

PLANT

MANAGEMENT

AUDIT OF
ASEAN PLANT QUARANTINE PROJECT
Project Number 398-0258.02

Audit Report No. 2-498-88-08
June 22, 1988

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT
MANILA

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MANILA, PHILIPPINES

DATE: June 22, 1988
RIG/EA-88- 229

TO: Bruce Blackman
ASEAN Regional Development Officer

FROM: *William C. Montoney*
William C. Montoney
RIG/A/Manila

SUBJECT: Audit of ASEAN Plant Quarantine Project,
Kuala Lumpur, Malaysia - Project No. 498-0258.02
Audit Report No. 2-498-88-08

This report presents the results of audit of the ASEAN Plant Quarantine Project, conducted in Kuala Lumpur, Malaysia. The draft report was submitted to you for comment and your comments are attached to the report. The report contains two recommendations which are unresolved and will require your action. Please advise us within 30 days of the actions planned or taken to implement the recommendations.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

The ASEAN Plant Quarantine Project (PLANTI) established a plant quarantine training center and institute by providing the expertise and facilities necessary to prevent the introduction and spread of plant pests in the region. The Center serves as a focal point and coordinating mechanism for improving plant quarantine activities in the ASEAN region through training, research and information exchange. The grant agreement was signed on September 27, 1980 for a five year period. A.I.D. was to contribute \$5.4 million and the ASEAN countries, primarily Malaysia, agreed to provide an additional \$2.6 million. A.I.D. contributions were used to finance the procurement of commodities, participant training, salaries of professional staff, and technical assistance for curricula and program design. The project assistance completion date was subsequently extended to December 31, 1987. On September 25, 1987, the ASEAN Human

Resources Development Project (398-0287) grant agreement was signed. This Phase II four year grant provided an additional \$4 million in A.I.D. financing to PLANTI. Participating ASEAN countries also agreed to provide \$2.1 million in the form of cash and in-kind contributions.

Audit Objective and Scope

The Office of the Regional Inspector General for Audit/Manila made a program results audit of PLANTI. The specific objectives of the audit were to determine whether (1) project objectives will be achieved, and (2) financial management practices were adequate.

The audit included a review of project files and financial records maintained at the PLANTI Project Office in Kuala Lumpur, Malaysia, and the Regional Controller's Office and the ASEAN Regional Development Office (RDO) both located in Manila, Philippines. We tested approximately 28 percent or \$1.1 million in disbursements through March 1987. The audit was performed during August and September 1987 and was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit showed the development of PLANTI has been greatly assisted by A.I.D. project funding which helped build a plant quarantine training center and has provided equipment, participant training, salaries and other technical assistance. Day-to-day management has been relatively good, and the Government of Malaysia (GOM) has provided strong project support. The project, however, has lacked policy direction and monitoring from the ASEAN Regional Development Office (RDO) and some expenses prohibited by project planning documents have been paid with A.I.D. funds.

The lack of policy direction is a substantive issue and was especially evident through the selection of participants to be trained. Even though Malaysia has fewer than 14 percent of all the plant quarantine officers in ASEAN, over 35 percent of the training provided by PLANTI was for the Malaysia plant quarantine officers as compared to about 20 percent for the officers of each of the three lesser-developed ASEAN countries of Indonesia, Thailand, and the Philippines. This disparity was particularly noteworthy because Malaysia is considered a developed country that does not warrant bilateral or capital development assistance programs.

Internal controls as prescribed in Handbooks 3 are in need of improvement. Conditions that merit improved monitoring by the RDO include the failure to implement the special covenant specified in the grant agreement which called for an evaluation to be performed within six months after the start of the project and again at one or two points thereafter. The evaluation program was not established as planned, and an evaluation was not made until five years after the grant agreement was signed. Inventory accountability lists and equipment utilization reports were never prepared. Some of the equipment arrived damaged and had not been repaired or reported as defective and several pieces of laboratory equipment that had arrived in 1982 had not been used since their arrival. Finally, A.I.D. paid approximately \$375,000 in air travel costs and PLANTI administrative salaries which were specifically excluded from the project by the grant agreement.

To improve the effectiveness of the PLANTI project, especially for Phase II, we recommend that the ASEAN RDO improve the documentation and collection of management actions relative to site visits, equipment inventory and utilization reports, evaluations, and project disbursements. We also recommend that steps be taken to obtain a refund from the GOM and participating ASEAN countries for project expenses inappropriately paid by A.I.D.

A.I.D. Needs to Exert Stronger Policy Direction and Monitoring Over PLANTI Activities - Since 1980, A.I.D. has spent over \$5 million to develop PLANTI. Although project development has been good, many more Malaysian plant quarantine officers have been trained at PLANTI than those other participating countries even though the need for such training is less in Malaysia. This condition was caused, in part, because the ASEAN RDO did not exercise sufficient management control over project activities to provide assurance that A.I.D.'s interest in the project had been achieved.

A.I.D. policy establishes the necessity for developing management systems with oversight responsibility to provide project direction and assure that funds are being disbursed in accordance with statutory requirements.

Discussion - Since 1980, A.I.D. has spent more than \$5 million to develop PLANTI. Project development has been good, especially the construction of facilities and the day-to-day operational activities. This can be attributed, in part, to special grant provisions which permit A.I.D. financing for capital costs and payment of staff salaries. For example, A.I.D. contributed \$560,000 for the construction of six glass house/insectory units. Also,

salaries of the Project Director and all other professional staff were financed by A.I.D. for the life of the project.

However, the success of the day-to-day operational activities of the project has lacked policy direction and monitoring. More training opportunities have been provided to Malaysian plant quarantine officers even though the number of plant quarantine officers available for training in other ASEAN countries is greater. As shown below, Malaysian officers received over 35 percent of the training provided at PLANTI while the number of plant quarantine officers available for training comprise less than 14 percent of the officers available in the ASEAN region. The lesser developed countries of Indonesia, Thailand and the Philippines, with a larger complement of plant quarantine officers, each received about 20 percent of the training. For example, Indonesia in particular, has almost 50 percent of all the plant quarantine officers in ASEAN. The following table illustrates this fact.

	<u>Malaysia</u>	<u>Indonesia</u>	<u>Philippines</u>	<u>Thailand</u>	<u>Others*</u>
Participants	232	133	131	136	22
Percentage	35.5	20.3	20.0	20.8	3.4
Number of Officers ^{1/}	118	418	175	124	11
Percentage	13.9	49.4	20.7	14.7	1.3

* Brunei & Singapore

In commenting on the draft report, the ASEAN RDO was unable to corroborate these percentages. The RDO expressed the viewpoint that an important rule in any ASEAN regional training activity is that member countries have an equal opportunity to participate. Participants from countries such as Indonesia and Thailand have difficulty in speaking English. Malaysia is sometimes able and willing to take up unfilled slots on short notice.

Some of the monitoring oversight activities performed by the ASEAN RDO were not adequately documented and thus not suitable for management analysis. For example, a special covenant of the grant agreement called for an evaluation program to be established and an evaluation to be conducted within six months and again at one or more points thereafter. The program was to evaluate (1) progress toward attainment of project objectives, (2) identification of

^{1/} Project Paper, ASEAN Human Resources Development, Phase II Annex C-1-b

problem areas, (3) assessment of how such information may be used to help overcome such problems, and (4) the overall development impact of the project. The evaluation program was never established as planned and it was not until February 21, 1985 that any evaluation was conducted on the project. The ASEAN RDO, however, believes sufficient evaluation had occurred. The RDO expressed the belief that evaluation work takes various forms, depending of the nature and need of the project. The report did not explain the key role played by consultants and technical advisors in project evaluation.

Project Implementation Reports (PIRs) were not prepared and documented as required. Even though PIRs were to be prepared on a semi-annual basis, only three reports were made available to the audit team by the ASEAN RDO (September 30, 1985, March 31, 1986 and September 30, 1986). An ASEAN project official said the PIRs had been prepared as required but was unable to locate and provide copies of them to the audit team. Another common method of project monitoring recommended by A.I.D. Handbook 3 is to perform site visits and document the results of the visits. The audit team was unable to find any record of site visits by the ASEAN RDO even though the ASEAN RDO stated that numerous site visits to PLANTI had been made. In commenting on the documentation of site visits, the ASEAN RDO said "Trip reports are made as necessary and appropriate. If the intent of the draft audit report is that more documentation is needed beyond what we are already producing and working with, our fear is that we might be most of the time writing memos and having less time for project monitoring and oversight."

A.I.D. Handbook 13 also requires the completion of periodic inventories and the preparation of equipment utilization reports. At PLANTI, no inventory lists or equipment utilization reports had been prepared. Instead, PLANTI maintained a logbook of all equipment purchased. It contained the name of the equipment, dollar value, location and date purchased. It did not however, indicate the person who was assigned the equipment and held accountable for it. There was no documentation to show that an equipment inventory had ever been conducted by PLANTI staff and the only reference to an inventory ever being made was a partial inventory done by the A.I.D. Controller's Office in July 1987 as part of its review of financial transactions.

Even though an inventory list did not exist, the audit team was able to locate, except for several stop watches, almost all of the items. However, during the course of the inventory, several items were found to have been unused since their arrival in 1982. These items were two distilling apparatus, eight portable drying ovens, two

flask shakers and two water heaters. The project paper specifically stated that PLANTI would prepare and submit quarterly utilization reports. The Project Director said no utilization reports had ever been prepared, but the underutilized items would eventually be put to use in the new virology laboratory when it was completed. There were also 18 Bausch and Lomb microscopes that were defective upon delivery to the project site. Several attempts had been made by project officials to have the items repaired, but local repairmen lacked the expertise to fix them. The defective items had not been reported to A.I.D. at the time they arrived (See Exhibit 1 for pictures of equipment unused since 1982).

The review of financial transactions conducted by the Controller's Office during July 1987 was adequately documented. Controls for project disbursements appeared to be adequate. However, grant costs in the amount of \$300,000 for international air travel and \$75,000 for administrative salaries have been inappropriately paid by A.I.D. The Project Paper specifically stated that the ASEAN countries would provide international air fare and miscellaneous expenses for their nationals attending any Institute functions within the ASEAN region. The project's financial plan which was presented in both the grant agreement and the Project Paper also showed that air fare for participants to and from PLANTI is part of the host country's contribution. Air fare costs from project inception through August 1987 were estimated to be slightly over \$300,000 -- all paid by A.I.D. A project official indicated that a waiver permitting air fare costs to be paid by A.I.D. rather than the ASEAN countries had been authorized. Project officials, however, were unable to provide the audit team with a copy of the waiver for the PLANTI Project. They did, however, provide a waiver of international travel for the ASEAN Human Resources Development Project (398-0287). This project, signed in 1987, provides Phase II follow-on funding for PLANTI and other ASEAN projects.

The Summary Cost Estimate and Financial Plan contained in the Project Paper shows that A.I.D. would finance certain administrative salaries through the third year of project implementation. The GOM would pay administrative salaries for the remainder of the five year program. According to financial records, all salary costs with the exception of two senior clerks were paid by the GOM after the third year. The two senior clerk salaries are still being paid by A.I.D. Salaries paid by A.I.D. for these two positions now exceed \$75,000.

A.I.D. regulations encourage the establishment of management systems with oversight responsibility. Handbook 3 recommends procedures for monitoring and managing A.I.D. financed projects. Chapter 11 specifically highlights the need for effective project monitoring to ensure that funds are being disbursed in accordance with statutory requirements and that goods and services financed are utilized effectively to produce intended benefits.

Section 621A of the Foreign Assistance Act of 1986, as amended, provides for the establishment of management systems in the belief that foreign aid funds could be utilized more effectively. In addition, the grant agreement called for even stronger monitoring requirements by requiring that an evaluation be conducted within six months as part of the Project and at least twice thereafter.

Recommendation No. 1

We recommend that the ASEAN RDO

1. more closely manage PLANTI Phase II activities in accordance with existing A.I.D. policy direction by implementing an effective system of management oversight. As a minimum, the system should ensure that PLANTI project monitoring is consistent with A.I.D. project management policies, and that the system provides for complete documentation and collection of management actions relative to site visits, equipment inventory and utilization reports, evaluations, monthly reporting requirements and project disbursements.
2. initiate action to obtain a refund from the GOM and participating ASEAN countries for project expenses inappropriately paid by A.I.D., specifically, about \$300,000 in air fare costs and about \$75,000 for administrative salaries.

Management Comments

The ASEAN RDO disagreed with both of our recommendations claiming that management oversight was effective and appropriate to the objectives and responsibilities embodied by the project. To a fitting degree, the RDO relies on the Institute's own management and encourages a sense of Malaysian proprietorship in PLANTI. Further, the RDO considered obtaining a refund from the GOM inappropriate because both travel and salary support are included as eligible costs in the grant agreement, and, also the GOM had already contributed substantially more to the project than agreed upon.

Inspector General Comments

The ASEAN RDO's contention that an adequate oversight system did exist is not accurate because the evidence shows otherwise. More training activities had been provided to Malaysians even though the need for training is greater in the other ASEAN countries. Project evaluations and the preparation of various project reporting requirements had not been completed as required. Also, the project had not been monitored as required by A.I.D. Handbooks and Section 621A of the Foreign Service Act, but rather this responsibility has been delegated to others as seen appropriate by the ASEAN RDO.

Project planning documents are clear relative to funding responsibility of international travel and administrative salaries. The intent is further clarified by the fact the RDO obtained a waiver for international travel costs for Phase II. These costs were specifically identified as part of the ASEAN contribution and were to be paid by the ASEAN countries.

Finally, the matter of monitoring responsibility has been discussed in two previous ASEAN reports - The ASEAN Watershed Project, Audit Report No. 2-498-88-06 and The ASEAN Participant Training Program, Audit Report No. 2-498-88-07. Because of the substance and common theme, we believe the Bureau for Asia and Near East should be aware of and provide guidance if necessary for closing all of the audit recommendations. This is especially important because of the impending transfer of the current RDO to a new post.

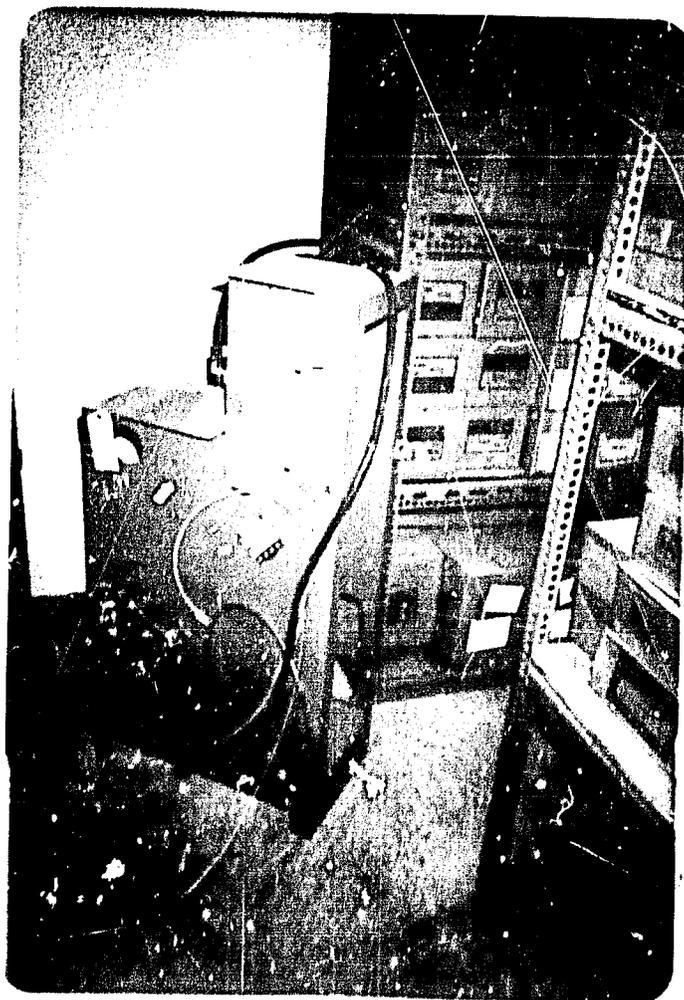
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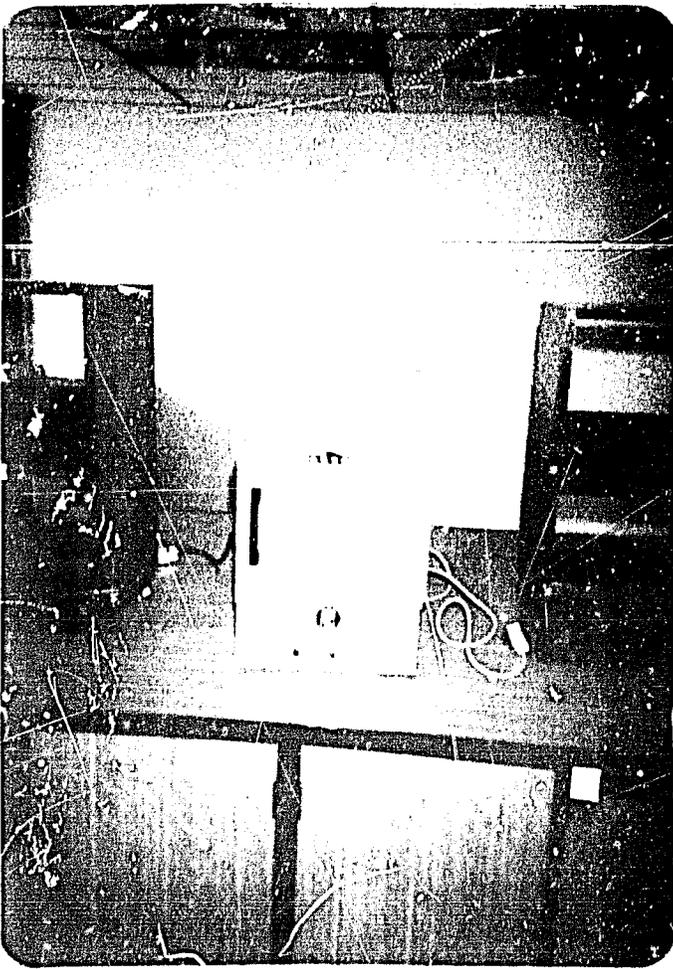
EXHIBITS AND APPENDICES



Unused water heater purchased in 1982

Unused distilling apparatus purchased
in 1982





Unused drying oven purchased in 1982



Unused portable drying oven purchased
in 1982

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. William C. Montoney, RIG/A/M

FROM : Bruce Blackman *Bruce Blackman*
ASEAN Regional Development Officer

DATE: May 26, 1988

SUBJECT : Draft Audit Report on ASEAN Plant Quarantine Project
(398-0258.02)

SUMMARY OF ASEAN REGIONAL OFFICE RESPONSE

The draft report contains two recommendations. Recommendation 1 (p. 11) is that "the ASEAN RDO more closely manage the PLANTI project in accordance with existing AID policy direction by implementing an effective system of management oversight."

We believe our management--and that of the ASEAN Plant Quarantine Centre and Training Institute (PLANTI)--has been appropriate to the objectives and responsibilities embodied by this project as well as effective in terms of the results achieved. The report does not recognize that--to assist with project management and evaluation-- considerable American technical assistance (totalling some \$700,000) has been provided for under the two United States' grants. American consultancies continue as an important input to project direction and help provide sufficient information for monitoring purposes. In our opinion, this audit recommendation is unsupported and we do not know specifically what could be done to close it.

Recommendation 2 (p. 11) is that "the ASEAN RDO initiate action to obtain a refund from the GOM and participating ASEAN countries for project expenses inappropriately paid by AID, specifically, about \$300,000 in air fare costs and about \$75,000 for administrative salaries." We believe this recommendation is inappropriate because both travel and salary support are eligible costs under the grant agreements signed by ASEAN and the United States in 1980 and 1987. Financed under the initial agreement, these eligible costs continue to be grant-funded under the Phase 2 agreement. In the context of Phase 1, we note the ASEAN contribution was approximately \$850,000 more than estimated in the initial grant agreement, while the AID contribution was \$650,000 less than estimated due to a deobligation of funds from that grant.

BACKGROUND

This project initially involved the creation of PLANTI, a large undertaking for ASEAN and AID. No regional Plant Quarantine Centre existed before the project. Plant protection and quarantine is an important stimulus to trade in agriculture. It is also an area in which the United States has considerable technical expertise. For these reasons, the project has been deemed of high priority in this regional program.

For your reference, actual funding levels under this project were as follows:

	<u>Actual Uses of Funds</u>
Capital Budget	\$ 1,576,251
Staff for Centre	965,497
Training	1,892,652
Tech. Assistance	<u>275,600</u>
	<u>\$ 4,710,000</u>

The budget categories in the project agreement (ProAg) are appropriate to the institutional creation nature of the project. You will note that there has been relatively little variance between planned and actual uses of funds. An important approach in our management of this project has been to watch actual uses of funds and to assure ourselves that any variances from planned uses are justifiable. We have exercised this approach through the review of disbursement requests and liquidation reports as well as through periodic visits to PLANFI by this office, the Controller's office, short-term consultants, evaluators and AID/Washington staff.

AUDIT FINDINGS

Page 3 of the draft report states:

"The development of PLANFI has been greatly assisted by AID project funding... of \$5.4 million... Day-to-day management has been relatively good... The Government of Malaysia (GOM) has also provided strong support to the project by providing over \$3 million..."

This statement expresses that the project is a joint undertaking of AID and the GOM (acting on behalf of ASEAN). For the Funding Levels Table above, the actual amount of AID support was not \$5.4 million but \$4,710,000 after a \$650,000 deobligation of funds. The ASEAN contribution under Phase 1 is estimated at over \$3.5 million. This compares with \$2.64 million estimate for the GOM contribution in the ProAg. In short, while AID support was \$650,000 less than planned in Phase 1, GOM support was more than planned by about \$850,000. That is not such a common trend in our world of project funding. The overall financial picture reflects a strong Malaysian commitment to the project and expresses that, to date, this member country has been a wise choice by ASEAN for the siting and support of a regional institution such as PLANFI.

The Report of Audit Findings (RAFs), received October 15, 1987, shared this assessment, stating (p.2) that "the project is considered to be one of the more successful ASEAN projects to date. Progress has been made in every project element and day-to-day project management is excellent." We would like to keep this audit conclusion in mind relative to the draft report. Management is an especially important function within regional projects when benefits must be provided to several countries.

Page 3 of the draft report then states:

"However, the success of the day-to-day operational activities of the project has lacked policy direction and monitoring from the ASEAN Regional... Office. This lack of policy is a substantive issue."

This general statement is accompanied by assertions concerning (1) the selection process for training, (2) the evaluation plan, (3) reporting, (4) inventory of equipment, and (5) disbursements. We appreciate the opportunity to comment about these assertions. The auditor's assertions and our remarks about them are as follows.

1. Training selection. On page 3, the draft report states:

"...over 35 percent of the training provided by PLANTI was for the Malaysia plant quarantine officers as compared to about 20 percent for the officers of each of the three lesser developed ASEAN countries of Indonesia, Thailand and the Philippines."

We are unable to corroborate these percentages and note that the source cited on page 6 of the draft report--the ASEAN Human Resources Development (HRD) Project Paper, Annex C-1-b, for the table on training percentages--is invalid. In this context, the points expressed in our memorandum of January 20, 1986, bear repeating here. The important rule in ASEAN regional training activity is that member countries have an equal opportunity to participate. This rule is observed by PLANTI in terms of offering equivalent numbers of training slots to member countries. The offer, however, does not always result in acceptance. For example, Brunei Darussalam (newest and smallest member of ASEAN) and Singapore (essentially a city-state) have declined to participate in PLANTI training. That is their choice.

Another factor bearing on participation in PLANTI training is language capability. As a matter of ASEAN policy, regional courses are given in English. (See HRD Project Paper Annex C-2-a containing Criteria for Student Selection.) This often constrains the nomination of participants by Indonesia and Thailand, many of whose plant quarantine (PQ) staff speak native language only and not English. When offered slots are not or cannot be taken up by member countries, they then become available for distribution to other member countries who are able and willing to take them.

As host country, Malaysia is sometimes able and willing to take up unfilled slots on short notice. This accounts for some additional participation by the country's English-speaking PQ staff. But it is not excessive. The key policy question from an ASEAN standpoint is whether the opportunities and benefits are reasonably equally accessible to the member countries. We believe yes. So do several project-funded consultants to PLANTI.

Another item noted in our January memorandum is that PLANTI has periodically conducted short-term training courses for Malaysian institutions. This training has included a course in fumigation operations for the private sector and special courses for public entities such as the federal agricultural marketing authority (e.g. in cocoa pests, grain molds) and the national rice

authority (e.g. in fumigation and storage). Such courses are funded outside the project.* We have encouraged the Institute to pragmatically seek to meet such technical and training needs as a way of diversifying its base and usefulness in Malaysia. This is one important way for PLANTI to sustain itself in the longer term.

2. Evaluation plan. On pp. 6-7, the draft report states:

"A special covenant of the grant agreement called for an evaluation program to be established and an evaluation to be conducted within six months and again at one or more points thereafter... The evaluation program was never established as planned and it wasn't until February 21, 1985, that any evaluation was conducted on the project."

This statement is inaccurate. The language of the ProAg (Section 5.1, p.6) reads: "The Parties agree to establish an evaluation program within six months as part of the Project." Evaluation work takes various forms, depending of the nature and need of the project. Technical assistance (TA) is one important form. With the Plant Quarantine project, a long-term advisor was placed at PLANTI for nearly two years early in the project period (1981-82). This individual was from the US Animal and Plant Health Inspection Service (APHIS) and he provided important initial guidance and evaluative assistance.

Periodic short-term consultants have also played a key, constructive role in assessing and reporting on PLANTI progress. Some 11 short-term consultancies were funded under the Phase 1 grant. See Annex C-2-e of the ASEAN HRD Project Paper for a listing of consultants and dates under the Phase 1 grant. The first short-term TA was provided in January of 1982. As required by their workscopes, these consultants prepared reports of findings and recommendations resulting from their work with PLANTI. Consultancies and resulting reports comprise an important source of informal, on-the-ground guidance and evaluative assistance to the project. Much of this work has been first-rate and a credit to United States' capacity in this sector.

The draft audit report does not repeat not mention the initial and continuing role of American TA in this project, both long and short-term. It should.

3. Reporting. Page 7 of the draft states: "Project Implementation Reports (PIRs) were not prepared and documented as required." This statement is inaccurate. PIRs have been prepared regularly since mid-1984. Beginning with period ending September 30, 1984, semi-annual PIRs have been on file through the audit period and available to the auditors.

Pages 7 and 9 of the draft report refer to site visits by USAID from Manila to Malaysia and indicate the auditors were unable to find any trip reports. Our files contain various trip reports including those by: an ASEAN Program Assistant; Controller's Office financial analysts; Supply Management Advisor; among others, not to mention trip reports by short-term American consultants. Here the comment of our January memorandum (p. 2) bears repeating:

*Participants in these separately-funded courses should not be counted as part of Malaysia's participation in the project.

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"Trip reports are made as necessary and appropriate. If the sense of the (draft audit report) is that more documentation is needed, beyond what we are already producing and working with, our fear is that we might be most of the time writing memos and having less time for project monitoring and oversight."

Perhaps it would be useful to amplify those earlier remarks. When appropriate and possible, we time our site visits in accord with implementation actions and proposals. For instance, a recent trip to PLANTI included discussions about Institute proposals for technical assistance, commodity financing and a commitment/advance of project funds along with a no-pay liquidation voucher. Our approach to actions resulting from this particular trip was as follows. For the technical assistance agreed and sought, we prepared a PIO/T and requested contracting action by the Contract Services Division. For the commodities requested and agreed, we sent the equipment list to our Logistics Division and requested contracting of an agent to do the offshore procurement in the United States. And for the no-pay voucher and request for commitment/advance of funds, we prepared and sent appropriate documentation for Controller Office processing. In other words, it was appropriate in this case to follow up the business trip by directly preparing implementation documents. Preparing a trip report in addition to, and separate from, these implementation documents would have been superfluous in our opinion.

Trip reports, of course, are not superfluous in other cases, e.g. deobligation action, commodity management assistance, financial management assistance, etc. In such cases, reports have been and will be done. However, our endeavor is to minimize needless paperwork whenever possible. We find this worthwhile in the context of our office size (one USDH, three FSNs).

4. Inventory of Equipment. Page 8 of the draft report states:

"At PLANTI, no inventory lists or equipment utilization reports had been prepared. Instead, PLANTI maintained a logbook of all equipment purchased. It contained the name of the equipment, dollar value, location and date purchased."

This is misleading. PLANTI has followed GOM regulations regarding the registry and control of project equipment. The logbook mentioned in the draft report is a central requirement of the Malaysia Government. It seems to have worked reasonably well as attested by the statement on page 8 of the draft report that "... the audit team was able to locate almost all of the items except for four stop watches." As a matter of policy, we encourage PLANTI and our other recipient institutions to follow the rules and regulations of the host country. PLANTI has and maintains an inventory of AID-financed equipment based on the GOM system in place.

For your information, an equipment inventory was conducted by PLANTI staff after the Controller's Office representatives' visit from July 28 to August 2, 1987. The inventory count was recorded in a departmental listing of inventories that indicated the name of items, number of units, serial numbers, reference accounting book page and bore the signature of the person in charge. This inventory account will be checked by a physical count conducted annually.

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The draft report (p. 8) also states that "several items (water heater, distilling apparatus, drying ovens) were found to have been unused since their arrival." Pictures of these items are shown in Exhibit I attached to the draft report. Two of these items--water heater and distilling apparatus--became non-functional and could not be repaired due to lack of maintenance and spare parts capacity in Malaysia. The other two pieces (drying ovens) arrived before facilities were fully completed; they are now in use.

5. Disbursements. Page 9 of the draft report states:

"The Controller's review of monthly project disbursements lacks sufficient documentation for verification purposes and liquidations are made routinely without detailed justification."

The Controller's Office reviews of project disbursements are based on certifications submitted by PLANTI and this USAID Project Office. In addition, when the Controller's Office deems it necessary, it requests additional information and/or documentation from PLANTI. It also conducts periodic financial monitoring and reviews to ensure it can continue to rely on PLANTI's records and reports.

The draft report further states (p. 9) that:

"Grant costs in the amount of \$300,000 for air travel and \$75,000 for administrative salaries have been inappropriately paid by A.I.D."

This statement is inaccurate and invalid. In ProAg Annex I, Project Description, travel is listed as an item to be AID-funded. The ProAg (p.7) reads as follows:

"After the Government of Malaysia prepares a payment schedule, disbursement will be made by AID/W for foreign exchange items, and by USAID/Manila for local cost items, on presentation of vouchers approved by AID. Advance payment may be needed for salaries, operating costs, travel, conferences and seminars, and will be requested by the Institute..."

We believe this language expresses the intention of the negotiators of the ProAg that travel would be AID-funded. All other items listed--salaries, operating costs, conferences and seminars--are eligible for grant financing. The ProAg is what the Parties agreed to in 1980.

In this connection, we note that travel is a common need and expense in multi-country projects--a cost of regional cooperation. To our knowledge, all donors to ASEAN fund travel costs as a legitimate part of their project assistance. As with other donors, AID has funded travel cost support when appropriate in ASEAN-US projects. We believe the waiver referred to on p.10 of the draft report is the one contained in the HRD Project Paper. We continue to fund travel under Phase 2 of our assistance to PLANTI.

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Also under Phase 2, we are funding the administrative salaries referred to in the draft report. Our commitment to finance certain costs continues. Funding of salaries is provided for in both ProAgs (Phases 1 and 2) and such funding is approved in the course of our review of disbursement and liquidation requests from PLANTI, periodic discussions about the requests, and through the preparation of vouchers.

Employing our system of management oversight, we are aware of what we approve for financing. The variance of planned from actual expenditures has been minimal under the project. Moreover, when and if necessary, Sections 2.1 and 8.2 of the ProAg empower us to approve variance in fund use patterns.

As regards ASEAN assumption of recurring costs, this issue is being addressed at the Dialogue level. It was raised at both the 7th (May 1986) and 8th (February 1988) Dialogues and is a continuing program concern. In this case, we mention anew that Malaysian support of PLANTI has been both impressive and in excess of ProAg requirements.

AUDIT RECOMMENDATIONS

Two recommendations appear on page 11 of the draft report:

1. Recommendation 1: "We recommend that the ASEAN RDO more closely manage the PLANTI project in accordance with existing A.I.D. policy direction by implementing an effective system of management oversight. As a minimum, the system should ensure that PLANTI project monitoring is consistent with A.I.D. project management policies, and that the system provides for the documentation and collection of management actions relative to site visits, equipment inventory and utilization reports, evaluations, monthly reporting requirements and project disbursements."

We believe our management of the PLANTI project has been appropriate to the objectives and responsibilities embodied by this project as well as effective in terms of the results achieved. To a fitting degree, we rely on the Institute's own management and encourage a sense of Malaysian proprietorship in PLANTI. The GOM, acting on behalf of ASEAN, will continue to be a prime source of support for the Institute. We seek growth in Malaysian support and reduction in United States' support over the medium-term. (This is partly why our Phase 2 grant is considerably less than our Phase 1 grant--\$4.0 million authorized as compared with \$5.4 authorized.)

American IA, both long and short-term, has been an important part of our management approach. This is not mentioned or recognized in the draft report. When it is recognized that some \$275,000 was spent for IA under Phase 1--and that another \$425,000 is budgeted under Phase 2--then our managerial and evaluative approach to the project is considerably more detailed and substantial than is suggested by the draft report.

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The role of TA is discussed above under the Audit Findings section of this memorandum. Also provided are illuminating comments concerning training, evaluation, site visits and reporting, equipment inventory and disbursements. Taken together, the facts brought out and the information offered above invalidate the need for Recommendation I. We do not believe the recommendation follows or fits the facts of the management approach with this project. Based on what we and PLANTI are already doing, it is not clear what else, in specific terms, could be done to close such a recommendation.

2. Recommendation 2: "We recommend that the ASEAN RDO initiate action to obtain a refund from the GOM and participating ASEAN countries for project expenses inappropriately paid by A.I.D., specifically, about \$300,000 in air fare costs and about \$75,000 for administrative salaries."

This recommendation is inappropriate from several standpoints. As noted above, both travel and salary support are included as eligible costs in the Phase 1 ProAg. This is the document which was signed and agreed to by the Parties concerned in 1980. We continue to fund these same costs under the Phase 2 ProAg signed in 1987. What would be the sense of requesting a refund of Phase 1 costs when we are financing such items under the current HRD grant?

Further, as stated earlier, the ASEAN contribution far exceeded what was called for in the Phase 1 ProAg, while AID's support was \$650,000 less due to the deobligation of funds. Attempting to take the recommended action would ignore important provisions of the ProAg's between ASEAN and the United States. We believe such action would be needlessly disruptive.

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