



USAID
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OFFICE OF INSPECTOR GENERAL

**AUDIT OF USAID/INDONESIA'S
ACEH ROAD
RECONSTRUCTION PROJECT
UNDER ITS TSUNAMI
PROGRAM**

AUDIT REPORT NO. 5-497-07-008-P
JULY 11, 2007

MANILA, PHILIPPINES



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Office of Inspector General

July 11, 2007

MEMORANDUM

TO: USAID/Indonesia Director, William M. Frej

FROM: RIG/Manila, Catherine M. Trujillo /s/

SUBJECT: Audit of USAID/Indonesia's Aceh Road Reconstruction Project Under Its Tsunami Program (Audit Report No. 5-497-07-008-P)

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

This report contains two recommendations to help improve implementation of USAID/Indonesia's Aceh Road Reconstruction Project Under its Tsunami Recovery and Reconstruction Program. Based on the information provided by the Mission in response to the draft report, we consider that final actions have been taken on both recommendations upon issuance of this report.

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

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SUMMARY OF RESULTS

After the tsunami struck the Indonesian province of Aceh in December 2004, USAID/Indonesia committed to implement a \$245 million signature infrastructure road project (referred to as the “Aceh road project”) as part of its Tsunami Recovery and Reconstruction Program. In July 2005, USAID/Indonesia signed a bilateral agreement with the Government of Indonesia (GOI) for all the tsunami-related post-relief activities in Aceh and a month later the Mission’s contractor began road clean-up, maintenance, repair, and some rehabilitation work. In October 2006, construction began on four road segments totaling 40 kilometers (km) along the new planned route. The Mission awarded a contract in June 2007 for the remaining road construction totaling 104 km and planned to complete it in February 2010. (See pages 2 and 3.)

Prior reviews of the Aceh road project conducted by the Government Accountability Office (GAO) and a prior audit conducted by the OIG identified construction delays and increased costs, and GAO concluded that USAID/Indonesia faced increased risks of such. Consequently, as part of its fiscal year 2007 audit plan, the Regional Inspector General/Manila performed this audit to determine whether USAID/Indonesia was managing the Aceh road project to minimize the risk of not completing the road project on schedule and at planned cost. (See pages 3 and 4.)

The audit concluded that USAID/Indonesia was managing the Aceh road project to minimize its risk exposure, but some risk factors were beyond the Mission’s control and caused delays. The most significant risk factor and cause of delays was the length of time needed for the GOI to acquire 3,636 parcels of private land for the new planned route. Complicating the process was Aceh’s history of protracted armed conflict and the tsunami, during which land records were lost or destroyed. Another significant risk factor that caused delays was the contractor’s ineffective management of equipment, labor, and onsite supervision for the first 40 km of road construction. Although some construction progress was achieved, the contractor was behind schedule. The Mission took timely actions to address this issue, but it believes that the contractor may not complete the construction on time and was considering other remedies. (See pages 5 through 10.)

In addition to the issues just discussed, we noted that USAID/Indonesia needed to improve its measurement and reporting of road construction progress, and it needed to fully implement public information activities to inform the public on the progress of the Aceh road project. (See pages 10 through 12.)

This report made two recommendations to help improve implementation of USAID/Indonesia’s Aceh road project. (See pages 11 and 12.) USAID/Indonesia agreed with the recommendations and took action on both of them. Based on our evaluation of USAID/Indonesia’s written comments and supporting documentation, we consider that final actions have been taken on the recommendations upon issuance of this report. (See page 13.)

USAID/Indonesia’s comments are included as Appendix II to this report. (See page 16.)

BACKGROUND

On December 26, 2004, a 9.0 magnitude earthquake occurred off the Sumatra coast of Indonesia, triggering tsunamis that caused massive flooding, damage and loss of life in the coastal communities of the region. Hardest hit was the Indonesian province of Aceh, where an estimated 174,000 people were killed, and over 500,000 displaced. Most of the national coastal road from Banda Aceh to Meulaboh was destroyed.

The U.S. government, acting through USAID, committed a \$400 million grant of assistance for the tsunami-affected areas in Indonesia. In turn, USAID/Indonesia used this funding to establish its Tsunami Recovery and Reconstruction Program to assist Indonesian victims of the tsunami. On July 7, 2005, USAID/Indonesia signed a Strategic Objective Agreement¹ with the Government of Indonesia (GOI) for all the tsunami-related post-relief activities in Aceh.

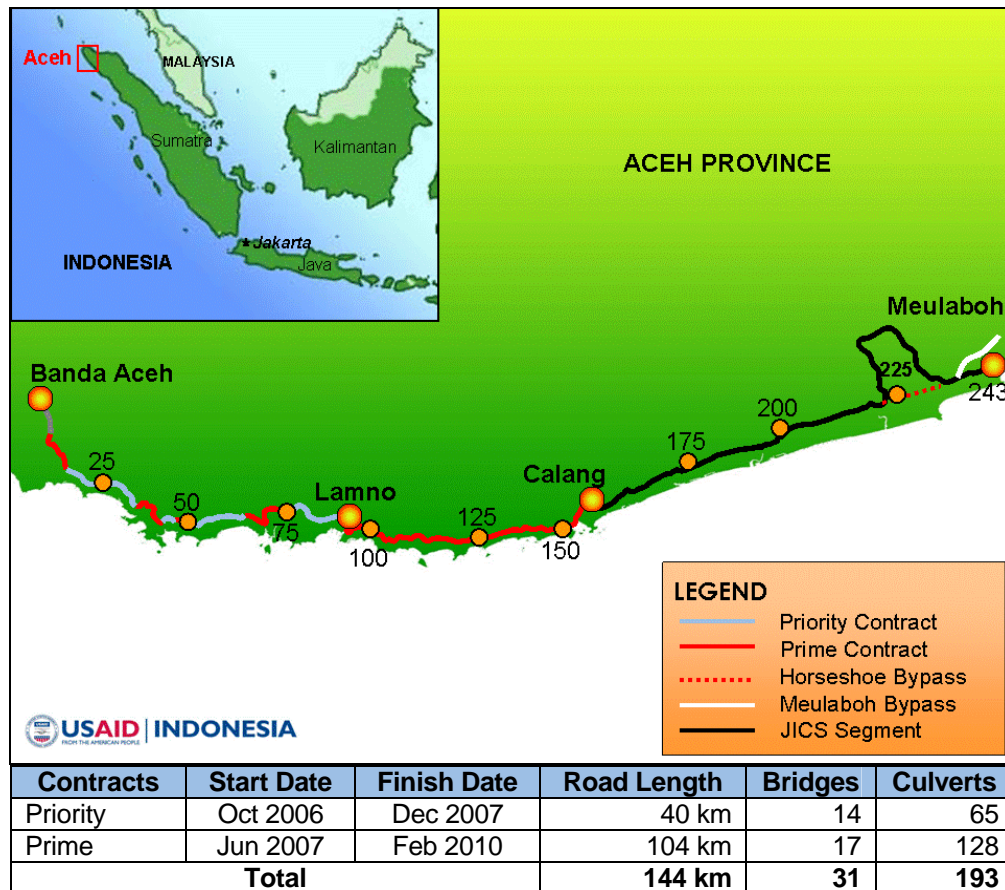
As part of its program, USAID/Indonesia committed to implement a \$245 million signature infrastructure road project (referred to as the “Aceh road project”) extending about 243 kilometers (km) from Banda Aceh to Meulaboh. USAID/Indonesia planned to implement this project under three separate contracts:

- **1st Contract – Priority Design Build (Priority).** On August 23, 2005, USAID/Indonesia awarded a one-year \$12 million contract to PT Wijaya Karya (WiKa), an Indonesian construction firm, for design and construction services along the road between Banda Aceh and Lamno. The contract required WiKa to design and construct up to about 10 km of new road and perform other road maintenance, repair, and rehabilitation work. Subsequently, the Mission modified the contract to build about 30 km more of new road, including bridges and culverts, raising the total contract amount to about \$81 million and extending the estimated completion date from September 22, 2006 to December 31, 2007.
- **2nd Contract – Design and Construction Management.** On November 10, 2005, USAID/Indonesia awarded a \$35 million contract to Parsons Global Services Inc (Parsons), a U.S. Architect-Engineer firm, to cover the design of the remaining segments of the Aceh road project, review WiKa’s design of 10 km of road, and provide construction management over the entire Aceh road project. The contract period was about 45 months or until the end of July 2009.
- **3rd Contract – Large-scale Prime Construction (Prime).** USAID/Indonesia originally planned on awarding this contract in September 2006 to complete the remaining road construction, including bridges and culverts. However, this was delayed because the Mission and prospective contractor did not reach agreement on price. In October 2006, the Mission began a new solicitation process and the contract was awarded in June 2007. The project was scheduled to be completed by February 2010.

¹ A Strategic Objective Agreement is the principal bilateral grant agreement used by USAID with a foreign government or a subdivision of it.

Although USAID/Indonesia originally committed to reconstruct the entire 243 km roadway between Banda Aceh and Meulaboh, the Government of Japan through its Japan International Cooperation System (JICS) was already rehabilitating the existing road from Calang to Meulaboh. In June 2006, USAID/Indonesia, JICS, and the GOI reached an agreement that there would be a single route for the entire roadway between Banda Aceh and Meulaboh, and that JICS would continue its road work from Calang to Meulaboh. As a result, USAID/Indonesia reduced its original project scope to about 144 km from 243 km, which included building two bypasses in the JICS road segment. Figure 1 shows a map of the Aceh road project, including the JICS segment.

Figure 1: Map of the Aceh Road Project



In November 2005, the OIG conducted an audit of USAID/Indonesia’s Banda Aceh–Lamno road reconstruction activities implemented by WiKa for the priority road segments.² The OIG concluded that it could not determine whether all of the road reconstruction activities were on schedule to be completed by the overall project completion date and within the overall estimated costs because the Mission did not have an approved road design or an approved implementation plan in place.

² OIG, *Audit of USAID/Indonesia’s Banda Aceh–Lamno Road Reconstruction Activities Under Its Tsunami Recovery and Reconstruction Program*, Report No. 5-497-06-003-P (Manila, Philippines: March 30, 2006)

In October 2006, the Government Accountability Office (GAO) conducted a review of USAID/Indonesia's road reconstruction project as part of its Congressionally mandated monitoring of U.S. reconstruction assistance to tsunami-affected countries. In its report, GAO concluded that USAID/Indonesia faced increased risk that it may not successfully complete the project at planned cost and on schedule because of factors typically related to the difficulty of operating in a post-disaster environment, such as increased construction costs and delays in land acquisition.³

As a result, USAID/Indonesia did realize an increase in costs above the original government estimate. As of March 31, 2007, the total budget for the Aceh road project was estimated to cost \$253 million, of which USAID/Indonesia had obligated about \$103 million and disbursed \$18 million for Aceh road project activities.



OIG photograph of road construction near the Raba River bridge crossing at Km 25 in Aceh Province, Indonesia. (March 2007)

AUDIT OBJECTIVE

The Regional Inspector General/Manila conducted this audit as part of its fiscal year 2007 annual audit plan to answer the following question:

- Is USAID/Indonesia managing the Aceh Road Reconstruction Project under its Tsunami Recovery and Reconstruction Program to minimize the risk of not completing the project on schedule and at planned cost?

Appendix I contains a discussion of the audit's scope and methodology.

³ GAO, *Foreign Assistance USAID Signature Tsunami Reconstruction Efforts in Indonesia and Sri Lanka Exceed Initial Cost and Schedule Estimates, and Face Further Risks*, GAO-07-357 (Washington, D.C.: February 28, 2007)

AUDIT FINDINGS

USAID/Indonesia was managing the Aceh Road Reconstruction Project under its Tsunami Recovery and Reconstruction Program to minimize the risk of not completing the project on schedule and at planned cost. While USAID/Indonesia faced many unforeseen difficulties during the start of the Aceh road project in a post-disaster environment, since about May 2006 the Mission significantly stepped up its actions to proactively identify, prioritize, and manage both internal and external factors that could impact on such risk. Nevertheless, these risk factors—some of which were beyond the Mission’s control—impacted on the Aceh road project and caused delays. Table 1 shows a summary of eight risk factors listed by priority and actions taken on them by the Mission and the U.S. Embassy/Indonesia as of April 15, 2007.

Table 1: Summary of USAID/Indonesia’s Management of Risk Factors

Priority ⁴	Risk Factors	Actions Taken to Address Risk Factors
High	Length of time needed by the Government of Indonesia (GOI) to acquire 3,636 parcels of private land for road right-of-way	<ul style="list-style-type: none"> • Cognizant Technical Officer (CTO) actively engaged and working with GOI officials at all levels • Stepped-up outreach program on the ground to facilitate land transfers • Mission Director and U.S. Ambassador met with senior GOI officials
Medium	Priority contractor not effectively managing its resources	<ul style="list-style-type: none"> • CTO and design/construction management contractor actively engaged and working with the priority contractor to help it better manage work load and expedite construction • CTO and design/construction management contractor actively met with local communities to remove impediments • Mission hired an Indonesian road engineer in Aceh
Medium	GOI’s inconsistent tax exemption policies for USAID funded projects	<ul style="list-style-type: none"> • Mission Director and U.S. Ambassador met with senior GOI officials • Legal advisor and program officer actively meeting with GOI Ministry of Finance tax officials • USAID/Indonesia sent formal correspondence to GOI Ministry of Finance tax officials
Medium	Public misinformation	<ul style="list-style-type: none"> • USAID/Indonesia posted some project information on its website
Low	Local community disputes, misunderstandings, and other issues regarding the Aceh road project	<ul style="list-style-type: none"> • CTO and outreach contractors actively working with local communities and leaders to resolve disputes, misunderstandings, and other issues that could affect construction progress
Low	Rising construction costs	<ul style="list-style-type: none"> • Reduced scope of work to more realistic level under current budget and cost environment

⁴ The OIG worked with the Mission to prioritize its risk factors as low, medium, or high. A higher priority indicated a condition with a high probability of occurrence and a negative consequence that would have a significant future impact on completing the Aceh road project on schedule and at planned cost.

		<ul style="list-style-type: none"> • Changed priority contract to fixed price for construction component • Untied prime contract bidding from only U.S. firms • Prime contract for large-scale construction will be fixed price
Low	Delay in awarding the prime contract for large-scale construction	<ul style="list-style-type: none"> • New solicitation process was completed and contract was awarded in June 2007
Low	Lack of experienced civil engineer/CTO to oversee Aceh road project on behalf of USAID	<ul style="list-style-type: none"> • Hired a senior civil engineer with 40 years of experience to serve as CTO and team leader for the Aceh road project

Despite USAID/Indonesia's efforts, the Aceh road project incurred preconstruction and construction delays because of the risk factors listed above. The following narrative discusses some of the significant risk factors, their associated delays, and the Mission's efforts to minimize the delays.

While USAID/Indonesia was doing what it could to minimize the risk of not completing the project on schedule and at planned cost, the Mission experienced delays on significant preconstruction activities, as shown in Table 2.

Table 2: Timeline of Delays Incurred for Significant Preconstruction Activities

Significant Preconstruction Activities	Planned Date	Actual Date	Months Delay
• Hire civil engineer/CTO to oversee Aceh road project on behalf of USAID	Dec 2005	May 2006	5
• Award design and construction management contract	Aug 2005	Nov 2005	3
• Award subcontract for outreach program to facilitate land acquisitions	Nov 2005	Feb 2006	3
• Prepare initial road survey and planned route	Jan 2006	Mar 2006	2
• Completed and presented final planned route	Feb 2006	Jun 2006	4
• Acquire first parcels of land to start road construction in priority segments	Apr 2006	Oct 2006	5
• Acquire first parcels of land to start road construction in prime segments	Apr 2006	Nov 2006	7
• Award prime construction contract	Sep 2006	Jun 2007	9

The most significant risk factor and cause of delays was the length of time needed for the Government of Indonesia (GOI) to acquire private land for the Aceh road project. Industry experience shows that acquiring land for large-scale road construction projects is typically difficult, lengthy, and sensitive to the communities affected. For USAID/Indonesia's Aceh road project, acquiring privately owned land along the planned route emerged as the most challenging issue. Before any road construction could proceed, land had to be acquired by the GOI. The inherent difficulty of acquiring land was compounded by Aceh's history of protracted armed conflict and the tsunami. Land records were lost or destroyed in the tsunami and limited information on land valuation was available at that time.

The GOI started its land acquisition process in August 2006, after USAID/Indonesia presented the final planned route for the Aceh road project, which was delayed by about four months because the Mission’s contractor Parsons Global Services Inc (Parsons) had difficulties with its road surveying process. In October 2006, the GOI acquired its first parcels of land to start road construction in the priority segments. At the time of our audit, the GOI was making progress, but more than half of the land was not yet acquired. The GOI explained that it could not start acquiring land until it knew the exact route of the new roadway. However, USAID/Indonesia officials believed that more could have been done to get the process underway, such as determining fair market values of land. Table 3 shows the status of the land acquisition process as of April 15, 2007.

Table 3: Status of Land Acquisitions for the Aceh Road Project (April 15, 2007)

Status	Priority Contract		Prime Contract		Totals		
	Parcels	Km	Parcels	Km	Parcels	Km	Percent
Private land to be acquired	1,195	40	2,441	73	3,636	113	100%
Private land acquired ⁵	591	20	922	27	1,513	47	42%
Remaining	604	20	1,519	46	2,123	66	58%

Initially, USAID/Indonesia did not anticipate the significant amount of time needed to acquire land and the related difficulties, which was not factored into the Aceh road project’s schedule. However, as the issue started to unfold, the Mission took appropriate actions. For example, USAID/Indonesia’s CTO for the Aceh road project and its community outreach team continually met with government officials at the district and provincial levels to expedite land acquisition and to ensure that land was acquired in a way that included villagers in the process. Additionally, the Mission Director and U.S. Ambassador met with senior GOI officials to emphasize the need to move quickly on land acquisitions.

To some observers, the amount of time needed for the GOI to acquire land could be viewed as slow, but when compared to other large-scale road projects in Indonesia, the GOI’s pace was faster than the norm for the Aceh road project. For example, land acquisition for a 1,000 km toll road in Java started in 2005, but as of March 2007, only about 48 km of land had been acquired. Other land acquisition efforts have taken 10 years or longer to complete. USAID/Indonesia’s proactive actions and its outreach program greatly contributed to pushing the process forward for the Aceh road project. Although the GOI had acquired only 42 percent of the total land needed as of April 15, 2007, it anticipates acquiring all 3,636 parcels of the land by June 2007 because a significant number of the remaining parcels were already being processed.

USAID/Indonesia’s delay in awarding the prime contract for the large-scale construction was another risk factor that had an impact on the Aceh road project’s schedule and planned cost. The Mission originally intended to award the contract in September 2006. This slipped because the Mission and prospective contractor did not reach agreement on

⁵ Private land acquired does not include 31 km of government land that was released for construction in the prime contract segment of the roadway. The total amount of land required for the planned route from Banda Aceh to Calang was about 144 km, or 31 km of government land and 113 km of private land.

price. In October 2006, the Mission began a new solicitation process and the contract was awarded in June 2007, about nine months after the planned award date.



OIG photograph of road and bridge construction at Km 46 adjacent to existing road with green dump truck on it (right side) in Aceh Province, Indonesia. Inset: opposite view of bridge construction (right side) next to a temporary bridge (left side). (March 2007)

Upon closer inspection, USAID/Indonesia's delay in awarding prime contract for the large-scale construction was overshadowed by the GOI's enormous task of acquiring 3,636 parcels of private land for the road right-of-way. The considerable amount of time needed for the GOI to accomplish this task could have worked in the Mission's favor. Had the Mission awarded the contract in September 2006, the contractor could have incurred about six months of idle time while waiting for enough land to be released to start construction. Idle time typically causes increased costs, while taking away from funding for construction.⁶

However, other delays did impact on the Aceh road project's schedule and planned cost. For example, Parsons missed the target date by about four months for completing the final planned route for the new roadway, which significantly impacted on other dependent activities. Specifically, without the planned route, land acquisitions and road construction could not proceed. The four-month delay occurred when Parsons had problems with its aerial survey process and had to resort to ground surveying.

⁶ According to the National Research Council, delays in construction projects are likely to increase costs.

Another example was USAID/Indonesia's delay in hiring a senior civil engineer to serve as its CTO and project leader. The Government Accountability Office (GAO) reported in April 2006 that the Mission needed to fill technical positions with experienced staff—specifically the CTO position—to provide technical oversight of the Aceh road project.⁷ This was delayed by about five months because the Mission re-advertised the position at a higher pay-level to attract more qualified and experienced people. The delay hampered the Mission in the early stages of the Aceh road project when it needed technical expertise and leadership to make key engineering decisions and engage the GOI as appropriate. However, the Mission re-advertised the position and it proved favorable because it was able to hire a senior civil engineer with 40 years of experience. Since about May 2006 when the CTO was hired, the Mission's stepped up efforts to address the project's difficulties were a direct result of the CTO's hands-on actions.

Similar to the preconstruction delays, USAID/Indonesia incurred construction delays on the priority segments of the Aceh road project. Specifically, the priority contractor's ineffective management of its equipment, labor, and onsite supervision resulted in inefficient operations and slow overall progress. In December 2006, Parsons first reported this issue in its monthly report to USAID/Indonesia when it became clear that it was an emerging risk factor. Specifically, Parsons reported that the priority contractor, PT Wijaya Karya (WiKa), had not mobilized enough resources to maintain construction operations concurrently in each of the four priority road segments. OIG auditors also observed idle equipment and inactive laborers during site visits made in March and April 2007. Although WiKa achieved some progress on the Aceh road project, it was behind schedule because of its management issues. Table 4 shows a summary of progress made on major road activities as of April 15, 2007.

Table 4: Progress Made on Major Construction Activities in Priority Segments (April 15, 2007)

Major Construction Activities in Priority Segments (40 km of road, 14 bridges, 65 culverts)	Planned Complete	Actual Complete	Behind Schedule
• Earthworks (clearing & grubbing, land fill, embankment, grading, layering, compacting)	67.7%	29.5%	-38.2%
• Bridges (piling, abutments, bridge fabrication)	35.6%	5.9%	-29.7%
• Box culverts and pipe culverts	94.2%	3.0%	-91.2%
• Drilling and blasting	42.2%	5.3%	-36.9%
• Asphalt paving	25.1%	-	-25.1%

To address this issue, USAID/Indonesia began monitoring and supervising WiKa more closely. For example, the CTO spent about half his time at the project site in Aceh province and was actively engaged in helping WiKa to better manage its work load and expedite construction. Additionally, Parsons was holding regular meetings with WiKa's management to review the status of mobilization deliverables such as field offices, two-way radios, a laboratory, a concrete batch plant, and a labor camp. The intent of these meetings was to ensure WiKa stayed on schedule. Parsons also started providing daily training on road construction to WiKa staff.

⁷ GAO, *Foreign Assistance: USAID Has Begun Tsunami Reconstruction in Indonesia and Sri Lanka, but Key Projects May Exceed Initial Cost and Schedule Estimates*, GAO-06-488 (Washington, D.C.: April 14, 2006)

Despite this effort, USAID/Indonesia believes that WiKa may not complete the construction by December 31, 2007, and has raised its concerns to WiKa's senior management and was also considering other remedies to address this issue.

Because USAID/Indonesia has taken actions to address the risk factors discussed above, we did not make a recommendation.

Although delays were incurred on the Aceh road project, USAID/Indonesia made some progress in the priority segments of the roadway, but the Mission's reporting of such progress could be improved to better measure and communicate results achieved. Additionally, public information activities need to be fully implemented to accurately and timely inform the public on the progress of the Aceh road project. These issues are discussed in the following narrative.

Progress Measurement and Reporting Needs Improvement

Summary: USAID policy requires that missions establish performance management systems to measure progress towards their intended objectives. Although USAID/Indonesia actively monitored the Aceh road project, progress measurement and reporting could be improved in two areas. Specifically, the Aceh road project's performance indicators, primarily designed by USAID/Washington, were not fully useful for measuring and reporting on major road construction activities and Parsons' progress reports submitted to the Mission did not include performance data that measured actual results against expected results. This occurred because the Mission neither set additional performance indicators to appropriately capture the progress of such road construction activities nor required Parsons to include performance measures in its progress reports. As a result, progress was being made on the Aceh road project, but the Mission could not effectively measure and communicate this to stakeholders.

USAID's Automated Directives System (ADS) 203.3.2 states that missions are responsible for establishing systems to measure progress towards their intended objectives. Additionally, ADS 200.6 defines performance management as "...the systematic process of monitoring the results of activities; collecting and analyzing performance information to track progress toward planned results; using performance information to influence program decision-making and resource allocation; and communicating results achieved, or not attained, to advance organizational learning and tell the Agency's story."

In September 2005, USAID's Bureau for Asia Near East/Washington (ANE), in collaboration with the tsunami-affected missions, established a set of common performance indicators for reporting progress on tsunami reconstruction projects. The goal was to design high-level performance indicators for stakeholders in Washington, D.C. specifically senior officials in ANE and the U.S. Congress. The following three common performance indicators were set for the Aceh road project and were incorporated into USAID/Indonesia's Performance Management Plan:

- Kilometers of road built
- Number of bridges built (including culverts)
- Number of bridges repaired (including culverts)

ADS 203.3.4 states that performance indicators are used to observe progress and to measure actual results compared to expected results. ADS 203.3.4.1 states that missions should select performance indicators that are the most appropriate for the result being measured.

However, the three common performance indicators were designed at a level too high to be fully useful for measuring and reporting on major road construction activities. Specifically, the performance indicators could not capture the progress of construction activities such as clearing and grubbing, land fill, embankment, grading, layering, compacting, bridge piling, bridge fabrication, and asphalt paving. Further, the performance indicator for measuring “kilometers of road built” was unclear because the point of completion could be interpreted in different ways. Moreover, USAID/Indonesia officials told us that the performance indicator for measuring the “number of bridges repaired (including culverts)” was no longer relevant because the Aceh road project progressed from repairing bridges to building them.

Although USAID/Indonesia officials knew that the performance indicators were not fully useful for measuring and reporting on major road construction activities, the Mission did not take steps to design appropriate indicators for its Performance Management Plan. The Mission also did not require Parsons to include performance data that measured actual results against expected results in its monthly progress reports that were submitted to the Mission. Consequently, progress was being made on the Aceh road project, but the Mission could not effectively measure and communicate results achieved to stakeholders.

We are making the following recommendation to ensure that USAID/Indonesia establishes appropriate performance indicators that will be useful to measure actual results against expected results and communicate results achieved on the Aceh road project.

Recommendation No. 1: We recommend that USAID/Indonesia (1) establish performance indicators at an appropriate level to measure major construction activities on the Aceh road project and (2) require Parsons to report on such performance indicators in its monthly progress reports.

Public Information Activities Not Fully Implemented

Summary: USAID/Indonesia’s contract with Parsons required implementation of public information activities to inform stakeholders and international audiences on the progress of the Aceh road project. As part of this effort, Parsons was to create a website with updated information on road construction activities. However, the website was not launched and only limited information was being released to the public. Although Parsons submitted the website design to the Mission, the CTO had not yet approved it. This occurred because the CTO had other competing requirements in dealing with project delays and impediments. Consequently, USAID/Indonesia was not getting its message out on the positive achievements of the Aceh road project, while negative and sometimes inaccurate information was being reported in the news media.

According to USAID/Indonesia's contract with Parsons, public information activities were to be implemented to provide timely and accurate project information to meet public information expectations, provide information about construction and candid progress updates, and promote public satisfaction with the project. An integral component of such activities was the creation of a website to provide updated progress information, progress reports to USAID, and periodic news releases during both design and construction phases for both the priority and prime contracts. The intent of the website was to serve as an official center of information for project stakeholders and international audiences.

In January 2006, USAID/Indonesia's Contracting Officer provided consent for Parsons to subcontract with International Resources Group (IRG) to implement, among other things, public information activities for the Aceh road project. IRG was also tasked to create the project website. In October 2006, IRG completed the website design and Parsons submitted it to the Mission for approval. However, as of April 20, 2007, the website had not yet been launched. Additionally, while IRG prepared monthly stakeholder reports, such reports and other project information were not widely made available to the public.

The CTO explained that he did not have time to review and approve the website because he was dealing with higher priority issues such as delays and impediments on the Aceh road project. Some Mission officials also believed that it would be better to defer public information activities until more progress was made on road construction. Nevertheless, USAID/Indonesia was not getting its message out on the positive achievements of the Aceh road project, while negative and sometimes inaccurate information was being reported in the news media.

Public information plays a vital role in the success of USAID's programs and activities. USAID/Indonesia and its partners could use a website as a tool to respond quickly to stakeholders and actively communicate to key in-country and international audiences. It could also serve as a positive source of information for all readers as the Aceh road project moves forward with construction. Therefore, we are making the following recommendation.

Recommendation No. 2: We recommend that USAID/Indonesia work with Parsons to fully implement public information activities, including a website, to accurately and timely inform the public on the progress of the Aceh road project.

EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report, USAID/Indonesia agreed with our two recommendations and took actions to implement them. Based on our review of the Mission's comments, detailed actions, and subsequent supporting documents received, we determined that final actions have been taken on both recommendations.

USAID/Indonesia's written comments on the draft report are included in their entirety as Appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this audit in accordance with generally accepted government auditing standards to determine whether USAID/Indonesia was managing the Aceh Road Reconstruction Project under its Tsunami Recovery and Reconstruction Program to minimize the risk of not completing the road project on schedule and at planned cost. As of March 31, 2007, the total budget for the Aceh road project was \$253 million, of which USAID/Indonesia had obligated about \$103 million and disbursed \$18 million for Aceh road project activities.

The audit was performed in Indonesia during the periods March 12-22 and April 11-20, 2007, and it covered USAID/Indonesia's management of Aceh road project activities implemented by PT Wijaya Karya (WiKa) and Parsons Global Services Inc from October 4, 2005 through April 15, 2007. The audit considered both internal and external factors that could impact on the Mission's risk of not completing the Aceh road project on schedule and at planned cost. In considering such risk factors, we assessed the likelihood of considerable delays, increased costs, imminent failure, and noncompliance with laws, regulations or internal policies. Fieldwork was conducted at USAID/Indonesia, the U.S. Embassy/Indonesia, the Government of Indonesia's (GOI) Agency for Rehabilitation and Reconstruction of Aceh-Nias, the Office of the Deputy Governor for Aceh Province, WiKa's office in Jakarta, Parson's office in Banda Aceh, and selected segments of road project activities in Aceh province.

As part of the audit, we assessed the significant internal controls used by USAID/Indonesia to manage its Aceh road project activities. The assessment included controls related to whether the Mission (1) conducted and documented site visits to evaluate progress and monitor quality, (2) required and approved an implementation plan, (3) reviewed progress reports submitted by the contractors, and (4) compared contractors' reported progress to planned progress and the Mission's own evaluations of progress. We also reviewed the Mission's Federal Managers' Financial Integrity Act report for fiscal year 2006, and U.S. government reports for any issues related to the audit objective. Finally, we reviewed relevant prior audit reports, including those issued by the U.S. Government Accountability Office.

Methodology

To answer the audit objective, we interviewed officials from USAID/Indonesia, the U.S. Embassy/Indonesia, the GOI, the Office of the Deputy Governor for Aceh Province, and contractors. We also reviewed and analyzed relevant documents. This documentation included contracts, performance monitoring plans, site visit and other monitoring reports, progress reports, financial records, and other records showing actions taken by the Mission to manage the Aceh road project.

In answering the audit objective, we identified and prioritized risk factors as low, medium, or high. We performed this assessment in collaboration with USAID/Indonesia. A higher priority indicated a condition with a high probability of occurrence and a negative

consequence that would have a significant future impact on completing the Aceh road project on schedule and at planned cost.

Parsons mostly used an Excel database to track progress on the Aceh road project. We performed a number of steps to test the reasonableness, reliability, and accuracy of the database. For example, we gained an understanding of Parsons' performance monitoring and evaluation processes, from the point of origination in the field to the point of consolidation into the database. We reviewed a judgmental sample of site inspection reports and traced them to the database and to monthly summary reports. We assessed the formulas applied to data in the database to arrive at summary performance results and performed recalculations of data.

A materiality threshold was not established for the audit. Instead, auditor judgment was used to assess whether USAID/Indonesia took appropriate and necessary actions in managing the Aceh road project to minimize the risk of not completing the project on schedule and at planned cost.

MANAGEMENT COMMENTS



MEMORANDUM

June 12, 2007

TO: Catherine Trujillo, Inspector General, RIG/Manila

FROM: William M. Frej, Mission Director, USAID/Indonesia /s/

SUBJECT: Management Comments to the Audit of
USAID/Indonesia's Aceh Road Reconstruction Project
Under Its Tsunami Program (Audit Report No. 5-497-07-
00X-P)

USAID/Indonesia agrees with the two recommendations proposed by the Office of the Inspector General in its Audit of USAID/Indonesia's Aceh Road Reconstruction Project Under Its Tsunami Program (Audit Report No. 5-497-07-00X-P). USAID/Indonesia appreciates the efforts of the audit team to present a well-written, accurate and fair audit report.

The Aceh Road Team is taking the following corrective actions to address concerns raised in this report:

Recommendation 1: We recommend that USAID/Indonesia (1) establish performance indicators at an appropriate level to measure major construction activities on the Aceh road project and (2) require Parsons to report on such indicators.

Response: The Aceh Road Team has reviewed potential indicators in consultation with its contractor, Parsons. The Team has agreed to use 6 visual graphs as reporting tools to show progress on major elements of the project. The graphs include:

1. An overall progress completion graph weighted in terms of value (S curve)
2. A chart indicating road open for public use with project completion date requirements noted
3. A gant chart showing status of box culverts by section
4. A gant chart showing status of concrete by section
5. A gant chart showing status of embankment by section
6. A gant chart showing status of bridges each by section

Parsons will present these graphs in its monthly progress reports to USAID/Indonesia. The graphs will be published in the upcoming report covering activities in May.

Recommendation 2: We recommend that USAID/Indonesia work with Parsons to fully implement public information activities, including a website, to accurately and timely inform the public on the progress of the Aceh road project.

Response:

USAID/Indonesia has authorized International Resources Group (IRG), a sub-contractor to Parsons, to fully develop a project web site. The project CTO has reviewed proposed web-site content. IRG expects to launch the web-site by June 15, 2007.

Given USAID/Indonesia's actions described above, we request that RIG/Manila concur that management decisions have been reached on both recommendations.

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