



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/INDONESIA'S INDONESIA FOREST AND CLIMATE SUPPORT PROJECT

AUDIT REPORT NO. 5-497-13-007-P
JULY 24, 2013

MANILA, PHILIPPINES



Office of Inspector General

July 24, 2013

MEMORANDUM

TO: USAID/Indonesia Director, Andrew B. Sisson

FROM: Regional Inspector General/Manila, William S. Murphy /s/

SUBJECT: Audit of USAID/Indonesia's Indonesia Forest and Climate Support Project
(Report No. 5-497-13-007-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft version and have included them in their entirety in Appendix II of this report.

This report contains six recommendations to help USAID/Indonesia improve the efficiency and effectiveness of its Indonesia Forest and Climate Support project. Based on information the mission provided in its response to the draft report, we determined that final action was taken on Recommendation 5. We acknowledge that management decisions have been reached on Recommendations 1, 2, 3, 4, and 6. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close the open recommendations.

I want to thank you and your staff for the cooperation and assistance extended to us during this audit.

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SUMMARY OF RESULTS

The Indonesia Forest and Climate Support project is working to achieve its primary objectives of reducing the threats of deforestation and climate change, and helping the Indonesian Government conserve the country's tropical forests, wildlife, and ecosystems. The project is focusing its efforts in eight landscapes,¹ which span 13 focal districts in four provinces throughout the country (shown in the map below).²



Source: Tetra Tech Inc.

To implement the project, USAID awarded a \$40 million cost-plus-fixed-fee completion task order to ARD Inc. (now Tetra Tech Inc.) covering a 4-year period from November 5, 2010, through September 30, 2014. As of September 30, 2012, cumulative obligations and disbursements under the project totaled \$20.8 million and \$7.9 million, respectively.

Under this contract, the project is expected to achieve the following overall results:

1. Reduce the rate of forest degradation and loss from conversion, illegal extraction, overharvesting, and fires for at least 6 million hectares of tropical forest within targeted landscapes by 50 percent from baseline.
2. Improve the management of at least 3.5 million hectares of tropical forest in targeted landscapes including 1.7 million hectares of prime habitat for orangutans, an increasingly rare species of ape found nowhere else in the world.
3. Reduce greenhouse gas emissions within targeted landscapes by 50 percent.

¹ Landscapes are areas whose boundaries define habitat and species groupings.

² The project's 13 focal districts are Aceh Selatan, Aceh Tenggara, and Gayo Lues (Aceh); Kayong Utara, Ketapang, and Melawi (West Kalimantan); Katingan, Palangkaraya, and Pulang Pisau (Central Kalimantan); and Asmat, Mamberamo Raya, Mimika, and Sarmi (Papua).

4. Provide substantial training in spatial planning and sustainable economic development to at least half of local technical government staff directly involved in the management of targeted landscapes.
5. Increase financial resources for forest management by at least 20 percent. Increase transparency and access to information to strengthen the capacity of government, civil society, and the private sector to conserve and manage forest resources, as well as biodiversity and ecosystem services, in targeted landscapes.
6. Pilot low carbon growth development strategies at the local level in at least 8 of the 13 districts within the targeted landscapes.

To address these expectations, the project has four components: (1) land and forest resource governance; (2) improved management and conservation of forest resources in a changing climate; (3) develop private sector, local enterprise, and market linkages; and (4) project coordination and management.

The objective of the audit was to determine whether the project was achieving its primary objectives. We determined that it was not because (1) some required results are outside the project's control, (2) some required tasks were not relevant to the project, and (3) delays and other setbacks limited the project's ability to progress as originally intended.

Nonetheless, the project has made gains in working with communities to improve agricultural practices and reduce pressure on nearby forests by increasing income from other sources. Hundreds of households in various districts are now improving the quality and quantity of produce. While most participants are still involved in the activities and therefore believe that it is too early to judge the project's success, they said things look promising so far. Members of other households that participated earlier on said their yields have increased as much as 50 percent. Because of the project's support, some farmers said they have stopped expanding into the forests.

Despite these gains, the project has not shown sufficient progress toward meeting its goals. Further, projected spending levels indicate that the project is likely to expend only \$28.7 million³ of its \$40 million budget—a shortfall of 28 percent. This shortfall emphasizes Tetra Tech's inability to implement activities as fully as intended. The audit found the following weaknesses.

- Some contractual requirements were not appropriate (page 4). Tasks were not realistic, given the existing circumstances, and others had little to do with the project's objectives.
- The performance monitoring plan (PMP) and data were weak (page 5). Key activities were not being captured, and several performance indicators tracked progress that could not be attributed clearly to the project.
- Multi-stakeholder forums lacked support (page 8). The project needs to refocus its efforts to support multi-stakeholder forums to help encourage transparency and accountability in managing forest resources.

³ In its management comments, the mission now believes that based on additional awards, the project will spend at least \$34.4 million by the end of the contract.

- The mission did not complete contractor performance reviews (page 8). It has not completed the last two annual reviews covering the contractor's efforts in implementing the project from November 2010 through September 2012.

The audit team also noted that problems with turnover and insufficient salaries hindered the project's implementation (page 10).

The report recommends that USAID/Indonesia:

1. Revise the contract's technical requirements to incorporate reasonable expectations of accomplishments that can be attributed directly to the project (page 5).
2. Modify the project's performance monitoring plan to include performance indicators that are defined explicitly and that sufficiently reflect the intended accomplishments under each result area. Performance indicators measuring accomplishments not clearly attributable or relevant should be removed (page 7).
3. Direct the contractor to revise its management information system and data processing procedures so results are reported accurately (page 7).
4. Determine the validity and reliability of the results tracked in the contractor's revised management information system through substantive testing (page 7).
5. Work with the contractor to implement a written action plan clarifying the project's support for multi-stakeholder forums so they can contribute to project objectives (page 8).
6. Complete all contractor performance reviews for the first 2 years (page 9).

Detailed discussions of the audit findings follow in the next section. The audit scope and methodology are described in Appendix I. Our evaluation of management comments is included on page 11, and the full text of management comments appears in Appendix II.

AUDIT FINDINGS

Some Contractual Requirements Were Not Appropriate

According to Automated Directives System (ADS) 203.3.9, “Setting Performance Baselines and Targets,” each performance indicator used to measure a project’s progress should include targets that can “realistically be achieved within the stated timeframe and with the available resources.” For targets to be achievable, contractual requirements—from which the performance indicators are derived—should also be attainable during the project period.

However, roughly half of the 14 required tasks included in the contract were no longer appropriate. One task requires the contractor to implement sustainable carbon financing schemes on the assumption that a carbon marketing venture—proposed through the United Nations—would create financial incentives to protect the carbon stored in forests.⁴ According to Tetra Tech, this venture fell through, which undercut the basis for the project’s approach and made the task prohibitively expensive. The mission’s intention to capitalize on this endeavor cannot be realized.

Mission officials offered several explanations as to why these tasks were included. One official said the original contracting officer’s representative (COR), who played a role in writing the project’s scope of work, was overly prescriptive. For other tasks, the contractor and the more recent CORs—there have been four since inception—have tried taking interpretive approaches to tasks instead of revising them to reflect the actual situation.

For example, one of the tasks was to engage in the implementation of spatial plans,⁵ but this was not considered achievable because spatial plans already were drafted in most of the targeted districts without support or influence from the project. Instead, Tetra Tech was working with key stakeholders to conduct strategic environmental assessments (SEAs)⁶ to influence or affect future spatial plans.

Because of these unreasonable tasks, Tetra Tech cannot satisfy its contractual obligation, and the project is set up to fail. Tasks should be revised to reflect activities, like the SEAs, that are actually being done. The contract also hindered the ability of the mission and the contractor to develop a useful PMP, which is discussed in the next finding. We therefore make the following recommendation.

⁴ The United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries, www.un-redd.org, accessed March 26, 2013.

⁵ The European Commission defines spatial planning as methods used largely by the public sector to influence the future distribution of activities in space. The goals of such a plan are to create a more rational territorial organization of land uses and the linkages between them, to balance demands for development with the need to protect the environment, and to achieve social and economic development objectives.

⁶ Indonesia’s Environmental Protection and Management Law No. 32/2009 mandates that SEAs be conducted to ensure that significant environmental effects from policies and plans are identified, assessed, mitigated, and monitored. SEAs also should provide opportunities for public involvement.

Recommendation 1. *We recommend that USAID/Indonesia revise the contract's technical requirements to incorporate reasonable expectations of accomplishments that can be attributed to the project and to remove those that cannot.*

Performance Monitoring Plan and Data Were Weak

According to ADS 203.3.4, "Project Monitoring and Evaluation Plans," missions must develop a PMP "to measure progress towards planned results and identify the cause of any delays or impediments during implementation."⁷ ADS 203.3.4.3 requires this plan to include indicators to monitor each level of the project results and provide a precise definition for each indicator.

ADS 203.3.11.1, "Data Quality Standards," states that data should be valid, precise, and reliable.

Despite these requirements, the PMP was weak and the data in it were not useful for making decisions because they were not valid, precise, or reliable. These problems are discussed in detail below.

Plan Weaknesses. After almost 2 years of implementation, only 15 of the project's 27 performance indicators (56 percent) have reported any results. This is due mostly to the plan's unsuitable, overly broad, or poorly defined indicators. Others were missing.

- Unsuitable indicators. Some indicators included in the PMP that the project is supposed to accomplish are no longer relevant or applicable, due to either changing circumstances or assumptions that did not materialize. *Number of pilot climate change carbon mitigation projects developed and implemented*, for example, is an indicator related to a carbon marketing venture proposed by the United Nations to create financial value for the carbon stored in forests. However, since the venture was not formally adopted, the project's objective to capitalize on it cannot be realized.

Other unsuitable indicators include *Number of spatial plans presented for public/stakeholder consultation and accepted by them as a result of United States Government assistance* and *Percentage of local government professional staff receiving training in landscape level spatial planning and economic development*. As discussed in the previous finding, the contractor is working with key stakeholders to conduct SEAs, not spatial plans. While the SEAs could contribute information that could be considered in future spatial plans, government officials will not necessarily approve such plans within the scope of the project's implementation period.

- Overly broad indicators. Agency guidance encourages missions to use standard indicators when they are useful for performance management and custom or performance indicators when the goal is to reflect progress specific to a country or program.⁸ Standard indicators produce data that can be aggregated from many programs and used primarily for Agency

⁷ This was updated in November 2012. Before then, it was "Performance Indicators for [Performance Monitoring Plans] and Projects."

⁸ ADS 203.3.7(c), "Types of Performance Indicators," and "Performance & Evaluation TIPS: Selecting Performance Indicators," 2nd edition, 2010.

reporting purposes. However, they are not substitutes for performance indicators because they are designed to meet different needs.

Nevertheless, the audit noted that one-third (9 of the 27) of the project's performance indicators are standard ones, which are too broad to track project-specific results accurately. We found that achievements in two of these standard indicators were also reported in as many as four custom indicators. Some achievements represented under these standard indicators also are interpreted differently, making it difficult to determine whether reported results adequately represent intended achievements.

- Missing indicators. A PMP must include indicators for each level of the project results (such as outputs and related outcomes). However, some key project activities did not have associated performance indicators that would capture the activities' accomplishments. Examples include (1) training efforts to facilitate the development of SEAs in focal districts, (2) the number of district-level SEAs completed as a result of project interventions (a defining accomplishment), and (3) efforts to get 160 target villages to carry out community conservation and livelihood agreements.

Data Weaknesses. Performance data for several indicators were not valid, precise, or reliable because Tetra Tech's management information system did not represent project performance accurately.

- Reported results misrepresented actual accomplishments. The project's objective to train 50 percent of government employees in landscape-level spatial planning is tracked by identifying the number of people working in five key offices within each of the project's 13 focal districts. This results in 65 government offices. According to the database maintained in the contractor's management information system, 22 percent of these offices had no employees—even though the contractor reportedly trained staff members there. This erroneous reporting artificially reduced the baseline (by counting zero individuals in offices which actually had employees) and inflated results. Another 12 percent of these offices reportedly had more staff trained than they employ. This occurred because Tetra Tech would count an individual as a trained person every time that individual was trained. Thus, a small office with only one employee would report four people as trained if that individual participated in four training events.
- Some reported achievements for a number of indicators do not address the indicators' definition or intended results. Indicators such as *No. of policies, laws, agreements, or regulations promoting sustainable natural resource management and conservation are implemented* and *No. of private-sector entities and local communities that implement best management practices (BMP) guidelines* reported results representing agreements—technical assistance, memorandum of understanding, and community collaboration—made with the contractor, private sectors, and districts, and between subpartners and communities. These agreements do not demonstrate implementation of sustainable natural resource management and conservation or implementation of BMP guidelines; instead, they merely outline the second parties' commitment to collaborate with the first party (the contractor or a subpartner) to implement practices or activities being agreed upon to support the project in its overall objectives.
- Fifteen of the 32 training events (or 47 percent) recorded in the database that were tested did not reconcile with supporting documentation. In fact, these events reported 30 percent

more participants, on average, than were listed on the attendance sheets. For example, daily participation in one 3-day training event ranged from 13 to 23 trainees, yet 31 trainees were reported for the course. In another event, 30 individuals were reportedly trained, though only 9 names were on the attendance sheet. Major discrepancies also were found in the level of participation in several training events (irregular attendance).

- We could not reconcile reported results of training indicators with the supporting data documented on individual training events. The Excel spreadsheets used for the project's management information system broke out each training event into a different tab within the data file of each training indicator, limiting the project's ability to sort or analyze cumulative results. Furthermore, data from these individual tabs were added manually in other spreadsheets to determine overall results reported to USAID.
- According to the project's database, 32 training events were conducted through December 2012. However, 44 percent were counted in 2 different performance indicators, and 25 percent were reported in 3. Supporting documentation for a number of training events was not in the project's database; these events took place within the latest formal reporting period.

As discussed in the first finding, the project's contract played a substantial role in determining what indicators would be incorporated into the PMP, and the contract's flaws contributed to the plan's weakness. Additionally, the mission relied too much on standard indicators as well as poorly defined custom ones.

Since the project's staff has a turnover rate of nearly 100 percent, there is very little institutional memory, and nobody can explain the inadequate state of reporting practices. The contractor maintains an Excel-based system to record and analyze data collected for reporting purposes. This database was not well designed, and thus, it inadequately tracked and reported activity results. One Tetra Tech official said the tracking and reporting system was in place when she arrived, so she kept tracking information in the same manner even though she knew it had weaknesses. She noted weaknesses and inefficiencies but did not make necessary changes to improve the system.

The ability to make decisions based on project results is impaired when monitoring tools, like the PMP, do not represent the results adequately. Unreliable data also erode confidence in reported results and inhibit management's ability to identify and respond appropriately to problems. We therefore make the following recommendations.

Recommendation 2. We recommend that USAID/Indonesia modify the project's performance monitoring plan to include performance indicators that are defined explicitly and sufficiently reflect the intended accomplishments under each result area. Performance indicators measuring accomplishments not clearly attributable or relevant should be removed.

Recommendation 3. We recommend that USAID/Indonesia direct the contractor to revise its management information system and data processing procedures so that results are reported accurately.

Recommendation 4. We recommend that USAID/Indonesia determine the accuracy and reliability of the results tracked in the contractor's revised management information system through substantive testing and document the results.

Multi-stakeholder Forums Lacked Support

One of the project's required results in the contract relates to increasing transparency and access to information by strengthening the capacity of government, civil society, and the private sector to conserve and sustainably manage forest resources. Tetra Tech addressed this requirement by supporting multi-stakeholder forums in which these groups interact to develop policy, plans, and budgets, and then to implement and provide oversight of forest conservation and climate change programs. The project's PMP defined this as providing operational support, guidance, improved focus, and assistance in including a wider variety of stakeholders to enhance transparency and accountability in decision-making processes and in managing natural resources.

Actual support provided to these groups, however, has been limited largely to the specific technical training needed to conduct SEAs. Although one district government has established a multi-stakeholder forum through a formal decree, most forums remain informal, without much support from project activities. A representative from one nongovernmental organization said the forum in his district does not exist in any significant way, only coming together when USAID sponsors an event. The government in his area involves him and his colleagues only when the project offers training, and the participants are always different. Similarly, a Tetra Tech official said he was disappointed by efforts to establish and nurture the forums to engage in a meaningful way because doing so is incredibly vital to the project's success.

Tetra Tech staff members' lack of understanding of how to support the forums contributed to this problem. It also has been exacerbated by inconsistent interpretations from the mission and Tetra Tech of how—and how much—support should be provided.

Without a clear understanding of the support that these multi-stakeholder forums need, the project is at risk of losing the ability to engage governments, civil society organizations, and the private sector effectively. . We therefore make the following recommendation.

***Recommendation 5.** We recommend that USAID/Indonesia work with the contractor to implement an action plan clarifying the project's support for multi-stakeholder forums so they can contribute substantively to project objectives.*

Mission Did Not Complete Contractor Performance Reviews

USAID Acquisition Regulation 742.15 requires contracting officers to report on contractor performance at least annually. Further, the U.S. Government Accountability Office (GAO) states that the Government's high reliance on contractors makes it critical that agencies have the information necessary to properly evaluate a contractor's performance history and to better inform contract award decisions.⁹

⁹ GAO Report No. GAO-09-374, **Better Performance Information Needed to Support Agency Contract Award Decisions.**

Nonetheless, the mission has not completed the last two annual reviews covering the contractor's efforts in implementing the project from November 2010 through September 2012. We could not determine why these were not completed by the responsible COR, even though the mission's Office of Acquisition and Assistance had reminded the COR to do so several times.

The project's first designated COR was reassigned approximately a year into implementation. The second COR drafted the first contractor performance report, but never completed it; she also did not do the second annual review. She took extended leave in November 2012 and was not due to return until April 2013. The mission designated a third COR when the second one left, but that changed 2 months later in January 2013 when a fourth COR was designated. Mission officials expect the second COR to complete the two outstanding performance reviews upon her return since the newest and fourth COR was not at the mission during the first 2 years of the project.

Regular, comprehensive, and conscientious performance reviews can give the mission information to make better acquisition decisions and can serve as significant incentives to contractors to provide USAID with superior products and services. Further, GAO has ruled that failure to document contractor performance information properly and make it available in source selections for the same or similar items is a sufficient basis to sustain a protest of a contract award.¹⁰ We therefore make the following recommendation.

Recommendation 6. *We recommend that USAID/Indonesia complete all contractor performance reviews for the first 2 years of project implementation.*

¹⁰ International Business Systems Inc., B-275554 (1997).

OTHER MATTER

Staffing and Salary Problems Hindered Project's Implementation

Tetra Tech's ability to attract and retain qualified staff has been problematic. According to the contractor, limitations to approved salary rates for project staff—set through restrictive personnel staffing requirements in the contract—played a very significant role in delaying project implementation and shortfalls in productivity. Nearly 100 percent of the employees have left since the project began in November 2010 through the end of audit fieldwork in February 2013. In addition, 23 percent of the project's authorized positions were vacant as of the time of the audit—including senior positions like the forestry, private sector, trade, and finance advisers for the project's third component area. Only one of three jobs was filled in the best management practice unit, which supports the project's second component relating to forest, biodiversity, and climate change.

The contracting officer who oversees this project became aware of the restrictive salary and personnel approval problems also affecting other projects at the mission shortly after arriving in late 2012. To resolve the problems, he issued a memorandum to all contractors and CORs clarifying that USAID Acquisition Regulation 722.170 does not limit contractors to the U.S. embassy local compensation plan in determining what the prevailing compensation for a given position may be. They can determine such pay through market surveys or other means. Contractors need to ask the mission for approval only if they want to pay more than the amounts in the surveys.

In addition, the contracting officer drafted a contract modification to remove a number of clauses relating to other salary and personnel approval requirements that he decided were not necessary. This modification has been approved for some projects at the mission, but not for the forest and climate change one. During the audit fieldwork, the contracting officer indicated that he would also work on revising the IFACS' project contract to address the issue. Because the mission is aware of the problems and is taking corrective action, we have decided not to make a recommendation at this time.

EVALUATION OF MANAGEMENT COMMENTS

The Office of Inspector General has reviewed the mission's response to the draft report. Based on information provided in that response, we determined that final action has been taken on Recommendation 5. We acknowledge that management decisions were reached on Recommendations 1, 2, 3, 4, and 6. Our evaluation of comments is below.

Recommendation 1. The mission has worked with Tetra Tech to develop new contract technical requirements to be incorporated into a contract modification. Justifications for the modification and estimates of budget implications from the proposed changes were submitted to the Office of Acquisition and Assistance for further action. The mission expects the contract modification to be completed on or about September 30, 2013. A management decision has been reached.

Recommendation 2. The mission has worked with Tetra Tech to identify performance indicators that do not address intended project accomplishments sufficiently or are not attributable to project activities. At the mission's request, the contractor submitted a performance indicator improvement action plan, which the mission commented upon, to make sure the proposed changes were technically appropriate and sufficiently addressed all audit findings related to the PMP. The mission plans to approve the revised PMP by October 1, 2013, after the modified contract is finalized (see Recommendation 1). A management decision has been reached.

Recommendation 3. The mission met with Tetra Tech to identify the deficiencies in the project's management information system. The contractor developed a statement of work, which USAID approved, for a subcontractor that should help Tetra Tech create an effective system and improve its capacity to monitor and validate activity results. The mission estimates that the subcontract will start on August 1, 2013. Final action will be taken when an improved system is in place, which is expected to happen by October 1, 2013. A management decision has been reached.

Recommendation 4. To address the recommendation, the COR plans to perform an in-depth review of data quality and system integrity, which includes substantive testing of data collection and monitoring processes by January 2014. Subsequently, the COR will verify accuracy of reported results quarterly. The COR and the mission's monitoring and evaluation (M&E) specialist will conduct a data quality assessment and review accuracy and reliability of results tracked in the revised system by October 1, 2014. Furthermore, in improving its M&E as part of the new country development cooperation strategy, the mission will be developing a mission-level PMP. It also will revise its mission order on performance monitoring for release by December 10, 2013, which will set forth guidelines for data quality. We anticipate final action to take place within a year from issuance of this audit report (by July 24, 2013). A management decision has been reached.

Recommendation 5. To address the recommendation, Tetra Tech developed a multi-stakeholder forum strengthening action plan that outlines the project's strategy in supporting the forums to contribute substantively to the project objectives. As part of that plan, the contractor

has started its work in developing forum charters and action plans in the focus districts that identify site-specific opportunities that could help develop landscape conservation plans. Tetra Tech has developed action plans for 10 districts; in 3, it has finalized forum charters and conducted workshops to support the action plans. One district has already completed the first draft of its landscape conservation plan. Final action has been taken on this recommendation.

Recommendation 6. By June 28, 2013, the previous COR should have completed the first contract performance review of the project's first year. The review covering the project's second year of implementation will be completed as soon as the first review is closed (and contractor comments have been obtained). We anticipate final action to take place within a year from issuance of this audit report (by July 24, 2013). A management decision has been reached.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Indonesia's Indonesia Forest and Climate Support project was achieving its primary objectives of reducing threats of deforestation and climate change, and helping the Indonesian Government conserve the country's tropical forests, wildlife, and ecosystems. To implement the project, USAID awarded a \$40 million cost-plus-fixed-fee completion task order with Tetra Tech covering a 4-year period from November 5, 2010, through September 30, 2014. As of September 30, 2012, cumulative obligations and disbursements under the project totaled \$20.8 million and \$7.9 million, respectively. Because this was a performance audit, looking at project implementation rather than specific financial transactions, the audit team did not audit a specific portion of the \$7.9 million in disbursements.

In planning and performing the audit, the team assessed management controls related to management review, proper execution of transactions and events, and use of performance targets and indicators. Specifically, we assessed the following significant controls:

- Project work plans for fiscal years 2011 through 2013
- Certification required under the Federal Managers' Financial Integrity Act of 1982¹¹
- Project contract and modifications
- Reported results
- Financial reports
- Data quality assessments

The audit was performed in Indonesia from February 6 through March 4, 2013. In that period, the audit team conducted site visits to observe project activities and interview project participants as well as contractor staff. The audit covered reported results from the inception of the project on November 5, 2010, through September 30, 2012.

Methodology

To determine whether the project was achieving its primary objectives, we interviewed key staff at USAID/Indonesia and at Tetra Tech's office, both in Jakarta, to gain an understanding of the project, the key players and their roles and responsibilities, and the reporting procedures and controls in place for monitoring the project.

The audit included site visits to 4 of the 13 focal districts in 2 of 4 provinces—Aceh Selatan and Gayo Lues in Aceh, and Kayong Utara and Ketapang in West Kalimantan. During these visits,

¹¹ Public Law 97-255, as codified in 31 U.S.C. 3512.

we interviewed stakeholders from the public and private sector including district government officials, timber concessionaires, farmers, subcontractors and subgrantees, and members of local conservation organizations. The audit also performed testing to validate reported results for 15 of the 27 performance indicators as of September 30, 2012, through substantive testing and analytical procedures. The remaining indicators did not have any reported results.

To determine the reliability of computer-processed data related to the project's reported activities contained in Tetra Tech's database, we selected 100 percent of training events and agreement-related measurements (as a result of the training and other technical assistance). These measurements were selected based on how effectively they represented the project's progress and perceived risk of manipulation of data.

We established a materiality threshold of 85 percent to assess the test results. For example, if at least 85 percent of tested results data reported under a specific performance indicator were supported adequately, we concluded that the reported results were reasonably accurate.

MANAGEMENT COMMENTS



[Received July 1, 2013]

MEMORANDUM

TO: William S. Murphy, Regional Inspector General/Manila

FROM: Andy Sisson, USAID Indonesia Mission Director / S /

SUBJECT: Mission comment's to Draft Report on the Audit of USAID/Indonesia's Indonesia Forest and Climate Support Project (Report No. 5-497-13-00X-P)

In response to your May 29, 2013 Memorandum (email), USAID/Indonesia is pleased to provide the following comments on the subject draft audit report.

I. General Comment

USAID/Indonesia appreciates the professionalism and thoroughness of the audit team from the Regional Inspector General (RIG)/Manila in the conduct of the audit of the Indonesia Forest and Climate Support (IFACS) Project. The audit findings were clear and allowed USAID Indonesia to pursue effective management responses in a timely manner. USAID/Indonesia agrees with all 6 recommendations in the May 29, 2013 Draft Report of the IFACS audit. Based on input received during the RIG exit conference on March 4, 2013, USAID/Indonesia took swift action on a number of IFACS program management issues, all of which are captured in this document and reflect USAID/Indonesia's commitment to improving performance management and monitoring.

In order for RIG/Manila to present more accurate information regarding the project status, USAID/Indonesia respectfully suggests that recommended revisions be made on the body of the audit report as detailed in the last section of this memorandum.

II. Mission Response to Draft Audit Recommendations

Recommendation 1. *We recommend that USAID/Indonesia revise the contract's technical requirements to incorporate reasonable expectations of accomplishments that can be attributed to the project and to remove those that cannot.*

Mission Response: USAID/Indonesia **agrees** with this recommendation.

USAID/Indonesia wishes to clarify some of the statements made in the Audit Finding under this recommendation. The ambitious nature of the project to reduce the rate of forest degradation and loss for at least 6 million hectares flowed directly from the Indonesia Country Strategy into the Activity Approval Document and into the Statement of Work (SOW) used in the Request for Proposals. In their proposal Tetra Tech ARD proposed to effect change on 10 million hectares instead of 6 million. Despite struggles with implementation, the Environment Office and the Office of Acquisition and Assistance decided not to revisit and revise technical requirements until after changes were made in project management and a midterm evaluation was carried out. The midterm evaluation took place in January 2013. The required tasks were originally designed as illustrative activities and were changed to required tasks during negotiations between the Environment Office and the Office of Acquisition and Assistance. They were not the sole responsibility of the original Contracting Officer's Representative (COR); both the Contracting Officer and the Contractor also agreed to these changes at that time.

On **March 19, 2013**, USAID/Indonesia and the IFACS Contractor held a half day meeting to discuss the draft audit findings, focusing the discussions on identifying and discussing all the specific contract technical requirements, and resulting performance indicators from the Performance Monitoring Plan (PMP), that currently were unreasonable or could not be attributed to the project. These discussions were guided by specific examples provided in the RIG Record of Audit Findings; however, additional results and performance indicators were also identified. As a result of this meeting and subsequent internal meetings among key forestry technical staff, USAID developed new contract technical requirements to be incorporated into a contract modification. On **April 4, 2013**, USAID/Indonesia's Office of Environment met with the Office of Acquisition and Assistance in order to discuss the process, timeline and next steps for the IFACS contract modification. A justification for the contract modification, including proposed changes in technical language that meet Recommendation 1 in the RIG Audit Report, and a revised Independent Government Cost Estimate (IGCE) which reflects the budgetary implications of these changes, have been submitted to the Office of Acquisition and Assistance (OAA) for further action.

USAID/Indonesia believes that significant corrective actions are being undertaken to address the audit recommendation. Pending approval by OAA or the Agency Competition Advocate (if necessary), a contract modification incorporating these improvements in technical language is expected to be completed on or about **September 30, 2013**.

Recommendation 2. *We recommend that USAID/Indonesia modify the project's performance monitoring plan to include performance indicators that are defined explicitly and sufficiently reflect the intended accomplishments under each result area. Performance indicators measuring accomplishments not clearly attributable or relevant should be removed.*

Mission Response: USAID/Indonesia **agrees** with this recommendation.

During the above referenced meeting on **March 19, 2013**, USAID/Indonesia and the IFACS Contractor identified all performance indicators that did not sufficiently reflect the intended project accomplishments, and those that were not clearly attributable or relevant to project activities. On **April 22, 2013**, USAID/Indonesia directed the IFACS Contractor to submit an IFACS PMP Performance Indicator Improvement Action Plan which reflected the discussions and decisions made during the March 19, 2013 meeting. USAID reviewed and provided input to a draft version of this document on May 13, 2013, to ensure that the proposed changes were technically appropriate and sufficiently addressed all RIG audit findings related to the PMP. A final version of this document, which identifies specific indicators to be deleted, modified or added was submitted to USAID on **May 15, 2013**.

USAID/Indonesia believes that significant action has been taken on this recommendation. Final action on this recommendation cannot be taken until the IFACS contract modification incorporating improvements in technical language and contract results, which will then allow for a significant revision of the project's PMP. As stated above, the Mission plans to issue this contract modification on or about **September 30, 2013** and plans to approve a revised PMP, incorporating all changes and additions identified in the IFACS PMP Performance Indicator Improvement Action Plan by **October 1, 2013**.

Recommendation 3. *We recommend that USAID/Indonesia direct the contractor to revise its management information system and data processing procedures so that results are reported accurately.*

Mission Response: USAID/Indonesia **agrees** with this recommendation.

During the above referenced meeting on **March 19, 2013**, USAID and the IFACS Contractor also discussed and identified the deficiencies in the IFACS Management Information System (MIS) which were highlighted by the RIG auditors during their time in Indonesia. On **April 22, 2013**, USAID Indonesia directed the IFACS Contractor to submit an IFACS Performance Data Collection, Processing and Reporting Action Plan which reflected the discussions and decisions made during the **March 19, 2013** meeting regarding management actions necessary to improve the MIS system. This Action Plan was submitted on **May 15, 2013**. Concurrently, the IFACS Contractor developed a Statement of Work (SOW) for a subcontract, to be bid competitively, which would develop and operationalize an effective MIS system to significantly improve the IFACS Contractor's capacity to monitor verify validate and report their results and achievements. The IFACS Performance Data Collection, Processing and Reporting Action Plan which includes a copy of the COR approved SOW for the improved MIS system is included as documentation USAID/Indonesia approved the MIS SOW on **March 20, 2013**, leading to a competitive bidding process. At this time, the subcontract negotiations are underway. USAID/Indonesia estimates that the MIS subcontract will be in place on **August 1, 2013** and a new and improved IFACS MIS system will be in place by **October 1, 2013**.

Recommendation 4. *We recommend that USAID/Indonesia determine the accuracy and reliability of the results tracked in the contractor's revised management information system through substantive testing.*

Mission Response: USAID/Indonesia **agrees** with this recommendation.

Once IFACS has a new PMP and MIS system in place, which should take place by **October 1, 2013**, the IFACS COR will be responsible for ensuring that the systems and data reported are accurate and reliable. On **January 1, 2014**, the COR will perform an in-depth review of data quality and MIS system integrity, which includes substantive testing of data collection and monitoring processes, on the last three months of data reported against the revised IFACS PMP and recorded in the new MIS system. After this time, the IFACS COR will continue to review reported results for accuracy on a quarterly basis when quarterly progress reports are submitted. After one year, or on **October 1, 2014**, the IFACS COR and the Program Office's Monitoring and Evaluation Specialist will conduct a formal data quality assessment (DQA) which will provide in depth analysis on the accuracy and reliability of results tracked in the revised MIS system.

In addition to this, USAID/Indonesia has recognized that Mission-wide improvements are needed in project monitoring, evaluation and DQA processes. USAID/Indonesia plans to establish systems and processes to institutionalize collaboration, learning and adapting through improved monitoring and evaluation as part of the new Country Development Cooperation Strategy (CDCS). As part of this process, USAID/Indonesia will be developing a Mission-level Performance Monitoring Plan (PMP). The PMP will outline a schedule for conducting DQAs for indicators at the various levels of the CDCS Results Framework and DQAs will be conducted according to the forthcoming updated Mission Order on Performance Monitoring. Accordingly, the Mission has expanded its GIS capabilities, hiring a dedicated GIS analyst on May 20, 2013 to augment existing monitoring and evaluation efforts.

In addition, USAID/Washington issued a Standard Mission Order (MO) on performance monitoring on June 10, 2013. USAID Indonesia will be reviewing the requirements and revising our own Mission Order (MO) on Performance Monitoring for release by **December 10, 2013**. The Mission Order will set forth guidelines for confirmation of data quality, including how the Mission will be collecting data, reviewing data collection by partners and assuring quality of indicators collected. Mission Order will include procedures for annual confirmation and substantive testing of data collection and monitoring processes for a sample of implementing mechanisms. USAID/Indonesia most recently conducted data quality assessments (DQAs) in 2012. The Mission will conduct DQAs as needed for new indicators, and conduct a review of all indicators by 2014. USAID/Indonesia will conduct these DQAs in accordance with the new Mission Order and prior to the exercise the Mission will provide training to CORs and Program Assistants on conducting DQAs and methods for testing processes.

The MO will require COR/AORs to take responsibility for ensuring timely data collection of performance data along the schedule outlined in the award agreement and M&E plan (quarterly, semi-annual or annual), as well as for verifying implementing partner performance reports and working with implementing partners, and others in the Mission as needed, to resolve data collection or quality issues. As part of this process, Development Objective (DO) Team Leaders and/or Project Managers should periodically review Project performance data, checking for consistency and quality across activities. The Program Office is responsible for ensuring that DO/Project Managers and COR/AORs collect and review indicator data consistently, and that

these data are entered in the performance monitoring information system on a timely basis. The Program Office will periodically audit COR/AORs and DO/Project Manager files to ensure data quality and consistency.

After the issuance of the Mission Order, the USAID/Indonesia Program Office will conduct training with AORs and CORs to review responsibilities for ongoing and routine monitoring and oversight of activities, including data collection. USAID/Indonesia will continue to build staff capacity in monitoring and evaluation methods, including training on ensuring quality evaluations and assessing data quality.

Recommendation 5. *We recommend that USAID/Indonesia work with the contractor to implement a written action plan clarifying the project's support for multi stakeholder forums so these forums can contribute substantively to project objectives.*

Mission Response: USAID/Indonesia **agrees** with this recommendation.

On **March 19, 2013**, USAID and the IFACS Contractor held a discussion to clarify the purpose of the multi stakeholder forum (MSF) as a mechanism for transparency and participatory engagement in land use planning and discussed specific technical approaches to strengthen these approaches. The discussion at this meeting was informed by a **March 7-8, 2013** IFACS Senior Management Meeting held in Jakarta by the IFACS Contractor and attended by all regional project managers. During this meeting, senior and regional IFACS managers discussed the challenges of working with the MSF and identified specific steps to improve implementation of this activity. These included defining a MSF charter of sustainable development targets, developing an action plan for each MSF which specifically contributes to IFACS project goals, drafting an improved communications strategy based on the MSF charter, and developing a strategy for more concise and targeted capacity building for each MSF. On **April 22, 2013**, USAID/Indonesia instructed the IFACS Contractor to develop a MSF strengthening action plan to provide a roadmap for the project's support to MSFs in order to contribute substantively to project objectives. On **May 15, 2013**, the IFACS Contractor submitted the IFACS Stakeholder Communications and Multi-Stakeholder Fora (MSF) Strengthening Action Plan.

The IFACS Stakeholder Communications and MSF Strengthening Action Plan outlines a strategy by which IFACS staff and partners at the landscape level can work together effectively to support the nascent MSFs as the foundation for achieving IFACS objectives at the District level. The development of this Action Plan actively engaged IFACS staff at the national and field level as well as IFACS partners in Landscapes across the country.

USAID has reviewed and approved the strategies contained within the IFACS Stakeholder Communications and Multi-Stakeholder Fora Strengthening Action Plan. With this approval, IFACS has moved forward with developing MSF charters and actions plans in each of their focus Districts. These action plans identify unique, site-specific opportunities that will contribute toward achieving IFACS results, and all of these plans build toward landscape conservation plans that will provide a blueprint and legacy for USAID IFACS work. Since this time, action plans have been developed for 10 districts and in three focus Districts, Gayo

Lues in Aceh Tenggara, Katingan in Central Kalimantan, and Mimika in North Papua, IFACS has finalized MSF Charters and conducted focused workshops in support of these District's MSF Action Plans. In the District of Ketapang, the MSF has already completed a first draft of their Landscape Conservation Plan.

USAID/Indonesia believes that significant action has been taken on this recommendation. The rapid initiation of MSF strengthening activities described above are indicative of USAID/Indonesia's commitment to working closely with the IFACS Contractor to ensure successful implementation of the IFACS Stakeholder Communications and MSF Strengthening Action Plan through the life of the project.

Recommendation 6. *We recommend that USAID/Indonesia complete all contractor performance reviews for the first 2 years of project implementation.*

Mission Response: USAID/Indonesia **agrees** with this recommendation.

By June 28th, 2013, the previous COR of the IFACS project will have completed the first contractor performance reviews covering the first year of project implementation. The new system will not allow data for multiple years to be entered simultaneously. The contractor performance review for year 2 covering the period from 11/05/11 to 11/04/12 will be completed as soon as year one is closed and the Contractor has had a chance to agree to or challenge the review.

Suggested Revisions on body of the Audit report:

USAID/Indonesia respectfully requests that the Regional Inspector General consider the following change to the body of the report. On page 2, the report states “projected spending levels indicate that the project is likely to expend only \$28.7 million of its \$40 million budget—a shortfall of 28 percent.” This statement is no longer accurate. IFACS has significantly accelerated both grants and subcontracts, awarding approximately \$6 million in subcontracts and \$1 million in grants since September 2012. An additional \$1.3 million in subcontracts will be awarded by the end of June 2013. While the Project did get off to a slow start, the surge of these subcontracts and grants are indicative of both increased spending and more robust field activities implemented to achieve contract results and deliverables. USAID/Indonesia is confident that IFACS will exceed spending levels of \$28.7 million and, in fact, has estimated that IFACS will spend at least \$34.4 million by September 2014, when the contract currently ends. A graphical representation of USAID's estimation of current and projected IFACS spending rates is included as documentation.

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