM	Lambung Mangkurat University Banjarmasir, South Kalimantan
2. UMMUL	Mulawarman University Samarinda, East Kalimantan
3. UNHAS	Hasanuddin University Ujung Pandang, South Sulawesi
4. IKIP/Ujung Pandang	IKIP/Ujung Pandang Ujung Pandang, South Sulawesi
5. UNSRAT	Sam Ratulangi University Manado, North Sulawesi
6. IKIP/Manado	IKIP/Manado Manado, North Sulawesi
7. UNPATTI	Pattimura University Ambon, Maluku
8. UNCEN	Cenderawasih University Manokman, Irian Jaya
9. UNTAD	Tadulako University Palu, Central Sulawesi
10. UNHOL	Halu Oleo University Kendari, Southeast Sulawesi

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AID/M

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Assistant Administrator	1
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Deputy Assistant Administrator (Audit Liaison Officer)	1
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Office of Indonesia and South Pacific/ASEAN Affairs (ASIA/ISPA)	1
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## Bureau for Science &amp; Technology:

Office of development Information & Utilization (S&T/Mgt)	4
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## Directorate for Program &amp; Management Services:

Office of Contract Management (M/SER/CM)	3
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## Office of the Inspector General:

Inspector General (IG)	1
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Executive Management Staff (IG/EMS)	16
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Policy, Plans & Program (IG/PPP)	1
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Office of Legislative Affairs (LEG)	1
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Office of Financial Management (OFM)	1
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Office of the General Counsel (GC)	1
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