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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



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**Recurring Issues From Audits
of the ASEAN Regional
Development Program**

**Audit Report No. 2-498-91-01
October 19, 1990**

Systems weaknesses persist for monitoring project progress, participant training and participating-country contributions.

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

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MANILA, PHILIPPINES

October 19, 1990

MEMORANDUM

TO: Ms. Henrietta Holsman Fore, Assistant Administrator
Bureau for Asia and Private Enterprise

FROM: 
William C. Montoney
Regional Inspector General

SUBJECT: Recurring Issues From Audits of the
ASEAN Regional Development Program
Audit Report No. 2-498-91-01

The Office of the Regional Inspector General for Audit/Manila has completed its report on Recurring Issues From Audits of the ASEAN Regional Development Program. Five copies of the report are provided for your action.

The draft report was submitted to you for comment and your comments are attached to the report. The report contains three recommendations which are unresolved pending agreement on a responsive plan of action.

I appreciate the courtesy and cooperation extended to my staff by the ASEAN Regional Development Office during the conduct of the audits addressed in this report.

EXECUTIVE SUMMARY

The Association of Southeast Asian Nations (ASEAN) was formed in 1967 by the governments of Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Brunei Darussalam became the sixth member in 1984. The principal objectives of the ASEAN regional program include strengthening regional institutional capabilities, facilitating technical exchanges, and enhancing the private sector's role in development.

A.I.D. assistance to ASEAN, which began in 1979, had increased to a total of \$60.5 million by the end of 1989. At that time there were five on-going ASEAN projects: Human Resources Development, Energy Conservation and Management, Coastal Resources Management, Small and Medium Business Improvement and Private Investment and Trade Opportunities. Life-of-project funding for these projects was authorized at \$46.7 million with obligations of \$12.5 million through fiscal year 1989.

This report discusses recurring problems identified in five project audits of the ASEAN Regional Development Program. These audits were conducted in Thailand, Malaysia, Singapore and the Philippines from 1987 through 1989. The recurring issues were:

- Significant problems exist in the system established for monitoring project progress. Projects were not designed with quantitative indicators of progress; baseline studies were not completed; data was not gathered to measure project accomplishments; project implementation, equipment utilization and site visit reports were not prepared; and inventories were not completed (see page 5).
- The participant training monitoring system for the ASEAN program does not comply with Agency requirements. Students who completed long-term training were not monitored to determine if they had returned to their home countries and were working in project-related

activities. Further, over \$417,000 in international air travel costs, which should not have been authorized, were paid by A.I.D. (see page 8).

- A system to ensure that contributions are provided by the participating countries had not been implemented. Contributions to projects by ASEAN countries were much less than planned. On one project contributions were not required by the grant agreement even though project approval was predicated, in part, on a substantial financial contribution by the participating countries. (see page 11).

This report contains three recommendations. It also (1) presents our assessment of internal controls (see page 14) and (2) reports on the ASEAN RDO's compliance with applicable laws and regulations (see page 19).

A draft of this report was provided to the Assistant Administrator, Bureau for Asia and Private Enterprise for comment. In responding to the draft report, the Bureau agreed with our recommendations but did not propose responsive courses of action needed to resolve the recommendations. Also, the Bureau did not state whether it had determined whether a need existed for establishing revised policies and procedures applicable to the monitoring deficiencies of the ASEAN program identified in this report. Such a determination was an integral part of each recommendation.

Office of the Inspector General

Office of the Inspector General
October 19, 1990

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INTRODUCTION

Background

The Association of Southeast Asian Nations (ASEAN) was formed in 1967 by the governments of Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Brunei Darussalam became the sixth member in 1984. The ASEAN region, consisting of a land area totaling about 1.2 million square miles, has a population of more than 300 million. The objectives of the ASEAN program include strengthening regional institutional capabilities, facilitating technical exchanges, and enhancing the private sector's role in development. Priority assistance sectors include agriculture and natural resources, energy, health and small/medium scale business. Training and the development of human resources are key elements of the program.

From an initial grant of \$105,000 in 1979 for the preparation of several project proposals, A.I.D. assistance to ASEAN had increased to a total of \$60.5 million by 1989. At that time there were five on-going ASEAN projects: Human Resources Development, Energy Conservation and Management, Coastal Resources Management, Small and Medium Business Improvement and Private Investment and Trade Opportunities. Life-of-project funding for these projects was authorized at \$46.7 million with obligations of \$12.5 million through fiscal year 1989.

Coordination of this economic assistance program was achieved by establishing an ASEAN Regional Development Office (RDO) in the Philippines during 1979. In 1988 the ASEAN RDO was moved to Bangkok, Thailand. The relocated office was staffed with two A.I.D. project officers, a local national technician and a secretary.

Audit Objectives

The Office of the Regional Inspector General for Audit/Manila has audited several projects under the ASEAN Regional Development Program to answer, among others, the following objectives:

1. Were the monitoring practices of the ASEAN RDO effective?
2. Did the ASEAN RDO establish a monitoring system to provide management oversight of project implementation?
3. Did the ASEAN RDO establish a system to monitor participant training?
4. Did the ASEAN RDO establish a monitoring system to ensure that participating countries were contributing to the project as planned?

In answering these audit objectives, tests were conducted to determine if (1) applicable internal control procedures were followed and (2) certain provisions of laws, regulations, grants and contracts were complied with. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. These tests identified significant system weaknesses in monitoring project activities. Because of the need for corrective action, the Office of the Regional Inspector General for Audit/Manila has summarized these issues in this report.

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

REPORT OF AUDIT FINDINGS

Were the monitoring practices of the ASEAN RDO effective?

Although the ASEAN Regional Development Program is in its thirteenth year of operation, it has been plagued with management oversight problems. Weaknesses have been identified in the monitoring of project progress, participant training and host-country contributions. Management practices were not effective because the applicable bilateral assistance criteria for monitoring regional programs were not being implemented. Because sound monitoring practices were not established by the ASEAN Regional Development Office (RDO), project results were less than planned and some projects had to be extended to allow time for the desired results to be achieved. Our audit reports have identified the following recurring monitoring system weaknesses in project management.

- Significant problems exist in the system established for monitoring project progress. Projects were not designed with quantitative indicators of progress; baseline studies were not completed; information was not gathered to measure project accomplishments; project implementation, equipment utilization and site visit reports were not prepared; and inventories were not completed.
- The participant training monitoring system for the ASEAN program does not comply with Agency requirements. Students who completed long-term training were not monitored to determine if they had returned to their home countries and were working in project-related activities. Further, over \$417,000 in international air travel costs, which should not have been authorized, were paid by A.I.D.
- A system to ensure that contributions are provided by the

participating countries had not been implemented. Contributions to projects by ASEAN countries were much less than planned. On one project contributions were not required by the grant agreement even though project approval was predicated, in part, on a substantial financial contribution by the participating countries.

A.I.D. Handbooks 3 and 10, and Section 621A of the Foreign Assistance Act describe how monitoring systems should be designed and implemented to provide effective managerial oversight. A.I.D.'s Policy Paper on Institutional Development stresses the need for financial participation by recipient countries to ensure successful development. These criteria enable project officers to oversee compliance with A.I.D. policies, procedures and regulations; ensure the timely and coordinated provision of financing; provide effective utilization of project resources; identify implementation issues which require corrective action; collect data and information for project analyses; and prepare reports for review. In essence, monitoring is the term used to cover A.I.D.'s observations and tracking of the project environment and its activities. Project officers have the primary responsibility for implementing monitoring systems.

Several reasons were cited for why effective project monitoring systems were not established for the ASEAN regional program. According to the ASEAN RDO, ASEAN projects were designed using bilateral assistance monitoring criteria, but these requirements were modified in practice to match the realities of regional programs. Consequently, the modifications resulted in less restrictive project monitoring and management oversight. Moreover, the ASEAN RDO believes regional projects are much more complex than bilateral assistance projects because of the number of countries and organizations involved--a situation that makes management oversight and data collection extremely difficult with limited staff resources. Finally, the ASEAN RDO perceives ASEAN projects to be politically motivated with a high priority given to making them operational and a lower priority given to monitoring.

Our audits confirm that the monitoring systems established by the ASEAN RDO are ineffective, and the result is weak management oversight. This

demonstrates the need for the A.I.D. Bureau for Asia and Private Enterprise to assess the bilateral assistance criteria for monitoring systems applicable to the ASEAN program and determine whether new monitoring policies and procedures should be developed for the ASEAN program. If not, the Bureau needs to address the impediments to effective implementation of applicable monitoring criteria.

Did the ASEAN RDO establish a monitoring system to provide management oversight of project implementation?

Although the ASEAN RDO established a monitoring system to provide management oversight of project implementation, our audits identified significant problems with this system in three ASEAN projects. For example, projects were not designed with quantitative indicators of progress; baseline studies were not done; data was not gathered to measure project accomplishments; and project implementation, equipment utilization and site visit reports were not prepared. The monitoring system was not effective because the bilateral assistance criteria applicable to the projects was not effectively implemented. Consequently, project results were less than planned and some projects had to be extended to allow time for the desired results to be achieved.

Recommendation No. 1: We recommend that the A.I.D. Bureau for Asia and Private Enterprise

1.1 assess the bilateral assistance criteria applicable to monitoring the implementation of ASEAN projects and determine whether new policies and procedures should be developed for the ASEAN program and

1.2 if not, address the impediments to effective implementation of applicable monitoring criteria, including the lack of necessary staff resources required to effectively monitor project implementation.

Section 621A of the Foreign Assistance Act requires that A.I.D. establish a

management system that provides for the adoption of methods for comparing the actual results of projects with those anticipated in their project design. It is the responsibility of Bureaus and Missions to establish project monitoring and oversight systems which keep them informed of progress during project implementation. A.I.D. Handbook 3, Chapter 11 establishes bilateral monitoring procedures or methods which enable project officers to oversee compliance with A.I.D. policies, procedures and regulations. It states that an important part of the system is the selection of the data and information needed to support the system and to judge progress against established schedules and criteria.

Prior audits show that the monitoring system established by the ASEAN RDO was not effective. For example:

- For the ASEAN Plant Quarantine Project, 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. Important monitoring activities such as the preparation of project implementation reports, documentation of site visits, completion of periodic inventories and preparation of equipment utilization reports were not done. In addition, \$300,000 for international air travel and \$40,000 for administrative salaries were inappropriately paid by A.I.D.
- Deficiencies in project design and monitoring were identified in the ASEAN Energy Conservation and Management Project. The project was designed without quantitative indicators of progress, baseline studies were not completed and information was not gathered to measure project accomplishments. These deficiencies precluded the ASEAN RDO from determining whether project objectives had been achieved.
- The ASEAN Watershed Project experienced several problems with management oversight. Key components, such as the research and training component, were far behind schedule. Project objectives were not expressed quantitatively and information needed to identify

project achievements had not been collected. At the time of our audit, it was estimated that the project would have to be extended 12 to 24 months so that project objectives could be accomplished.

The ASEAN RDO agreed that an effective system for monitoring project implementation had not been implemented. Progress reports from participating activities and site visits to the ASEAN countries were the only means by which ASEAN RDO officials monitored implementation and assessed project accomplishments. ASEAN projects were designed using the monitoring criteria for bilateral assistance projects, but the applicable requirements were modified in practice by the ASEAN RDO to match the realities of regional programs. These regional projects are considered to be more complex than bilateral assistance projects because of the number of countries and organizations involved. Further, ASEAN projects are perceived to be politically motivated with a high priority given to making them operational and a lower priority given to monitoring. Lack of ASEAN RDO staff resources to monitor these regional projects further complicates the problem.

Because the monitoring system established by the ASEAN RDO is ineffective, we believe the A.I.D. Bureau for Asia and Private Enterprise should assess the bilateral assistance criteria applicable to monitoring project implementation and determine whether new policies and procedures should be developed for the ASEAN program. The Bureau should also address the need to provide adequate staff resources for implementing the monitoring requirements deemed appropriate for this program.

Management Comments and Our Evaluation

The Bureau Assistant Administrator agrees with the recommendation and has instructed the ASEAN RDO to correct its monitoring and oversight deficiencies. The ASEAN RDO is contracting with a firm to recommend ways that it can better monitor and evaluate its program. If there is a need for more resources to provide adequate oversight, program funds may have to be utilized on a contract basis to address this problem.

The Bureau response did not address whether the bilateral assistance criteria applicable to monitoring the implementation of ASEAN projects were appropriate or should be revised to reflect the realities of this regional program. Although the Bureau did agree to hire a contractor to study ways to improve the monitoring of project implementation, a course of action to revise the applicable criteria or establish an effective monitoring system for project implementation needs to be agreed to before this recommendation can be resolved. Accordingly, Recommendation No. 1 is unresolved pending such agreement.

Did the ASEAN RDO establish a system to monitor participant training?

The participant training monitoring system established by the ASEAN RDO was not effective in tracking the location of students who completed long-term training or in identifying whether students were re-integrated into their projects. Further, over \$417,000 in international air travel costs, which should not have been authorized, were paid by A.I.D. The system was not effective because the criteria applicable to managing participant training programs were not implemented. Consequently, it is not known whether training funds were utilized effectively and in accordance with A.I.D. policy.

Recommendation No. 2: We recommend that the A.I.D. Bureau for Asia and Private Enterprise

2.1 assess the bilateral assistance criteria applicable to monitoring ASEAN participant training programs and determine whether new monitoring policies and procedures should be developed for the ASEAN program and

2.2. if not, address the impediments to effective implementation of applicable monitoring criteria, including the need for additional staff resources required to effectively monitor ASEAN participant training.

The A.I.D. Policy Paper on Participant Training states that all A.I.D. training, no matter how funded, managed or implemented, is subject to the policies, procedures and reporting requirements established by A.I.D. Handbook 10. Handbook 10 also specifies that A.I.D. project officers are responsible for ensuring that the participant training sponsored by their projects is appropriate, cost-effective and in conformance with the policies, requirements and procedures of the Handbook. Chapter 10 outlines the procedures for monitoring participant training, Chapter 33 requires that participants return to their home country so that their training can be utilized effectively, and Chapter 35 provides for follow-up activities to be conducted for participants who were trained for a period of three months or more.

Participant training was an important element in the ASEAN projects reviewed. Even though hundreds of students were trained, the monitoring system used to track the location of students who completed long-term training was ineffective. The following excerpts from prior audit reports illustrate monitoring problems.

- For the ASEAN Participant Training Project, less than 40 percent of participants who received Masters Degrees under the project from 1980 through 1986 could be located in September 1987. Of the participants located more than half were not aware that A.I.D. had financed their graduate training and many of the graduated students were living in countries outside the ASEAN region.
- About \$417,000 in project training costs were paid by A.I.D. under the ASEAN Plant Quarantine and ASEAN Energy Conservation and Management projects even though payment should not have been authorized. These costs were for international air travel and were paid because the ASEAN RDO did not follow guidelines that precluded the use of A.I.D. funds for international travel. Waivers for these costs were approved after these matters were brought to the attention of A.I.D. management through our audits.
- A follow-up monitoring system was not established by the ASEAN RDO for the ASEAN Energy Conservation and Management Project.

Students who received AID-funded training were not monitored and the ASEAN RDO did not know whether the students were integrated into the project after completing the training. Even though students signed letters of commitment to the project, they were not required to pay back the cost of the AID-funded training when they resigned from their jobs or otherwise failed to return to the project.

The participant training monitoring system employed by the ASEAN RDO only tracked the progress of students who were in training. The system did not monitor students who had completed training because the ASEAN RDO assumed that the participating ASEAN countries would require the students to work in project-related activities. The ASEAN RDO believed it would not be cost effective to have a follow-up program because of the large number of students trained and because of the limited ASEAN RDO staff resources available for monitoring purposes.

The ASEAN RDO system for monitoring participant training does not comply with Handbook 10 requirements. Because of the large number of participants trained under the program, we believe the A.I.D. Bureau for Asia and Private Enterprise needs to assess the participant training monitoring guidance applicable to the ASEAN program to determine whether new monitoring policies and procedures should be developed for the ASEAN program. If not, the Bureau needs to ensure that effective participant training monitoring of the ASEAN program is not impeded by lack of staff resources.

Management Comments and Our Evaluation

The Bureau Assistant Administrator agreed with our recommendation without proposing an appropriate course of action for resolving the issues discussed. Therefore, Recommendation No. 2 is unresolved pending agreement on a course of action responsive to the recommendation.

Did the ASEAN RDO establish a monitoring system to ensure that participating countries were contributing to the project as planned?

The ASEAN RDO has not implemented a system to measure contributions provided by participating countries even though A.I.D. policy stresses the need for financial participation by recipient countries to ensure successful development. Our audit reports have repeatedly reported on the lack of financial participation in A.I.D. projects by ASEAN countries. For one project, contributions were not required in the grant agreement even though project approval was predicated, in part, on a substantial financial contribution by participating countries. Because the ASEAN countries' contributions to the program have been less than planned, it is likely that the developmental impact of A.I.D.'s assistance was lessened.

Recommendation No. 3: We recommend that the A.I.D. Bureau for Asia and Private Enterprise

3.1 assess A.I.D. policies and procedures applicable to the provision and monitoring of participating-country contributions for ASEAN projects and determine whether new policies and procedures should be developed for the ASEAN program and

3.2 if it is determined that participating countries are required to make a financial commitment to ASEAN projects, direct that a monitoring system be implemented by the ASEAN Regional Development Office to ensure that contributions are provided as agreed.

A.I.D.'s Policy Paper on Institutional Development stresses the need for financial participation by recipient countries to ensure successful development. A.I.D. Handbook 3 states that the project officer is responsible for ensuring that contributions are provided and that some form of reporting is established over the life of the project. The concern that host countries were not meeting their commitments has been expressed in numerous audit reports and was the subject of a 1987 A.I.D. Inspector General memorandum to the A.I.D. Assistant Administrator, Bureau for Program and Policy Coordination.

The Inspector General expressed concern that the hundreds of millions of dollars A.I.D. invests in projects may be lost or their developmental impact seriously reduced due to the lack of recipient country financial commitments.

Contributions by the ASEAN countries have been less than planned for several ASEAN projects. Further, the extent that ASEAN countries are participating in the financial support of projects is unknown because the ASEAN RDO has not established a monitoring system. The following examples reflect a general lack of ASEAN participation in regional projects.

- Actual contributions were less than 17 percent of planned contributions after four and one-half years of the five-and-one-half-year ASEAN Watershed Project. Audit results showed that only \$368,000 of a planned \$2.2 million contribution was made. Lack of ASEAN participation was also reported in staffing key project positions. For example, The Chief of Training position remained unfilled for two of the first four years of the project because of difficulty hiring a representative from Thailand. Similarly, the Chief, Research and Information Exchange Division position remained unfilled for two years because the representative from Indonesia never reported.
- At the time the ASEAN Coastal Resources Management report was issued, participant contributions were not being monitored by the ASEAN RDO. Audit results showed that the Government of the Philippines had contributed less than 13 percent, or only \$20,744, of the \$158,000 promised. In addition, A.I.D. paid \$6,377 for a boat that was to have been part of the Philippine government contribution.
- A planned \$2.1 million contribution was not provided for the ASEAN Energy Conservation and Management project. According to project planning documents, \$2.1 million was to have been provided by participating ASEAN countries; however, the grant agreement did not require any ASEAN contribution.

The ASEAN RDO agrees that participant contributions have not been monitored. It was assumed that participating ASEAN countries would contribute to the projects as agreed and would maintain records documenting the amount of contributions provided. The ASEAN RDO stated that participating countries are not required to account for their contributions. Further, the ASEAN RDO indicated that future ASEAN project agreements would not include a requirement for contributions.

We believe that the A.I.D. Bureau for Asia and Private Enterprise needs to assess whether a policy should be established to ensure that participant contributions are provided in ASEAN regional projects. This assessment is particularly important in view of the ASEAN RDO's plan to exclude a requirement for contributions in future project designs. The ASEAN RDO plan is contrary to A.I.D. institutional development policy which calls for cooperative ventures to encourage sustainability and maximize development. Moreover, we believe that discontinuing participating-country financial commitments to A.I.D. projects would discourage full development and cooperation between A.I.D. and the participating countries.

Management Comments and Our Evaluation

The Bureau Assistant Administrator stated that participating-country contributions should be monitored and that the ASEAN RDO was taking action to correct any deficiencies in tracking the contributions. Further, the level of contributions to future ASEAN activities would be decided on a case-by-case basis.

The Bureau reply was not responsive to the intent of the recommendation which was to (1) clarify A.I.D. policy on the appropriateness of requiring participating countries to contribute to ASEAN projects, (2) revise the applicable policies and procedures as necessary and (3) direct that a monitoring system be adopted by the ASEAN RDO that effectively implements the A.I.D. policies and procedures. Accordingly, Recommendation No. 3 is unresolved pending agreement on a responsive plan of action.

REPORT ON INTERNAL CONTROLS

We have audited five projects under the ASEAN Regional Development Program. The audit reports were issued during the period May 5, 1988, through April 27, 1990. Recurring issues from these reports have been consolidated into this report dated October 19, 1990.

We conducted our audits in accordance with generally accepted government auditing standards, which require that we plan and perform the audits to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

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

In planning and performing our audits, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the objectives and not to provide assurance on the internal control structure.

The management of A.I.D., including the ASEAN Regional Development Office (RDO), is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and

maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected.

Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified significant internal control policies and procedures applicable to each of the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation--and we assessed control risk. In doing this work, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect the ASEAN RDO's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

Audit Objective One

The first audit objective was to identify recurring weaknesses in ASEAN RDO monitoring practices from the five audit reports issued on the ASEAN program. For this objective, the categories of applicable internal controls and the reportable problems are covered under audit objectives two, three and four.

Audit Objective Two

The second audit objective deals with the effectiveness of the ASEAN RDO system for monitoring project implementation. Applicable internal control policies and procedures are cited in A.I.D. Handbook 3 and Section 621A of the Foreign Assistance Act. Although the ASEAN RDO had established a monitoring system as required by A.I.D. regulations, it was not effective. We noted the following reportable condition:

- projects were not designed with quantitative indicators of progress; baseline studies were not completed; data was not gathered to measure project accomplishments; and project implementation, equipment utilization and site visit reports were not prepared.

These internal control deficiencies caused project results to be less than planned and some projects had to be extended to allow time for the desired results to be achieved.

Audit Objective Three

This objective relates to how well the ASEAN RDO monitored its participant training program. In planning and performing this audit objective, we considered the applicable internal control policies and procedures cited in

A.I.D.'s Policy Paper on Participant Training and in A.I.D. Handbook 10. We noted the following reportable condition:

- an effective monitoring system for locating students who had completed long-term training was not established.

As a result the ASEAN RDO did not know whether training funds were utilized effectively and in accordance with A.I.D. policy.

Audit Objective Four

This objective was to determine whether the ASEAN RDO was monitoring the contributions of participating countries to ensure that they were contributing to projects as planned. Applicable internal controls are stated in A.I.D.'s Policy Paper on Institutional Development and in A.I.D. Handbook 3. We noted the following reportable condition:

- a system to ensure that contributions are provided by the participating countries had not been implemented.

This deficiency in internal controls may have lessened A.I.D.'s developmental impact because contributions by ASEAN countries were much less than planned.

A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on project funds being audited

may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described under audit objectives two, three and four are material weaknesses.

REPORT ON COMPLIANCE

We have audited five projects under the ASEAN Regional Development Program. The audit reports were issued during the period May 5, 1988, through April 27, 1990. Recurring issues from these reports have been consolidated into this report dated October 19, 1990.

We conducted our audits in accordance with generally accepted government auditing standards, which require that we plan and perform the audits to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

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

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with laws, regulations, contracts, and grants applicable to the ASEAN Program is the overall responsibility of the ASEAN Regional Development Office (RDO). As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of ASEAN RDO and participating-country compliance with certain provisions of Federal laws and regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

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

- About \$417,000 in project training costs were paid by A.I.D. that should not have been authorized. However, the applicable requirements were waived subsequently by the responsible AID/Washington Bureau.

Except as described, the results of our tests of compliance indicated that, with respect to the items tested, the ASEAN RDO and the participating countries complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the ASEAN RDO and the participating countries had not complied, in all significant respects, with those provisions.

SCOPE AND METHODOLOGY

Scope

This report summarizes recurring problems identified in five project audits of the ASEAN Regional Development Program. These audits were conducted in Thailand, Malaysia, Singapore and the Philippines from 1987 through 1989, and were performed in accordance with generally accepted government auditing standards.

The audit objectives did not cover ASEAN projects that have not been audited by the Inspector General. These include the Small and Medium Business Improvement Project, The Human Resources Development Project and the Private Investment and Trade Project.

Methodology

The same methodology was used to answer audit objectives one through four. This methodology consisted of summarizing all significant recurring problems identified in the five audit reports. These problems were discussed with officials of the ASEAN Regional Development Office who are responsible for managing the ASEAN program. The audit methodology for the five audits of the ASEAN Regional Development Program follow.

Audit of the ASEAN Watershed Project, Report No. 2-498-88-06 dated May 5, 1988. The audit was primarily a program results audit. The objectives of the audit were to determine whether (1) project objectives would be achieved,

(2) project accomplishments would be long-lasting (institutionalized), and (3) financial management practices were adequate.

Most of the audit field work was performed during the period March to June 1987. The audit included a review of project files and records maintained by the ASEAN Regional Development Office in Manila and the ASEAN Watershed Project Office located in Los Banos, Philippines. Financial and accounting records maintained for the project by the Controller for the ASEAN Program were also examined. Discussions were held with project officials, controller personnel and officials from the Government of the Philippines. The audit of project disbursements was a limited examination of an implementation advance and supporting documents for three project activities. We analyzed about 20 percent of the total disbursements.

Audit of ASEAN Participant Training Program, Report No. 2-498-88-07 dated May 25, 1988. The objective of the audit was to determine how many students could be located after completion of training and the extent of A.I.D.'s involvement with ASEAN participants following training.

The audit included a review of project files and financial records maintained at each of the participating training facilities and at the ASEAN Regional Development Office located in Manila, Philippines. Numerous discussions were conducted with project and training officials and students who had completed the training program. We attempted to locate only those students from the Philippines, Thailand and Malaysia who received a Masters Degree as these students represented the most sizeable A.I.D. investment. The audit was performed during the period September through November 1987.

Audit of ASEAN Plant Quarantine Project, Report No. 2-498-88-08 dated June 22, 1988. The objectives of the audit were to determine whether (1) project objectives would be achieved and (2) financial management practices were adequate.

The audit included a review of project files and financial records maintained at the project office in Kuala Lumpur, Malaysia, and the Regional Controller's Office and the ASEAN Regional Development Office, both

located in Manila, Philippines. We tested approximately 28 percent of \$1.1 million in disbursements through March 1987. The audit was performed during August and September 1987.

Audit of ASEAN Coastal Resources Management Project, Report No. 2-498-89-03 dated November 2, 1988. The objectives of the audit were to determine whether (1) project objectives would be achieved and (2) management monitoring practices were adequate.

The audit included a review of project files and financial records maintained at the ASEAN Regional Development Office and at the International Center for Living Aquatic Resources Management (ICLARM), both located in Manila, Philippines. Visits were made to the Department of Science and Technology, the implementing agency responsible for coordinating the Philippine project component, and four of its operational sites. We tested \$136,188 in project expenditures, primarily equipment and furniture purchases, salaries, travel and per diem. We also verified the incremental transfer of over \$2.6 million in A.I.D. funds to ICLARM and subsequent release to the project implementing organizations. The audit was performed from May through July 1988.

Audit of ASEAN Energy Conservation and Management Project, Report No. 2-498-90-06 dated April 27, 1990. The objectives of the audit were to determine whether (1) project accomplishments were measured and achieved, (2) an effective participant training monitoring system had been established, (3) host-country contributions were provided as planned, (4) technical assistance contract disbursements were properly monitored and (5) the financial management practices of the ASEAN RDO and USAID Controller were adequate.

We reviewed project files, progress reports and other pertinent records maintained at the ASEAN RDO and financial records maintained at the USAID Controller's office in Manila, Philippines. These records, for project disbursements during the early years of the project, were not transferred to Thailand when the ASEAN RDO was relocated in 1988.

We interviewed key officials from the ASEAN RDO, the A.I.D. Bureau for Asia, Near East and Europe technical advisor, the technical assistance project leader, USAID financial personnel located in Manila and Bangkok, host country officials and training participants from the Philippines and Thailand. Visits were made to the JST Management Conference Centre Pte., Ltd., in Singapore, the Asian Institute of Technology in Thailand, the Philippine Council for Industry and Energy Research and Development and the King Mongkut's Institute of Technology. The latter two were the implementing agencies responsible for research in the Philippines and Thailand, respectively.

The scope of the audit was limited because of a lack of documentation at the ASEAN RDO for the technical assistance contracts. The ASEAN RDO was not required to maintain detailed records to support project disbursements for the Participating Agency Service Agreement between A.I.D. and the Department of Energy and for the Bureau for Science and Technology buy-in with the Institute of International Education. We relied on Mission financial reports, advices of charge, vouchers supported by contractor summary accounting records and progress reports. Supporting documentation from the coordinating agencies located in Indonesia, Malaysia and Singapore were not reviewed because our work in Thailand and the Philippines was considered sufficient. In total, we audited approximately \$700,000 in grant funds and tested approximately \$1.2 million in technical assistance contract costs.

APPENDIX II

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT
ADMINISTRATOR

SEP 10 1990

MEMORANDUM

TO: IG, Herbert L. Beckington

FROM: AA/PRE, Henrietta Holsman Fore *H4*

SUBJECT: Audit of ASEAN Regional Development Program

IG/HLO
PLS/ro
TO: REG/AM

Acting RIG Dennis Smith sent to AA/ANE Carol Adelman a draft report which reviews the results of an audit of the ASEAN Regional Development Program. Because this Bureau has been delegated the responsibility for the ASEAN program, it was believed that I should respond for Carol Adelman.

At this point, I would like to make the following comments on the draft report.

1. I agree with the draft audit recommendation No. 1 that it is the responsibility of Bureaus and Missions to establish project monitoring and oversight systems which keep them informed of project progress. By copy of this Memorandum, I am instructing the ASEAN RDO to correct monitoring and oversight deficiencies. The ASEAN Representative is contracting with a firm to recommend ways that they can better monitor and evaluate their program. If there is a need for more resources to provide adequate oversight, program funds may have to be utilized on a contract basis to address this problem.

2. Similarly, I agree with the draft audit recommendation No. 2 concerning the monitoring of ASEAN training participants. The finding regarding \$417,000 in international air travel costs is a separate issue for review and opinion by the Regional Legal Advisor.

3. With regard to the draft audit recommendation on host country contributions to ASEAN program activities, any project agreement which authorized a host country contribution must be monitored. If there are deficiencies in tracking the contributions, the ASEAN Regional Office is taking action to correct the situation. For example, grant agreements under the new ASEAN trade and investment project contain clear clauses on quarterly reporting of grantee contributions. The level of contributions to future ASEAN activities, be they from the public or private sectors, will be decided on a case-by-case basis and, of course, will be monitored.

Please convey my comments to A/RIG Smith. ✓

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