



# OFFICE OF INSPECTOR GENERAL

---

## AUDIT OF USAID/INDONESIA'S KINERJA PROGRAM

AUDIT REPORT NO. 5-497-14-001-P  
NOVEMBER 5, 2013

MANILA, PHILIPPINES



*Office of Inspector General*

November 5, 2013

**MEMORANDUM**

**TO:** USAID/Indonesia Mission Director, Andrew B. Sisson

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

**SUBJECT:** Audit of USAID/Indonesia's Kinerja Program (Report No. 5-497-14-001-P)

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

This report contains three recommendations to help the mission improve the overall effectiveness of the Kinerja Program. After reviewing information that the mission provided in its response to the draft report, we acknowledge that management decisions were reached on all three recommendations. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close these recommendations.

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

# CONTENTS

- Summary of Results** ..... 1
- Audit Findings**.....5
  - District Governments Were Not Supporting Service Improvement Activities Adequately .....5
  - Activities Were Not Receiving Sufficient Technical Support.....6
  - Performance Results Data Were Not Always Reliable.....8
- Evaluation of Management Comments**..... 10
- Appendix I—Scope and Methodology** ..... 11
- Appendix II—Management Comments** ..... 13

**Abbreviations**

The following abbreviations appear in this report:

- CSO        civil society organization
- FY         fiscal year
- M&E       monitoring and evaluation
- MSF       multi-stakeholder forum
- OSS        one-stop shops
- SBM       school-based management
- SDU        service delivery unit

# SUMMARY OF RESULTS

Over the past decade, Indonesia has made dramatic progress in strengthening local governments and expanding their autonomy as well as their budget resources and service delivery responsibilities. USAID has been a key supporter of this decentralization process through its efforts to improve local governance in Indonesia.<sup>1</sup> Despite the country's overall progress, however, some critical gaps in local governments' capacities remain, most notably their lack of attention to the quality of services they deliver.<sup>2</sup>

On September 30, 2010, USAID awarded a cooperative agreement<sup>3</sup> worth approximately \$24.8 million to RTI International to implement the Kinerja - Local Governance Service Improvement Program (Kinerja). Working with a consortium of five partners,<sup>4</sup> Kinerja (the Indonesian word for "performance") seeks to improve how local governments deliver public services. To achieve its main objective, Kinerja supports activities that (1) establish incentives for local governments to improve service delivery, (2) adopt innovative service delivery approaches, and (3) expand the application of improved practices to other local governments through replication.

Kinerja is designed to work primarily at the local district and city level, focusing on improving public services in the business, education, and health sectors. Within each of these, Kinerja provides technical support directed mainly at targeted service delivery units (SDUs), such as schools and community health clinics, as well as their associated community-based multi-stakeholder forums (MSFs). The program also provides limited technical support to district and municipal governments, with Kinerja's partners working primarily with the relevant technical office within these local governments (e.g., district health office). It operates in 20 districts<sup>5</sup> in the provinces of Aceh, East Java, South Sulawesi, and West Kalimantan.

Kinerja is managed by USAID/Indonesia in Jakarta. The program covers a period of 53 months (4.5 years) and is scheduled to end on February 28, 2015. As of March 31, 2013, cumulative obligations totaled approximately \$21.1 million and disbursements \$11.8 million.

The purpose of this audit was to determine whether Kinerja was achieving its main objective. In reviewing activities completed or in progress as of March 31, 2013, the audit team found that the program was doing so only in part.

Kinerja was making progress in implementing its interventions in each of the 20 districts. At the time of the audit, the program had completed its initial round of activities in these districts; the second and final round was in progress, but expected to be done by October 2013. Based on results to date, some target districts were already initiating the replication of certain activities and expanding them to additional sub-divisions within their district. Local governments outside the 20 districts also were expressing interest in some of Kinerja's activities.

---

<sup>1</sup> USAID/Indonesia Democratic Office Factsheet – Kinerja (September 2012).

<sup>2</sup> Kinerja Performance Management Plan, dated March 14, 2012.

<sup>3</sup> Cooperative Agreement No. AID-497-A-10-00003 EEM-I-09-07-00008-00 signed September 30, 2010.

<sup>4</sup> The program's consortium partners are the Asia Foundation, Social Impact, SMERU Research Institute, the University of Gadjah Mada, and the Partnership for Governance Reform.

<sup>5</sup> The districts also include cities. In this report both are referred to as districts.

Examples of the program’s notable successes are discussed below.

**School-Based Management (SBM).** SBM is designed to help schools become more participatory, transparent, and accountable to the local community. Key activities include helping partner schools conduct a community complaint survey to identify needed improvements, establishing education service standards, increasing community participation in the school’s annual planning and budgeting process, and strengthening school committees (one type of MSF) to oversee the implementation of the plans and budgets.

In East Java the governments for Probolinggo city and Jember District have shown strong commitment and support for the SBM initiative. In May 2012 the mayor of Probolinggo signed a regulation making SBM mandatory at all schools in the city—expanding this approach beyond the 20 originally supported by the program. Since then, SBM-partner schools in the area have become models for schools in other districts and provinces. In addition to greater community participation, schools reported other improvements resulting from Kinerja-supported activities. These included the provision of books, visual aids, and chairs, as well as minor renovations.



**A principal at an SBM-partner school in Jember District, East Java, displays books provided by the district government—at the school’s request—for the library. (Photo by OIG, July 1, 2013)**

**Educational Operational Cost Analysis.** Kinerja helped district governments calculate the deficit between funds the national government provided to support school operational costs and the schools' projected operational costs to compute the additional amount districts need to provide. This analysis included a formula intended to offer a more equitable distribution of the districts' funds to smaller schools, which often do not get enough operational funds. In Banda Aceh use of this formula resulted in the city's smaller schools (fewer than 90 students) receiving a sharp increase in operational funds allocated for fiscal year (FY) 2014, which represented about two to three times more than they received the previous year.

**One-Stop Shops (OSSs).** As part of Kinerja's effort to improve public services in the business sector, the program is working to improve and streamline business licensing processes at the district level through support to integrated OSS facilities. Each OSS is set up to provide people with a more efficient way of applying for business licenses and permits by eliminating the need for them to visit multiple district offices—as required in the past—to obtain the necessary approvals for processing their business license applications. Working with OSSs, Kinerja helped each of them develop standard operating procedures for processing business licenses. As a result, one OSS in South Sulawesi reportedly has recorded an eightfold increase in the number of licenses issued, while an OSS in East Java has reported reducing the processing time for some of its basic licenses by half. At an OSS facility in Aceh, company registration licenses now take only 1 day—instead of 30—to process.



**A father and son visit a Kinerja-supported OSS in East Java Province to apply for a business permit. (Photo by OIG, July 5, 2013)**

However, the audit disclosed the following problems.

- District governments were not supporting service improvement activities adequately (page 5). The level of support was found to be limited, particularly in the program's health and education sectors.
- Activities were not receiving sufficient technical support (page 6). The support generally covered only 1 year, which program officials and beneficiaries acknowledged was not long enough for implementation and sustainability.
- Performance results data were not always reliable (page 8). Data reported for four out of seven sampled performance indicators were often unsupported. We also found reporting errors and other deficiencies.

The report recommends that USAID/Indonesia:

1. Direct RTI to implement a strategy outlining the steps it plans to take to help district governments become more actively involved in facilitating and monitoring service delivery improvements, particularly in the program's health and SBM activities (page 6).
2. Direct RTI to implement a strategy for providing additional technical support for Kinerja-supported SDUs, particularly in the health and education sectors, and MSFs to make sure program activities to improve service delivery are sustainable (page 8).
3. Direct RTI to implement a strategy outlining the steps it plans to take to improve the overall quality of the data reported under the program's performance indicators. At a minimum, this strategy should include (1) an appropriate method for recognizing program achievements that ensures they are supported adequately, (2) a data quality assurance review of the current balance for each performance indicator to validate the accumulated balance based on supporting records on file, and (3) appropriate measures to improve and facilitate efforts to collect supporting records from Kinerja's field staff and partners in a timely manner (page 9).

A detailed discussion of the audit findings appears in the following section. The scope and methodology are described in Appendix I. USAID/Indonesia's written comments on the draft report are included in Appendix II. Our evaluation of these comments is on page 10.

# AUDIT FINDINGS

## **District Governments Were Not Supporting Service Improvement Activities Adequately**

To support the decentralization of key functions to local governments, USAID's cooperative agreement stipulated that Kinerja would help district governments play a more effective role in improving public services in specific sectors. According to a prior USAID decentralization assessment, while inadequate local capacity, authority, and resources have contributed to the problems with local service delivery, many local governments have sufficient capacity, authority, and resources to deliver at least somewhat better levels of service than they currently provide.

The audit, however, found that local governments needed to make greater efforts in supporting Kinerja's service improvement activities. Although service improvements were noted, most of them—particularly in the health and education sectors—were attributed to either Kinerja-supported technical support provided directly to the SDU or activities jointly carried out by the SDU and its associated MSF.

**Health.** Staff members at the local community clinics the audit team visited said Kinerja-supported activities had resulted in some operational improvements, such as staff showing more discipline in their work due to the preparation of standard operating procedures and clinics now maintaining a closer relationship with the local community.

However, the improvements were generally the direct result of the clinics' own internal initiatives; the district government had little or no involvement. The head of one clinic said it had not received any additional funding, staff, or equipment from the district. This was also the case in other clinics visited. Although Kinerja provided technical support to help clinics develop improved annual plans and budgets, these efforts did not result in any increase in funding from the district because funding levels continue to be based on a pre-set formula, which takes into account the population of the community served and other factors.

**Education.** Like the health sector, most of the key improvements cited by the SBM-partner schools visited (e.g., increased support from parents and the community, greater transparency in the planning and budgeting processes, and improvements in the overall appearance of the school) were primarily the result of actions taken by the school—not the district government—working closely with its MSF. While districts approved school requests for some needed items like books, requests for others, such as toilets for students, were often deferred.

The limited involvement of local government in the health and SBM activities is partly a reflection of Kinerja's focus on SDUs to improve service delivery, which resulted in much of the program's technical support going toward strengthening the capacity of the SDUs and MSFs rather than the district government. Although Kinerja attempted to create incentives for local governments to use their resources better, such as supporting district-level MSFs to engage in monitoring and advocacy with district governments, many of the MSFs had not yet evolved enough to encourage the district to make greater efforts to improve service delivery.

Another contributing factor, according to Kinerja staff members, was the district governments' weak capacity in monitoring activities at the SDU level. While partly the result of staffing constraints, this deficiency also stemmed from a lack of training on how to monitor service improvement activities effectively at the SDU level, which would give employees a better sense of the extent of monitoring expected of them.

District governments need to become more actively involved in facilitating and monitoring improvements in service delivery, particularly in the health and education sectors. Otherwise, local governments will end up assuming more of a passive—rather than a leading—role in this process. This in turn could reduce opportunities for additional improvements since SDUs will start relying increasingly on their own means instead of their local government to improve service delivery, achieving improvements mostly through the SDU's own efforts or by working collaboratively with its MSF. Site visits to selected clinics and SBM-partner schools in East Java and Aceh Provinces showed that this trend already has begun at a number of locations.

Also, if district governments do not become more actively engaged in monitoring and supporting service improvements, they will be less prepared to manage the expansion of activities to other sub-districts effectively, which is expected to occur in certain districts during the program's replication phase.

To increase local government involvement in supporting continued improvements in service delivery in the health and education sectors, we are making the following recommendation.

***Recommendation 1.*** *We recommend that USAID/Indonesia direct RTI International to implement a strategy, including milestone dates, outlining the steps it plans to take to help district governments become more actively involved in facilitating and monitoring service delivery improvements in the program's health and education sectors.*

## **Activities Were Not Receiving Sufficient Technical Support**

To help local governments adopt improved service delivery approaches in Kinerja's three sectors (education, health, and business), the program provided technical assistance through local civil society organizations (CSOs). Generally operating under a 1-year contract and focusing on a specific sector in an assigned location, the CSOs worked primarily with the SDUs and MSFs to strengthen their capacity to implement activities intended to improve the quality of services delivered.

In the education sector, for example, Kinerja's CSOs provided technical support to assist SBM-partner schools in implementing a package of activities, which included:

- Conducting a complaint survey to solicit input from parents and the community about any improvements their schools needed.
- Preparing a service charter establishing the school's operational standards.
- Soliciting community input in developing the school's annual plan and budget.
- Strengthening the capacity of the school's MSF to engage in advocacy and oversight.

However, the audit found that the technical support provided, particularly in the education and health sectors, was often not sufficient to strengthen the capacity of the SDUs and MSFs. Based on interviews with CSO and SDU employees, as well as MSF members, the audit team determined that the CSOs' 1-year contract period was not long enough for the SDUs and MSFs to develop the skills they needed to carry out activities on their own. A number of those interviewed expressed concerns regarding not only the SDUs' ability to implement specific activities in the future without technical support, but also the ability of the MSFs, particularly in the health sector, to continue to evolve into the role envisioned, much less remain in existence. Several examples are discussed below.

**Complaints Survey.** During a visit to an SBM-partner school in Jember District, one principal said that his staff had not received sufficient support from the CSO to help the school conduct its complaint survey. While the school wanted to conduct another survey in the future, it had no plans to without CSO support. In Probolinggo city, a CSO staff member estimated that 7 months after the CSO's contract had ended, only 20 percent of the 20 SBM-partner schools in the municipality were self-sufficient and capable of conducting the complaints survey on their own.

**Annual Plan and Budget.** Employees in some of the SBM-partner schools we visited expressed doubts about their ability to prepare their next annual plan and budget using Kinerja's approach, which emphasized community participation and integration of minimum service standards, without technical support. A member of Probolinggo city's education MSF said a survey of 5 of the 20 SBM-partner schools in the municipality—including 1 classified as high performing—concluded that all 5 still needed more technical assistance in preparing their annual plan and budget.

**MSFs.** During our interviews with CSO field staff and MSF members, we learned that a number of the MSFs in the health sector at the subdistrict and district levels still needed additional technical support after the CSO contract expired. One CSO official working with Kinerja-supported community clinics in Probolinggo city pointed out that the MSFs created in the health sector are a new concept, and require additional time to evolve and develop their capacity before they can become sustainable. Given the relatively short period of the contract, he explained that the link between the MSF and the community clinics it oversees may weaken and possibly end after the technical support ceases.

Unfortunately, this has already started to occur; an MSF in Bener Meriah, Aceh, ceased to exist after the CSO contract ended, reportedly due to a lack of leadership within the MSF and its heavy reliance on the CSO's staff to organize and facilitate meetings.

During interviews with MSFs in both the education and health sectors, members cited several areas in which more training and support were still needed. These included:

- **Technical Knowledge.** MSF members in the health sector said they needed technical training on maternal and child health issues so they could become more actively engaged in these issues.
- **Facilitating Meetings.** Some MSF members said they needed more training to strengthen their capacity to organize and facilitate their own meetings.
- **Advocacy.** Members said they needed more training, coaching, and mentoring to help them develop the advocacy and public speaking skills (and confidence) that would enable them to

earn the respect of the district health office and local parliament, and to be able to work with local government officials effectively.

Kinerja officials and field staff acknowledged that the 1-year contract period was too brief. Ideally, one senior official said, the technical support should cover 2 years to allow sufficient time for implementation, promote sustainability, and support efforts to replicate the activities in other districts. Unfortunately, the program's 53-month performance period, during which RTI planned to carry out two rounds of CSO-assisted sector interventions in each district, did not allow enough time to accommodate 2-year contracts. The program's slower-than-expected start and implementation of activities during its first 2 years, stemming partly from the weak capacity of Kinerja's CSOs, was another contributing factor.

By not providing sufficient technical support to the SDUs and MSFs, many of these entities may not be able to continue to carry out certain activities on their own once the program's support ends. If left uncorrected, this problem could jeopardize the sustainability of some of the program's service improvement mechanisms.

To address this deficiency, we are making the following recommendation.

***Recommendation 2.*** We recommend that USAID/Indonesia direct RTI International to implement a strategy outlining the steps it plans to take, including milestone dates, for providing additional technical support for Kinerja's service delivery units, particularly those in the program's health and education sectors, and multi-stakeholder forums to promote the sustainability of the program's activities to improve public service delivery.

## **Performance Results Data Were Not Always Reliable**

USAID's Automated Directives System (ADS) 203.3.11.1, "Data Quality Standards," requires that performance data meet quality standards for validity, precision, and reliability to be useful for effectively measuring performance, and managing for results. These standards provide that performance data should clearly and adequately represent the intended result, be sufficiently precise to present a clear picture of performance, and reflect stable, consistent data collection processes and analysis methods. As a result, missions (and implementers) must ensure that data quality is maintained so the data can be used as an effective monitoring tool for assessing performance and making informed decisions.

In reviewing the results data Kinerja reported for seven performance indicators, the audit team found that the data were not always supported, accurate, or reported during the correct reporting period. Examples include:

- **Unsupported Results.** Tests performed on the quarterly performance results covering two quarters in FY 2013 showed that the data reported for four of the seven sampled indicators lacked supporting documentation. For one indicator, Kinerja reported that 44 service charters had been completed during FY 2013; however, Kinerja's monitoring and evaluation (M&E) team had copies of only 9 charters on file. For another indicator, the program reported that clients and users had used 15 feedback mechanisms supported by Kinerja, but the M&E team could provide documentation to support only 6.

- **Reporting Errors.** We found several instances in which reported results data were reported either prematurely (e.g., in anticipation of the signing of a key document) or for the wrong performance indicator. For example, a review of the results data for the indicator *Number of Kinerja-supported improved practices for service delivery are institutionalized by service delivery units* showed that 36 of the 47 units reported in one quarter actually should have been reported in the following quarter. Of the remaining 11 units, 10 were misreported and should have been reported for another indicator.
- **Reporting Delays.** Results data reported in Kinerja's quarterly reports also did not always accurately reflect actual progress during the period covered by the reports and routinely included achievements that occurred in an earlier quarter—sometimes several quarters earlier. For example, only 36 of the 109 achievements reported in a quarterly report for one indicator represented actual achievements for that quarter. Likewise, quarterly results data reported under another indicator included achievements spanning several quarters as far back as the previous year.

These data quality issues happened for several reasons. First, Kinerja's consortium partner responsible for the program's M&E had difficulty keeping a strong, effective team leader; there have been four since inception, and the current leader was hired in June 2013 after the position remained vacant for almost 5 months. Although the original leader was a skilled expatriate, budget constraints necessitated his replacement after the first year with one of the team's local staff. That person was not a strong manager, which led to more turnover and caused the quality of M&E coverage to suffer.

During this period of turnover, Kinerja began to report an increasing number of achievements based on verbal reports from the field, which was not a standard M&E operating procedure. According to several program employees, this was in response to internal pressure to maximize the results reported and show progress—rather than waiting for supporting records from the field. Therefore unsubstantiated achievements were being counted.

As a result of the deficiencies identified, the audit determined that the results data recorded under Kinerja's performance indicators as of March 31, 2013, were not always sufficiently reliable or valid to allow USAID to measure effectively the program's overall performance and progress toward achieving intended results. Without documentation to support the data, the program cannot show where they are from and cannot be confident that the data can be used as a basis for measuring progress.

To address this deficiency, we are making the following recommendation.

***Recommendation 3.*** We recommend that USAID/Indonesia direct RTI International to implement a strategy to improve the quality of the results data reported under the program's performance indicators. At a minimum, this strategy should include (1) a method for recognizing program achievements that requires that reported achievements are supported adequately, (2) a data quality assurance review of the accumulated balance for each performance indicator to validate the balance based on the supporting records on file, and (3) measures to improve efforts to collect supporting records from Kinerja's field staff and partners in a timely manner.

# EVALUATION OF MANAGEMENT COMMENTS

The mission provided comments in response to the draft report. Our evaluation of management comments follows.

**Recommendation 1.** The mission reached a management decision on this recommendation and stated that RTI developed a strategy designed to involve district governments more actively in Kinerja's health and education sectors. The strategy includes efforts (e.g., through workshops, technical assistance, and coaching and mentoring) intended to improve and intensify coordination between SDUs and relevant district agencies by enabling the latter to conduct quality control and oversight to promote their active involvement in the program. In addition, RTI will strengthen the cooperation between these district agencies and MSFs, partly through efforts to establish communication channels to facilitate regular coordination.

The mission has asked RTI to reallocate its budget for the remainder of the program to support efforts to implement the strategy, which will place greater emphasis on consolidating program achievements to date in the original target districts and reduce the level of replication in new districts. While implementation of this strategy will continue until the program's end date (February 2015), the mission anticipates final action will be completed by September 30, 2014.

**Recommendation 2.** The mission reached a management decision on this recommendation and stated that RTI developed a strategy designed to intensify technical support for SDUs (schools and health centers) and MSFs through follow-on grants to CSO partners. This strategy will include support intended to get CSOs and relevant district agencies to work closely to institutionalize monitoring and oversight of service delivery. To enhance MSFs' sustainability, particularly at the district level, Kinerja will work with them to strengthen their governance processes (e.g., internal procedures and engaging with local authorities) and increase their technical familiarity with delivering public services. While implementation of this strategy will continue through the end of the program, the mission anticipates final action on this recommendation will be completed by September 30, 2014.

**Recommendation 3.** The mission reached a management decision on this recommendation and stated that it had directed RTI to develop a strategy to improve the quality of the results data reported under the program's performance indicators. In response, RTI, working through its M&E team, made some improvements, such as establishing a new standard operating procedure requiring employees to file hard copies of supporting records to document reported program achievements. The M&E team trained the national and field staff on how to implement this new procedure, while also encouraging timelier, evidence-based reporting.

The team was in the process of conducting a data quality analysis of the program's reported achievements to verify that supporting evidence was on file to substantiate achievements and identify any discrepancies. The mission has instructed RTI to conduct regular spot-checks of the M&E results data, while the mission's program officer will conduct additional spot checks on at least a semi-annual basis as well as in conjunction with regular site visits. The mission anticipates final action on this recommendation will be completed by May 31, 2014.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General in Manila conducted this 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 Kinerja Program was achieving its main objective of improving the delivery of public services by Indonesian local governments. Kinerja is designed to work primarily at the district and city level, and to improve how public services are delivered in the education, health, and business sectors.

To implement the program, USAID signed a \$24.8-million cooperative agreement with RTI on September 30, 2010, covering 53 months from September 30, 2010, to February 28, 2015. As of March 31, 2013, cumulative obligations totaled approximately \$21.1 million, and disbursements totaled approximately \$11.8 million.

Kinerja operates in 20 districts in the provinces of Aceh, East Java, South Sulawesi, and West Kalimantan. The audit covered activities—both completed and ongoing—carried out in these provinces from the program's inception through March 31, 2013.

On July 23, 2012, USAID signed a modification increasing the authorized funding level of the program by \$8.3 million (to \$33.1 million) to fund an additional component, the Kinerja Papua Expansion, which focuses on developing the capacity of local governments to strengthen health systems in Papua Province. Given the relatively early status of activities under this component at the time of the audit fieldwork, we did not cover this area and instead focused on Kinerja's core program in the original four provinces.

In planning the audit, the auditors identified relevant controls that USAID/Indonesia used to manage the program and oversee its activities. These controls consisted of the review of RTI's quarterly and annual performance reports, approval of annual work plans, holding biweekly meetings with RTI to obtain an update on program status and discuss any implementation issues, and conducting field visits to talk to stakeholders. In addition, the auditors examined the mission's FY 2012 annual self-assessment of management controls, which missions are required to perform to comply with the Federal Managers' Financial Integrity Act of 1982,<sup>6</sup> to determine whether the assessment cited any relevant weaknesses.

Audit fieldwork took place from June 24 to July 25, 2013, at the USAID/Indonesia mission and RTI's main office in Jakarta. The audit team also made two field trips covering 5 of the program's 20 target districts (Banda Aceh, Bener Meriah, Jember, Probolinggo, and Probolinggo city) during which they visited selected Kinerja-supported schools, community health clinics, and district government offices, and met with partners, local officials, and other stakeholders.

---

<sup>6</sup> Public Law 97-255, codified at 31 U.S. Code 3512.

## Methodology

To determine whether the program was achieving its main objective, the audit team initially examined RTI's quarterly and annual performance reports to ascertain the status of activities and the accomplishments and key deliverables achieved to date under the activities. The team interviewed the USAID agreement officer's representative for the program, as well as RTI's chief of party and technical team. In addition, the auditors reviewed relevant background documents, which consisted of the cooperative agreement (program description), annual work plans, the performance monitoring plan, results from a prior midterm evaluation, the most recent mission portfolio review, formal strategies, success stories, correspondence, and other records to gain an understanding of the program and its activities.

In addition to reviewing records on file at RTI's main office in Jakarta, the audit team made field trips to East Java and Aceh where they visited selected activity sites, focusing particularly on Kinerja-supported SBM-partner schools and community clinics.

Audit work during these trips mainly consisted of a series of interviews with Kinerja partners and stakeholders to solicit feedback and views on the program's activities as well as other issues, such as sustainability of service improvement mechanisms. We interviewed school principals and teaching staff, supervisors for community clinics, MSF members, local government officials, Kinerja field staff, and civil society partners. During these interviews, the team asked about any perceived improvements in service delivery resulting from Kinerja-funded activities, while also examining physical evidence of improvements to assess program outcomes.

In validating the results data reported for the program's performance indicators, the auditors selected a judgmental sample involving 7 of the 27 indicators and tested the balances reported over a period covering two consecutive quarters ending March 31, 2013. This involved comparing reported results data with records on file at RTI's main office to verify that the reported data were supported and accurate. The auditors established a materiality threshold of 15 percent. For example, if the total deficiencies identified exceeded 15 percent of the tested data, the auditors concluded that the reported data reviewed were not reliable. Because selection was based on a judgmental sample, results and overall conclusions were limited to the items tested and could not be projected to the entire audit universe.

# MANAGEMENT COMMENTS



## MEMORANDUM

**DATE:** October 11, 2013

**TO:** William S. Murphy, Regional Inspector General

**FROM:** Andrew B. Sisson, Mission Director /s/

**SUBJECT:** Audit of USAID/Indonesia's Kinerja Program (Report No. 5-497-14-00X-P)

This memorandum conveys USAID/Indonesia's management response to the above referenced audit report of the Kinerja program, implemented by Research Triangle Institute (RTI/International) and other partners, dated September 12, 2013. The Mission thanks the audit team for its professionalism and concurs with the three recommendations.

Since the audit team's exit briefing on July 25, 2013, USAID/Indonesia and RTI/International have taken several measures to address the findings highlighted during the field work. The Mission's responses to the Regional Inspector General's (RIG) specific audit recommendations are detailed below.

**Recommendation 1:** *We recommend that USAID/Indonesia direct RTI International to implement a strategy, including milestone dates, outlining the steps it plans to take to help district governments become more actively involved in facilitating and monitoring service delivery improvements in the program's health and education sectors.*

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

USAID/Indonesia directed RTI/International to implement a strategy designed to more actively involve district governments in the program's health and education sectors. The strategy includes elements that will improve and intensify coordination between service delivery units (SDUs) and district agencies to enable the latter to conduct quality control and oversight, thus deepening their active involvement in the program. The district agencies will be supported to drive replication within their districts, and to develop implementation guidelines and budgets. In addition, RTI/International will strengthen the cooperation of these district agencies with Multi-stakeholder Forums (MSFs), and communication channels will be established and strengthened to facilitate regular coordination. This strategy will be implemented through: workshops, technical assistance, coaching and mentoring that target district policy makers, technical agencies and service delivery working groups.

The timeline for strategy implementation began on October 8, 2013 (the date that USAID provided final approval to RTI/International's Kinerja Program 4<sup>th</sup> Annual Work Plan) and will continue through the end of the project (February 2015). The strategy is consonant with and encompassed by the approved Annual Work Plan (AWP). (See pages 13-43 and 60-70 of Annex 1). The approved AWP has incorporated the strategy implementation modalities required by the Mission. Milestone achievements and associated dates are identified for each element highlighted by Recommendation 1 in the AWP. To achieve the strategy, USAID/Indonesia has requested RTI/International to reallocate its budget for the remainder of the award period to place greater emphasis on the consolidation of program achievements to date in the original 20 target districts while still achieving a certain (albeit reduced) level of replication of those achievements in new districts.

USAID/Indonesia believes that significant corrective actions are currently being undertaken or are planned to increase coordination between service delivery units (SDUs) and district agencies to enable the latter to conduct quality control and oversight, thus deepening their active involvement in the Kinerja program. While the implementation will continue until the project's end date, final action is expected by September 30, 2014.

**Recommendation 2:** *We recommend that USAID/Indonesia direct RTI International to implement a strategy outlining the steps it plans to take, including milestone dates, for providing additional technical support for Kinerja's service delivery units, particularly those in the program's health and education sectors, and multi-stakeholder forums to promote the sustainability of the program's activities to improve public service delivery.*

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

USAID/Indonesia directed RTI/International to implement a strategy designed to intensify technical support for local government partner service delivery units (schools and health centers) and multi-stakeholder forums (MSF) through follow-on grants to Implementing Organizations (IOs). RTI/International will also ensure that IOs have adequate capacity and confidence to work with both the service delivery units and the district agencies that manage these units.

In line with the response to Recommendation 1 outlined above, support will also be provided to ensure that IOs and district agencies work closely to institutionalize monitoring and oversight of service delivery. RTI/International will continue to provide technical support to consolidate the achievements of previous IO grants provided by the project, they will also issue follow-on grants to IOs.

RTI/International has been directed to enhance MSF sustainability, especially of the under-performing district-level MSFs. The project will support MSF governance processes and increased MSF technical familiarity with public service delivery. Governance processes relate to internal procedures as well as engaging with local authorities, participating in hearings with regional legislators, participating in the *musrenbang* process (local planning meetings), and other opportunities. To ensure sustainability, RTI/International will support the exploration of sound organizational forms and post-Kinerja project financing. To increase the effectiveness of support to MSFs, USAID/Indonesia has also directed RTI/International to bolster its support to

complaint handling mechanisms and media. The project will help introduce complaint surveys in additional SDUs in health and education. MSFs will more closely monitor the implementation progress of ensuing service charters.

The timeline for strategy implementation began on October 8, 2013 (the date that USAID provided final approval to RTI/International's Kinerja Program 4<sup>th</sup> Annual Work Plan) and will continue through the end of the project (February 2015). As with Recommendation 1, the strategy is consonant with and encompassed by the Annual Work Plan which incorporated the strategy implementation modalities that respond to Recommendation 2 (For more details, please see pages 13-43 and 60-70 of Annex 1).

USAID/Indonesia believes that significant corrective actions are being undertaken and/or planned to address this audit recommendation and that service delivery units, particularly those in the program's health and education sectors, and multi-stakeholder forums, will receive additional technical support to promote the sustainability of the program's activities to improve public service delivery. While the implementation will continue until the project's end date, final action on this recommendation is expected by September 30, 2014.

**Recommendation 3:** *We recommend that USAID/Indonesia direct RTI International to implement a strategy to improve the quality of the results data reported under the program's performance indicators. At a minimum, this strategy should include (1) a method for recognizing program achievements that requires that reported achievements are supported adequately, (2) a data quality assurance review of the accumulated balance for each performance indicator to validate the balance based on the supporting records on file, and (3) measures to improve efforts to collect supporting records from Kinerja's field staff and partners in a timely manner.*

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

USAID/Indonesia directed RTI/International to implement a strategy to improve the quality of the results data reported under the program's performance indicators including; 1) a method for verifying empirical support for reported program achievements; 2) data quality assurance reviews for each performance indicator measured; and 3) taking measures to improve record keeping of field staff and the timely collection of records.

The timeline for strategy implementation began in July 2013 and will continue until the end of the project (February 2015). At the audit exit briefing in July 2013, the audit team informed USAID/Indonesia about the data quality problems that led to Recommendation 3. USAID/Indonesia immediately directed RTI International and the monitoring and evaluation (M&E) implementer (Social Impact) to take corrective actions. In response, Social Impact produced a Matrix of M&E System Improvements (Annex 2) and revised their Monitoring and Evaluation Procedures and Policies document including a new Standard Operating Procedure (SOP) on Filing Hard Copies on Kinerja Achievements (Annex 3). They also carried out a series of trainings for national and field staff of the project to assure adherence to the new M&E Procedures and Policies (August – September, 2013 held in conjunction with normal monthly all-staff meetings).

Because the Kinerja program is designed to include a Monitoring and Evaluation fire-wall to keep the M&E function of the project independent of the implementation management function, most M&E improvements have been and will continue to be carried out by Social Impact. Summary information on M&E improvements are also discussed in the Annual Work Plan (Annex 1 page 16). A summary of these steps, including milestones and the associated timelines follow:

- The first element of this strategy identified the main causes of data discrepancies, namely insufficiently robust data quality and verification procedures. RTI/International and its primary M&E partner Social Impact have started activities to improve the program's M&E system. Policies and procedures have been updated to include specifics on database management, data security, data quality assurance and data verification. Training was provided to each project staff member and IO resulting in them being better prepared to use the online reporting system and to report in a timely way with high quality, evidence-based information. Refresher trainings and supplemental instruction will be carried out at monthly all-staff meetings as needed. The local team will conduct monthly business process reviews of the program's M&E system to identify weaknesses and challenges, the results of which will be used continuously update M&E policies and procedures. These actions will increase the empirical support for claimed achievements and improve record keeping. This milestone will be achieved by March 31, 2014.
- The Social Impact M&E team is currently conducting a data quality gap analysis of the supporting evidence for reported achievements, including the Midterm Performance Evaluation Report submitted to USAID/Indonesia earlier this year. If the team finds discrepancies between the reported achievements and the supporting evidence, it will submit a revised report by October 18, 2013. The team increased its interaction with other program staff to strengthen the coordination between the Jakarta office and the field office staff and partners, thus facilitating communication and verification of evidence. Responding to the need for more adequate empirical support for claimed achievements, and providing data quality assurance on previously reported performance indicators, this milestone will also be achieved as of March 31, 2014.
- Data quality assurance reviews are crucial to enhance the accountability of the M&E team and USAID/Indonesia has instructed RTI International to carry out regular spot checks of monitoring and evaluation data. The evidentiary support for M&E data will be discussed in monthly meetings between the M&E team and Technical Specialists, and Social Impact's U.S. headquarters will conduct quarterly spot checks on this data with the M&E Team Leader. In addition to conducting limited spot checks during regular site visits, the USAID/Indonesia AOR for the Kinerja program will also conduct at least semi-annual spot checks similar to those of Social Impact's headquarters of program results reported by RTI International in its quarterly and annual reports. Responding to improved data quality assurance practices, this milestone will be complete by May 31, 2014.

USAID/Indonesia believes that significant corrective actions are being undertaken and/or planned to address this audit recommendation that will result in improved data quality reported

under the program's performance indicators. Final action on this recommendation is expected to occur by May 31, 2014.

USAID/Indonesia requests RIG/Manila's concurrence that management decisions have been reached on Recommendations 1, 2, and 3. We look forward to strengthening the Kinerja Program through implementation of the audit's recommendations.

**Annexes:**

Annex 1: Approved Kinerja Annual Work Plan FY 2014

Annex 2: Matrix of M&E Audit Action Steps

Annex 3: Revised Kinerja Monitoring and Evaluation Policies and Procedures

**U.S. Agency for International Development**  
**Office of Inspector General**  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
Tel: 202-712-1150  
Fax: 202-216-3047  
<http://oig.usaid.gov>