

February 2007

FOREIGN ASSISTANCE

USAID Signature Tsunami Reconstruction Efforts in Indonesia and Sri Lanka Exceed Initial Cost and Schedule Estimates, and Face Further Risks



Highlights of [GAO-07-357](#), a report to congressional committees

Why GAO Did This Study

In December 2004, an earthquake caused a tsunami that devastated several countries in the Indian Ocean region. In May 2005, Congress appropriated \$908 million in aid, of which the U.S. Agency for International Development (USAID) is implementing \$482 million in recovery projects in many affected countries, including Indonesia and Sri Lanka. This report examines (1) the progress of USAID's program; (2) USAID's financial and technical oversight of its efforts, and risks it faces; and (3) actions taken by the Secretary of State in response to an April 2006 GAO recommendation. Specifically, GAO recommended that State, in its required reports to Congress, provide updated cost estimates and schedules and show the need for additional funding sources, if necessary. GAO examined USAID's signature projects in both countries; reviewed project documents and periodic reports, interviewed USAID officials, and visited project sites in August and October 2006.

What GAO Recommends

To show progress, potential future risks, and enhance Congress's oversight, GAO recommends that the Secretary of State include, in State's reports to Congress, (1) the amount of funds obligated (in USAID's terms, "subobligated") in implementing agreements and (2) risk information and mitigation strategies.

www.gao.gov/cgi-bin/getrpt?GAO-07-357.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

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What GAO Found

Although both of its signature projects—one in Indonesia and one in Sri Lanka—are under way, USAID has increased initial cost estimates, reduced or canceled some project activities, and may extend completion dates. As of December 31, 2006, USAID had obligated \$140 million (46 percent) and expended \$20 million (7 percent) of the \$302 million it budgeted for the two signature projects, which consist of the construction of a major road in Indonesia and construction of a bridge and other infrastructure in Sri Lanka. In Indonesia, based on GAO's analysis, estimated construction cost per mile increased by 75 percent—from \$1.6 million to \$2.7 million; USAID reduced the length of road to be built by over one third—from 150 miles to 91 miles; and the agency may extend the planned completion date to February 2010—5 months later than initially planned. As of January 2007, construction had begun to build 26 miles of road, but USAID had not awarded a contract for construction of the remainder of the road and the government of Indonesia had acquired less than one-fourth of the nearly 3,700 parcels of land needed. In Sri Lanka, USAID increased the estimated costs for its signature project by nearly 40 percent—from \$35 million to \$48 million. USAID has taken steps to address some difficulties in both countries but continues to face risks that it may not complete the signature projects within cost and schedule estimates, and without reducing the projects' scope, as planned.

USAID is carrying out measures that it previously established for financial oversight of reconstruction in Indonesia and Sri Lanka and has taken steps to enhance its technical oversight capacity. For example, USAID is conducting additional concurrent audits of its signature road construction project in Aceh Province, Indonesia, to address concerns about corruption, potential misuse of funds, and completing projects on schedule. To ensure technical oversight, USAID added experienced staff in both countries and acquired additional engineering services through the U.S. Army Corps of Engineers. However, when it began its tsunami assistance programs in early 2005, USAID lacked disaster recovery guidance, including lessons learned from prior disaster reconstruction efforts. These lessons include setting appropriate time frames, conducting thorough cost assessments, and understanding local land tenure systems. USAID continues to face several risks, such as rising costs and delays in land acquisition, that could affect its successful completion of signature projects in Indonesia and Sri Lanka as planned.

In response to GAO's April 2006 recommendation, the Secretary of State agreed to provide updated cost estimates and schedules in its required semiannual report. However, State's two reports submitted since GAO made its recommendation show USAID obligations to recipient countries rather than amounts obligated to organizations implementing project activities (in USAID's terminology, "subobligations"). The current reported obligations do not clearly reflect USAID's progress and the reports do not include some risk information and a mitigation strategy for addressing the risks.

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Abbreviations

A-TARP	Aceh Technical Assistance Recovery Project
DCAA	Defense Contract Audit Agency
IG	USAID Office of the Inspector General
LTTE	Liberation Tigers of Tamil Eelam
NGO	nongovernmental organization
USACE	U.S. Army Corps of Engineers
USAID	U.S. Agency for International Development

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United States Government Accountability Office
Washington, DC 20548

February 28, 2007

The Honorable Patrick J. Leahy
Chairman
The Honorable Judd Gregg
Ranking Minority Member
Subcommittee on State, Foreign Operations,
and Related Programs
Committee on Appropriations
United States Senate

The Honorable Nita M. Lowey
Chairwoman
The Honorable Frank R. Wolf
Ranking Minority Member
Subcommittee on State, Foreign Operations,
and Related Programs
Committee on Appropriations
House of Representatives

The tsunami of December 2004, caused by an earthquake in the Indian Ocean near Indonesia, widely devastated 12 Asian and East African countries, leaving more than 200,000 dead and 40,000 reported missing. In May 2005, Congress appropriated approximately \$908 million in assistance for tsunami relief, reconstruction, and related programs.¹ The U.S. Agency for International Development (USAID) tsunami reconstruction programs in Indonesia and Sri Lanka—the two affected countries with the greatest estimated needs—began later in 2005. USAID’s programs in the two countries include signature projects, intended to generate greater visibility for overall U.S. assistance. In Indonesia, USAID initially planned to construct a 150-mile coastal road, budgeted at \$245 million (about 70 percent of its funds) and scheduled for completion in September 2009; in

¹Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005, Pub. L. 109-13. In addition to \$327 million budgeted for survivors’ immediate needs for medicine, food, and shelter, approximately \$482 million is currently budgeted for longer-term reconstruction and related programs to be directed by the U.S. Agency for International Development (USAID). This amount includes \$351 million for Indonesia, \$83 million for Sri Lanka, and \$48 million for other countries and regional programs. The remaining \$99 million is budgeted to other U.S. agencies.

Sri Lanka, USAID planned to construct a bridge and other infrastructure, among other project components, budgeted at \$35 million (over 40 percent of its funds) and scheduled for completion in March 2008.²

We began monitoring the delivery of U.S. assistance to the tsunami-affected countries in May 2005.³ In April 2006, we reported that USAID had begun its reconstruction programs in Indonesia and Sri Lanka but that costs and schedules for some projects might exceed initial estimates; that the agency had established financial and technical oversight of the assistance but had not filled some technical oversight positions; and that several significant challenges, including civil conflict, confronted its reconstruction efforts in both countries.⁴ To help ensure the public availability of current information on the assistance costs and schedules, our April 2006 report recommended that the Secretary of State provide updated cost and schedule estimates in the Department of State's semiannual report to Congress, required by Section 4102 of the act authorizing the assistance (Section 4102 report).⁵

Updating our April 2006 findings, this report examines (1) the status of USAID's signature projects in Indonesia and Sri Lanka, including its

²USAID also initiated "nonsignature" projects that it initially planned to complete by September 2007.

³In March 2005, the House Appropriations Committee requested that we review U.S. assistance for reconstruction efforts in response to the December 2004 earthquake and tsunami (H.Rept. 109-16, p. 49).

⁴GAO, *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.: Apr. 14, 2006).

⁵Section 4102 of the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005, Pub. L. 109-13, required that the Secretary of State report to Congress in June 2005, on a project-by-project basis, on the proposed uses of all appropriated funds for which State anticipated obligating funds and every 6 months thereafter on the expenditure of the funds, on a project-by-project basis, until all funds are fully expended.

obligations⁶ and expenditures of funds for reconstruction assistance in Indonesia and Sri Lanka; (2) USAID's financial and technical oversight of the programs, and the extent to which it had guidance for operating in postdisaster situations, including lessons learned from prior disasters; and (3) actions taken by the Secretary of State in response to our April 2006 recommendation. Appendix III presents information about USAID's nonsignature tsunami reconstruction projects in Indonesia and Sri Lanka.

To address these issues, we reviewed USAID data, including funding obligations and expenditures, through December 2006, the agency's progress in achieving program objectives for its signature projects, and its oversight of the programs. These data included monthly progress reports on project activities, monthly and quarterly expenditures, and interviews with USAID officials. In Washington, D.C., Sri Lanka, and Indonesia, we met with representatives from State, USAID, the U.S. Army Corps of Engineers (USACE), nongovernmental organizations, private firms, and governments of tsunami-affected countries. During our visits to Indonesia and Sri Lanka, we visited numerous signature project sites in the tsunami-affected areas and monitored the progress of USAID's projects. We determined that USAID's funding and expenditure data were sufficiently reliable for our analysis. We also considered previous GAO work on U.S. disaster assistance efforts. We conducted our work from June 2006 through February 2007 in accordance with generally accepted government auditing standards. (App. I contains a more detailed description of our scope and methodology.)

Results in Brief

Although USAID's signature projects and other activities in Indonesia and Sri Lanka are under way, various difficulties have led the agency to increase initial cost estimates; reduce or cancel some activities in Indonesia; and consider extending project completion dates of signature projects in both countries. In addition, as of February 2007, USAID had not

⁶Generally, an obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received (GAO-06-382SP, vol. II, 7-3). Consistent with 31 U.S.C. 1501, which defines when an agency can record an obligation, USAID treats as an obligation the bilateral agreements it makes with other countries to deliver assistance. However, except where denoted by quotation marks ("obligations"), this report defines obligations as amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or future period. USAID labels these actions subobligations. Expenditures are defined as the issuance of checks, disbursement of cash, or electronic transfer of funds to liquidate a federal obligation.

awarded the contract for major signature road construction work in Indonesia. USAID has taken steps to address some of these difficulties, such as revising the length of road to be built in Indonesia and assisting the government in acquiring land and property needed to implement project activities. However, USAID continues to face risks that it may not complete the signature projects within cost and schedule estimates and without further reducing the scope of the work, as currently planned.

- **Indonesia.** As of December 2006, USAID had obligated \$186 million (53 percent) and expended \$58 million (17 percent) of its \$351 million budget for tsunami reconstruction in Indonesia. USAID had obligated \$105 million (41 percent) and expended \$15 million (6 percent) of its \$254 million budget for the signature road construction project. USAID contractors completed the design work for the signature road construction project in Aceh Province and began construction work on some badly damaged road sections. However, in June 2006, because of significant increases in estimated construction costs per mile, USAID reduced the project's scope by over one third—from 150 miles to 91 miles of road construction—and reallocated approximately \$9 million from other USAID and State tsunami supplemental appropriations to the road, resulting in a budget that has risen from the original \$245 million to \$254 million.⁷ Based on GAO's analysis, the estimated per-mile costs as of June 2006 had risen to approximately \$2.7 million—a 68 percent increase from USAID's March 2005 projection of \$1.6 million per mile—reflecting both higher-than-expected labor and material costs and the availability of more accurate information than in March 2005.⁸ For example, the June 2006 estimate indicates that 2.2 million cubic meters of excavation would be required, compared with the March 2005 estimate of 1.5 million cubic meters. Moreover, despite reducing the length of road to be constructed, USAID may extend the project's completion date from September 2009 to February 2010, in part because it did not award a contract for the major road construction work in September 2006, as planned; USAID expects to

⁷The government of Japan has agreed to build a 69-mile road that will connect to the U.S. road (91 miles). The total length of the road, 160 miles, differs from the 150-mile road initially planned by USAID because the Japanese road follows a different alignment than the U.S. road would have followed.

⁸Based on GAO's analysis, the current \$2.7 million cost per-mile estimate does not account for certain administrative and support costs and certain activities performed previously that are not directly related to the costs for constructing 91 miles of road. As such, the \$2.7 million per-mile estimate does not directly correlate with the \$254 million currently budgeted to the signature road.

award the construction contract in May 2007.⁹ Further, although USAID is currently assisting the Indonesian government in its land acquisition efforts, the project's completion date may be extended and estimated costs may increase because of ongoing delays by the Indonesian government in acquiring land for the road.¹⁰ For example, as of December 31, 2006, the Indonesian government had acquired only 899 of the needed 3,679 parcels along the road's planned route.¹¹ In addition, several challenges increase the risk that USAID may not successfully complete the project at planned cost and on schedule. Specifically, delays by the government of Indonesia in acquiring land in a timely manner and community unrest increase USAID's risk of not meeting its schedule, and increasing costs for materials and labor, as well as slippages in the schedule, increase USAID's risk of not meeting its projected costs because longer projects generally cost more.

- **Sri Lanka.** As of December 2006, USAID had obligated \$70 million (84 percent) and expended \$15 million (18 percent) of its \$83 million budget for tsunami reconstruction. USAID had obligated \$35 million (73 percent) and expended \$5 million (11 percent) of its \$48 million budget for the signature project components. The contract completion date for the Sri Lanka signature project, which includes building a bridge and other infrastructure, constructing vocational education facilities, and addressing coastal management issues, is March 2008. However, USAID may extend the signature project completion date. In addition, the projected cost has increased from \$35 million to \$48 million—about 37 percent—due to increases in the costs of labor and materials. To make up for this shortfall, USAID reallocated approximately \$13 million from nonsignature project activities. As in Indonesia, several challenges increase the risk that USAID

⁹Also, in October 2006, the U.S. Ambassador to Indonesia requested that the Department of State ask for additional funds from the Office of Management and Budget to cover anticipated excess costs of constructing two bypasses not included in the revised 86-mile project. The bypasses, totaling approximately 12 miles, are along the section of road being constructed by the government of Japan.

¹⁰According to the National Research Council, a private, nonprofit institution chartered by Congress that provides science, technology, and health policy advice, extending the completion date for construction projects is likely to increase costs.

¹¹The 3,679 parcels account for privately owned land along approximately 65 miles of the 91-mile route between Banda Aceh and Calang. The 899 parcels of privately owned land that have been acquired by the Indonesian government are noncontiguous and account for approximately 16 miles of the road's route. Twenty-six miles along the 91-mile route are owned by the Indonesian government, and 22 miles of this land had been released to USAID as of December 31, 2006.

may not successfully complete all the project components at planned cost and on schedule. Specifically, other factors such as delays in selecting the sites, determining what would be taught, and designing the vocational educational facilities and water treatment facilities, as well as increasing incidents of terrorist-related violence increase USAID's risk of additional costs and slippages in the schedule.

USAID is carrying out measures that it previously established for financial oversight of its reconstruction programs in Indonesia and Sri Lanka, and it has taken steps to enhance its technical oversight capacity. In addition to USAID's standard requiring financial oversight mechanisms, USAID has contracted with the Defense Contract Audit Agency (DCAA) for concurrent audits of its signature road construction project in Aceh Province, Indonesia. Also, USAID's Office of the Inspector General (IG), using funding that was included in the supplemental appropriation, has completed audits showing, among other things, that USAID had not met certain interim milestone dates and was not adequately accounting for funding; other IG audits are ongoing. To ensure technical oversight of its reconstruction projects in both countries, USAID has added experienced staff, including engineers in both Sri Lanka and Indonesia, and enhanced its engineering services through agreements with USACE. However, when USAID began its tsunami reconstruction program in early 2005, the agency did not have disaster reconstruction program guidance, including lessons learned from its prior programs, such as the importance of setting appropriate time frames, conducting thorough cost assessments, and understanding local land tenure systems. In our July 2002 report focusing on USAID's reconstruction efforts in Central America, several USAID missions reported learning numerous lessons, such as the importance of establishing longer implementation periods to complete projects.¹² In response to our May 2006 report, USAID issued guidance, including lessons learned, on implementing disaster recovery activities following hurricanes and tropical storms that struck several Caribbean countries in 2004.¹³ Further, as USAID moves forward, the agency faces risks that may affect its ability to complete its signature project activities as planned.

¹²GAO, *Foreign Assistance: Disaster Recovery Program Addressed Intended Purposes, but USAID Needs Greater Flexibility to Improve Its Response Capability*, [GAO-02-787](#) (Washington, D.C.: July 24, 2002).

¹³GAO, *Foreign Assistance: USAID Completed Many Caribbean Disaster Recovery Activities, but Several Challenges Hampered Efforts*, [GAO-06-645](#) (Washington, D.C.: May 26, 2006).

In response to our April 2006 recommendation, the Secretary of State, with information obtained from USAID, has provided some updated cost estimates and schedules in its required reports to Congress. Data in both the June and December 2006 reports included amounts of funds obligated to the affected countries but did not include the amounts of funds signed in agreements with implementing organizations (in USAID’s terminology, “subobligated”). Also, the reports do not include USAID’s risk information and mitigation strategy for addressing the risks. As a result, Congress lacks funding information that would more clearly reflect the agency’s progress; currently, State’s required semiannual reports to Congress do not include this information.

Therefore, to ensure that Congress has access to information that clearly reflects both USAID’s progress in its tsunami reconstruction programs in Indonesia and Sri Lanka and factors that may slow its progress, we make the following two recommendations regarding the Secretary of State’s required semiannual reports to Congress:

- To clearly show USAID’s progress in using the appropriated funds for tsunami reconstruction, the reports should include the amounts that USAID obligated to recipient countries for tsunami reconstruction and the amounts that it “subobligated” in transactions with implementing organizations, such as contracts, grants, and cooperative agreements, for specific reconstruction projects.
- To indicate risk of potential changes to the costs, schedules, and scopes of work of USAID’s signature projects in Indonesia and Sri Lanka, the reports should identify factors that may impact the agency’s implementation of the projects and provide strategies for mitigating any impact.

At our request, USAID and the Department of State provided written comments and technical suggestions and clarifications on a draft of this report. (See app. IV for State’s written comments and app. V for USAID’s written comments.) In commenting on a draft of this report, the Department of State and USAID fully agreed with our recommendation to include cost data on “subobligated” funds in State’s required reports to Congress. USAID also agreed to separately identify risk and mitigation strategies in State’s reports. We have also incorporated technical suggestions and clarifications from State and USAID, as appropriate.

Background

Of the \$908 million that the United States appropriated for tsunami relief and reconstruction, \$327 million (36 percent) was allocated to the

Department of Defense and USAID for emergency relief activities that have largely been completed. The remaining \$581 million (64 percent) was budgeted for reconstruction and other postemergency activities. Of this amount, \$482 million (about 83 percent) is currently allocated to USAID.¹⁴ Table 1 shows the amounts of funds allocated to emergency relief and reconstruction and other postemergency activities.

Table 1: Funds Allocated to Tsunami Emergency Relief and Postemergency Reconstruction and Other Activities, as of December 31, 2006

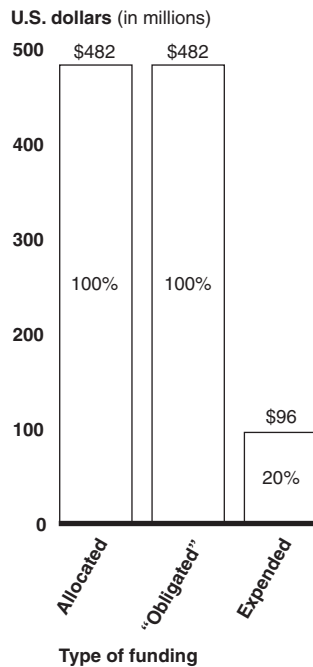
Dollars in millions	
Type of tsunami assistance activity	Funds allocated
Emergency relief activities	\$327
Postemergency reconstruction and other activities	
USAID	482
Other U.S. departments and agencies	99
Subtotal	\$581
Total	\$908

Sources: USAID and Department of State.

As of December 31, 2006, USAID had signed bilateral agreements with many tsunami-affected countries for the entire \$482 million (100 percent); USAID considers these funds obligated. USAID had expended \$96 million (20 percent) of the funds (see fig. 1).

¹⁴Other U.S. departments and agencies are currently allocated \$99 million for other posttsunami-related activities. For example, components of the Departments of Commerce and the Interior are supporting development of regional early warning systems and disaster preparation plans and the Department of the Treasury was involved in providing debt relief to some affected countries. USAID's current allocation of \$482 million is \$14 million less than we reported in April 2006 due to transfers of funds to other agencies.

Figure 1: Financial Information on USAID Tsunami Reconstruction Funds, as of December 31, 2006



Source: USAID.

Note: Generally, an obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received ([GAO-05-734SP](#), 70). Consistent with 31 U.S.C. 1501, which defines when an agency can record an obligation, USAID treats as an obligation the bilateral agreements it makes with other countries to deliver assistance. However, except where denoted by quotation marks ("obligations"), this report defines obligations as amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or future period. USAID labels these actions "subobligations." Expenditures are defined as the issuance of checks, disbursement of cash, or electronic transfer of funds to liquidate a federal obligation.

As we reported in April 2006, USAID's signature project in Indonesia initially consisted of 150 miles of coastal road construction in western Aceh Province at an estimated cost of \$245 million. The road—parts of which were badly damaged or destroyed by the tsunami—was considered vital to restoring the economic strength of the area and promoting redevelopment of the affected communities. USAID planned to implement the project under three separate contracts:

- a priority contract, awarded in August 2005, to temporarily maintain an existing coastal road and to design and construct priority sections of the new road;

-
- a design and construction management contract, awarded in November 2005, to design the signature road and supervise its construction; and
 - a large-scale construction contract, to be awarded in September 2006, to construct major segments of the new road.

The contract for USAID's Sri Lanka signature project, awarded in September 2005, and initially estimated to cost \$35 million, has five components:¹⁵

- construction of a bridge,
- construction of water treatment facilities,
- rehabilitation of three commercial harbors,
- construction or rehabilitation of vocational education facilities, and
- provision of training in coastal management.¹⁶

We reported in April 2006 that USAID might be unable to complete its Indonesia signature project and some components of its Sri Lanka signature project within initial cost estimates and time frames, owing in part to factors such as limited site information, rising material and labor costs, and delays in the acquisition of land. We also found that although the agency had taken steps to ensure financial and technical oversight for the Indonesia and Sri Lanka reconstruction programs, it had not filled some needed technical oversight positions. Finally, we noted that several challenges confronted USAID's tsunami reconstruction programs, including long-standing conflicts between the countries' governments and separatist groups in Aceh, Indonesia, and in several areas of Sri Lanka. Our April 2006 report recommended that State's semiannual Section 4102 report to Congress, due in June 2006, provide updated cost estimates and schedules for the programs. We also recommended that if the updated estimates differed substantially from the initial estimates, State's report should include alternative cost estimates, schedules, and project scopes

¹⁵In April 2006, we reported that the signature project had three components (construction of a bridge and other infrastructure, provision of coastal management training, and construction of vocational educational facilities). (See [GAO-06-488](#)). The project has since been redefined as having five components.

¹⁶See appendix II for specific information on USAID's signature project in Sri Lanka.

and identify the need for additional sources of funding, if necessary. State agreed with both of the recommendations.

Signature Project Cost Estimates Have Risen, Schedules May Be Extended, and Further Risks May Affect Current Plans

USAID's signature projects in Indonesia and Sri Lanka are under way, but respective projects' estimated costs have risen and the completion dates may be extended. In addition, the scope has been reduced for the signature road project in Indonesia. To cover the higher costs in both countries, USAID revised its budget allocations for the signature projects. Also, as of February 2007, USAID had not awarded the contract for major road construction work in Indonesia. Factors typically related to the difficulty of operating in postdisaster environments, such as increased construction costs and delays in land acquisition, have contributed to the higher cost estimates, reductions in project scope, and the possible extension of completion dates. In both countries, ongoing uncertainties have led to risks, such as increase in costs that may further affect whether the signature projects will be completed as planned.

Indonesia Signature Project Cost Estimates Have Increased, Scope of Work Has Been Reduced, and Completion Date May Be Extended

USAID's plans for its signature road construction include awarding and implementing three separate contracts. Although the agency has made some progress under two of the contracts, based on GAO's analysis, the road's estimated cost per mile has increased, the scope of work has been reduced, and the completion date may be extended. In addition, as of February 2007, USAID has not awarded a contract for large-scale road construction. (See app. II for more details on the status of the contracts.) However, USAID took some actions in response to the difficulties that arose. In addition, while cost increases have reduced the length of road that USAID can build, it entered into an agreement with the Japanese and Indonesian governments under which a coastal road from Banda Aceh to Meulaboh will be jointly built by USAID and the government of Japan. A number of factors, including several relating to operating in a postdisaster environment—such as limited initial site information, rising construction costs, and delayed land acquisition—have contributed to the project's higher estimated costs and slower-than-expected progress. As a result, USAID may extend the project's completion date from September 2009 to February 2010.

Indonesia Signature Project Is Under Way, but Contract for Major Road Construction Work Has Not Been Awarded

As of February 2007, the agency had not yet awarded its large-scale construction contract, as planned. The status of the contracts by which USAID is planning to complete its signature road project in Indonesia are as follows:

Indonesia Signature Project's
Estimated Costs and Budget
Allocation Have Increased and
the Project's Scope Has Been
Reduced

- *Priority contract.* Construction work on certain priority sections of the road began in October 2006, and as of December 2006, bridge construction and related work at one location had begun.¹⁷ Priority construction work was initially expected to take place between August 2005 and August 2006, but sufficient land was not available for construction to begin. USAID modified the priority contract to increase the length of road to be built, from 3 miles to 26 miles, and extend the completion date to December 2007.
- *Design and construction management contract.* In June 2006, the contractor completed a detailed design and cost estimate for the coastal road, replacing USAID's initial cost estimate completed in March 2005.¹⁸ The new design reflects more detailed knowledge of the project site and contains more technical details than were available in the initial estimate. According to USAID officials, although the initial estimate provided by the U.S. Army Corps of Engineers (USACE) was based on the best information available at the time, it was lacking in specificity because the route of the planned road had not been determined and on-the-ground access to most areas was limited.
- *Large-scale construction contract.* Although USAID had expected to award the contract for major segments of the coastal road in September 2006, it did not receive a qualifying proposal in August 2006. The June 2006 solicitation, restricted to U.S. firms, resulted in a single proposal, which the agency was unable to negotiate to an acceptable price. In October 2006, USAID began a new solicitation process, open to international firms, that agency officials say has attracted interest from prospective offerors. The agency now expects to award the contract in May 2007 and, according to USAID officials, estimates that the road may not be completed until February 2010, 5 months later than originally planned.

Based on GAO's analysis, the road's estimated cost per mile as of June 2006 is \$2.7 million, a 68 percent increase over the cost estimated by USAID in March 2005—\$1.6 million per mile. As we reported in April 2006, the initial estimate was based on limited site information because the route of the planned road had not yet been determined and most areas were not accessible for ground surveys to be performed. Also, according

¹⁷In August 2005, USAID signed a contract with PT Wijaya Karya, an Indonesian firm, to perform this work.

¹⁸In November 2005, USAID signed a contract with Parsons Global Services, Inc., a U.S. firm, to perform this work.

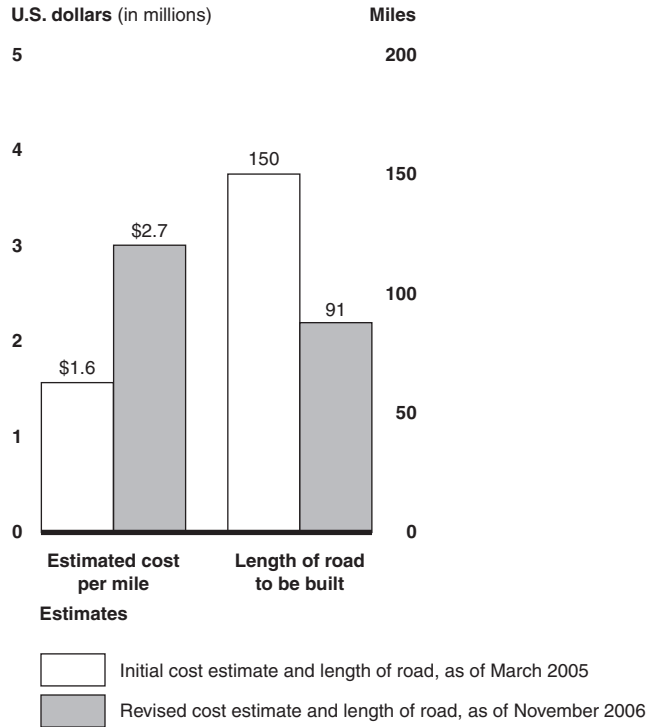
to construction industry studies, in projects that are not well defined, such as this one, actual costs are likely to vary by a range of 50 percent less to 100 percent more than estimated costs. Based on GAO's analysis, estimated costs as of June 2006 are currently 68 percent more than initial projections.

To account for future contingencies, USAID increased its budget allocation for the signature project by \$9 million (4 percent), from \$245 million to \$254 million.¹⁹ At the same time, through an agreement between USAID and the governments of Indonesia and Japan, the Japanese government assumed responsibility for building about 69 miles of the southern section of the road, from Calang to Meulaboh, reducing USAID's responsibility from building 150 miles to building approximately 91 miles of the road.²⁰ As a result, despite potential estimated cost increases, USAID was able to meet its commitment for the road while staying within budget constraints. (See fig. 2.)

¹⁹At the revised estimated cost of \$2.7 million per mile, approximately \$405 million would be required to construct the 150-mile road that was initially planned. The current \$2.7 million cost per-mile estimate does not account for certain administrative and support costs and certain activities performed previously that are not directly related to the costs for constructing 91 miles of road. As such, the total cost of building 91 miles based on a \$2.7 million per-mile estimate (approximately \$246 million) differs from the \$254 million currently budgeted.

²⁰Before the cooperative agreement was reached, the government of Japan had intended to rebuild the road between Calang and Meulaboh that was roughly parallel to the road planned by USAID between these two locations. According to USAID officials, Indonesian government officials indicated that, in April 2006, the Indonesian government decided that one Japanese-built road, rather than two parallel roads, could be built, to reduce the costs of maintenance. The USAID officials said that the Indonesian government's agreement formed the basis for the revised road construction plan. The Japanese road (69 miles) follows a different alignment than the U.S. road would have followed. So the combined length of the de-scoped U.S. road (91 miles) and the Japanese road, 160 miles, differs from the 150 mile road initially planned by USAID.

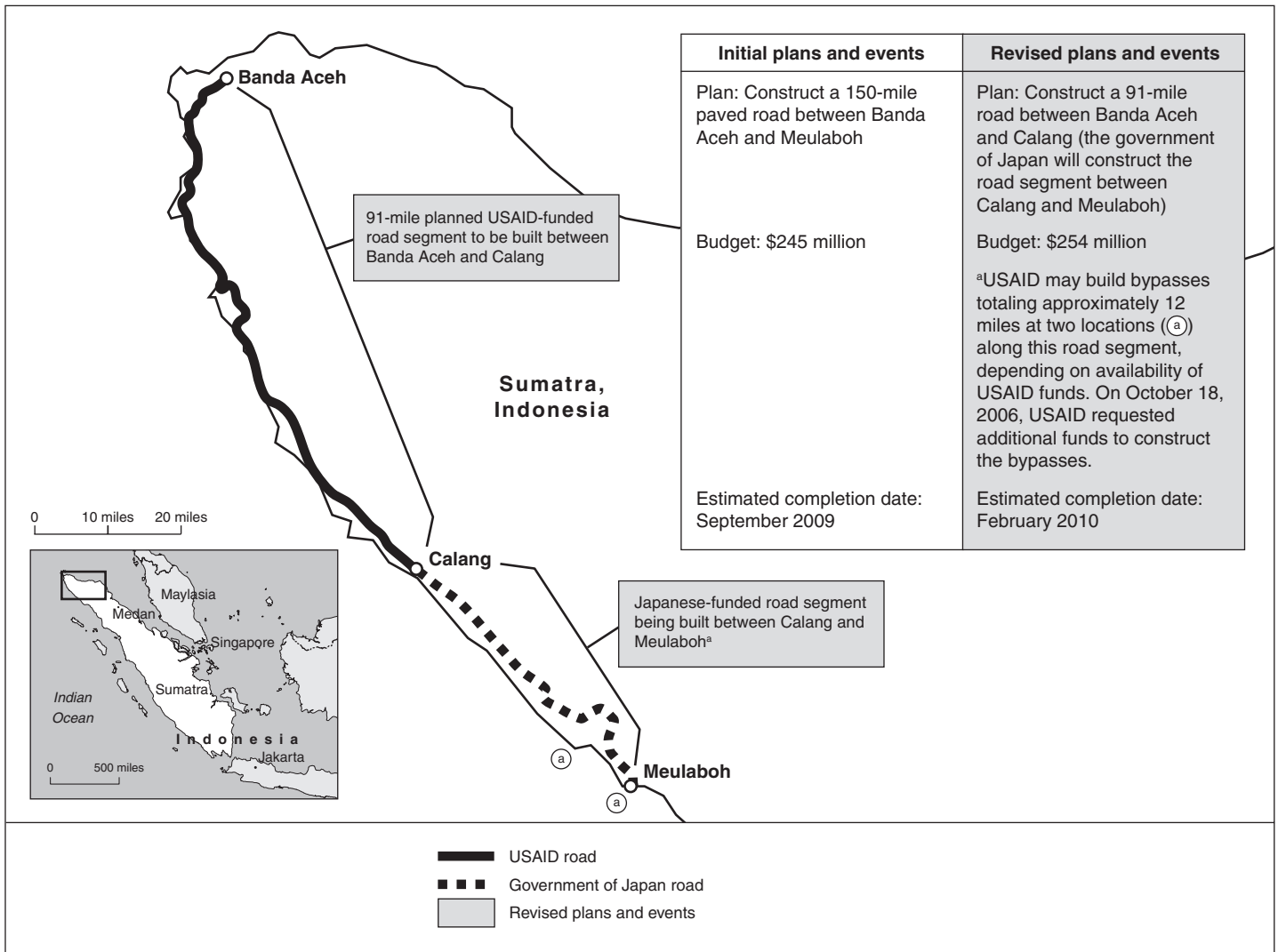
Figure 2: Initial and Revised Estimated Costs Per Mile and Length of Road for USAID Indonesia Signature Project



Source: GAO analysis of USAID data.

USAID also has tentative plans to construct two bypasses, totaling approximately 12 miles, at points along the Japanese-funded portion of the road. In October 2006, the U.S. Ambassador to Indonesia asked State to request additional funds from the Office of Management and Budget to cover the costs of building the bypasses; USAID officials stated that a decision on funding the construction of the bypasses will be made after the large-scale construction contract is awarded and the project's budget is reassessed. Figure 3 shows the initial and revised road construction plan; appendix II provides further details of USAID's revised project scope.

Figure 3: Initial and Revised Plans for Indonesia Signature Road Construction Project



Sources: GAO analysis of USAID data; Map Resources (inset map); and U.S. Army Corps of Engineers (Sumatra, Indonesia, map).

Several Factors, Including Postdisaster Environment, Led to Higher Cost Estimates and Delayed Progress of the Indonesia Signature Project

Based on GAO’s analysis, a number of factors contributed to the signature road’s increased estimated cost per mile for the signature road and may lead USAID to extend the Indonesia signature project’s completion date. These factors include the delay in USAID’s awarding of the large-scale construction contract; inclusion of elements in the June 2006 project design that were absent from the original estimate; and several factors

related to Indonesia's postdisaster environment—namely, limited initial site information, rising construction costs, and delays in land acquisition.

- *Delayed award of contract.* Because USAID did not award the large-scale construction contract in September 2006 as it intended, it was not able to begin construction under the contract as planned. Although specific costs associated with this delay have not yet been quantified, construction industry research shows that longer projects are almost always associated with higher costs.²¹
- *Additional design elements.* The June 2006 project design for the road comprised several technical elements not included in the March 2005 cost estimate, raising the project's estimated cost per mile. For example, the June 2006 design included new specifications for building eight cofferdams—watertight enclosures that permit underwater construction of bridge supports that were not factored into the March 2005 estimate.
- *Postdisaster environment.* Limited initial site information, rising construction costs, and delays in acquiring land—factors commonly encountered by reconstruction efforts in a postdisaster environment²² contributed to the project's increased estimated costs per mile and to its potentially late completion date. Our April 2006 report noted these factors as likely to raise costs and make it difficult to complete the road within the intended time frame.
- *Limited initial information.* As our April 2006 report noted, USAID's March 2005 cost estimate was based on limited knowledge of site conditions, owing to difficulty in accessing sections of the road's planned coastal route.²³ The revised estimate provides a more detailed assessment of the project's requirements. For example, USAID's initial estimate showed that 1.5 million cubic meters of excavation would be required to build 150 miles of road, while the revised estimate shows that 2.2 million cubic meters of excavation will be required to build 91 miles of road.

²¹National Research Council of the National Academies, "The Owner's Role in Project Risk Management" (Washington, D.C.; 2005).

²²GAO-06-645, appendix II.

²³GAO-06-488, 19.

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- *Rising construction costs.* Our April 2006 report noted rapid growth in the number of construction projects after the disaster and cost inflation resulting from the greater demands for construction materials and labor.²⁴ Posttsunami construction spending was expected to increase fortyfold from pretsunami levels, from \$50 million to \$2 billion per year. World Bank data provided by USAID show that construction costs increased as a result. For example, between October 2004 and October 2005, the average wage for bricklayers, plumbers, and construction supervisors in Aceh increased 55 percent, 72 percent, and 81 percent, respectively. USAID expects that ongoing demands for materials and labor will continue to create inflationary pressures.
 - *Delays in land acquisition.* As our April 2006 report further noted, USAID's ability to complete its project within the intended time frame depended in part on the Indonesian government's progress in acquiring privately owned land along the road's planned route.²⁵ Subsequent delays in the land acquisition process contributed to USAID's changing the expected completion date of the signature project's priority contract from August 2006 to December 2007. As of January 1, 2007, the Indonesian government had obtained 899 of the estimated 3,679 needed parcels. According to USAID officials, the Indonesian government expects to complete the land acquisition in March 2007.

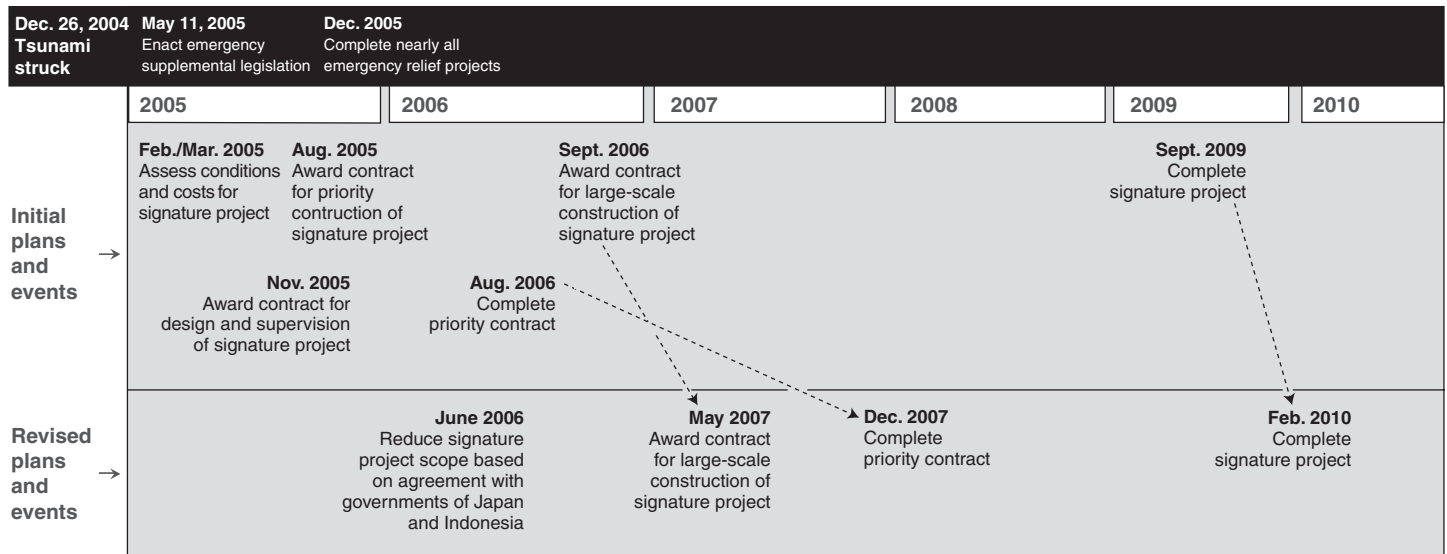
USAID May Extend Completion Date for Indonesia Signature Project

Owing to the delays affecting its signature road project, USAID may extend the project's completion date by 5 months, from September 2009 to February 2010. Figure 4 shows USAID's initial and, as of February 2007, revised timelines for its Indonesia signature project.

²⁴GAO-06-488, 20.

²⁵GAO-06-488, 21.

Figure 4: Initial and Revised Timelines for USAID’s Signature Project Activities in Indonesia, as of February 2007



Source: GAO analysis of USAID data.

USAID Raised Cost Estimates, and May Extend Completion Date for Sri Lanka Signature Project

USAID has made progress in several components of its Sri Lanka signature project. However, the agency raised its cost estimates and increased its budget by approximately 37 percent since 2005 to meet rising costs for materials, labor, and additional security protection. USAID may extend its estimated completion date for the signature project because of other factors and increasing violence in some areas of the country.

Sri Lanka Signature Project Is Largely Under Way

USAID has made progress on several of the signature project’s five components:

- *Construction of a bridge.* In August 2006, USAID awarded the contract for construction of a bridge over Arugam Bay, in eastern Sri Lanka. As of December 2006, the work was on schedule to be completed by February 2008 as initially planned. Figure 5 shows a temporary bridge spanning Arugam Bay in Sri Lanka, near the site of the planned USAID-funded bridge.
- *Construction of a water treatment facility.* USAID has not awarded a contract for the water treatment facility; however, it expects to do so in May 2007. USAID had planned to use surface water from a nearby lake for the water source but opted to use groundwater because it is less costly to operate, build, and maintain.

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- *Rehabilitation of three commercial harbors.* USAID has largely completed the first of two planned phases in rehabilitating three commercial harbors in southern Sri Lanka. The first phase included smaller project activities, such as removing debris, repairing damaged plumbing, and replacing damaged roofs. USAID awarded a contract for the second phase in December 2006; these larger activities will include dredging the harbors and rebuilding quay walls.²⁶
 - *Construction of vocational education facilities.* USAID initially planned to rehabilitate 10 vocational educational facilities but later reduced the number to 9, four of which are in eastern Sri Lanka and five in southern Sri Lanka.²⁷ Plans for two of the nine facilities call for the use of renewable energy and materials²⁸ As of January 2007, USAID had not awarded a contract for the facilities; however, it plans to do so in April 2007.
 - *Provision of coastal management training.* A management organization is providing USAID-funded training in coastal construction and tourism-related skills that USAID considers essential to rebuilding and reactivating the economy in the Arugam Bay area. The training is expected to be completed in June 2007.

²⁶ A quay is a structure built parallel to the bank of a waterway for use as a landing place.

²⁷ USAID plans to provide an additional school in the east with educational supplies as needed.

²⁸ Use of renewable energy and materials will qualify the facilities for certification by Leadership in Energy and Environmental Design, an internationally recognized organization.

Figure 5: Temporary Bridge Currently Spanning Arugam Bay near Site of Planned USAID-Funded Bridge in Sri Lanka



Source: GAO.

Rising Construction Costs, Deteriorating Security, and Other Factors Led to Increased Cost Estimate and Project Delays

Since its 2005 budget allocation, USAID raised its cost estimate and increased the budget allocation for its signature project by more than 37 percent. The budget allocation increased from \$35 million to \$48 million, based largely on a revised cost estimate that showed rising costs for construction labor and materials. In addition, other factors such as delays in design of two signature project components have delayed the progress of the signature project.

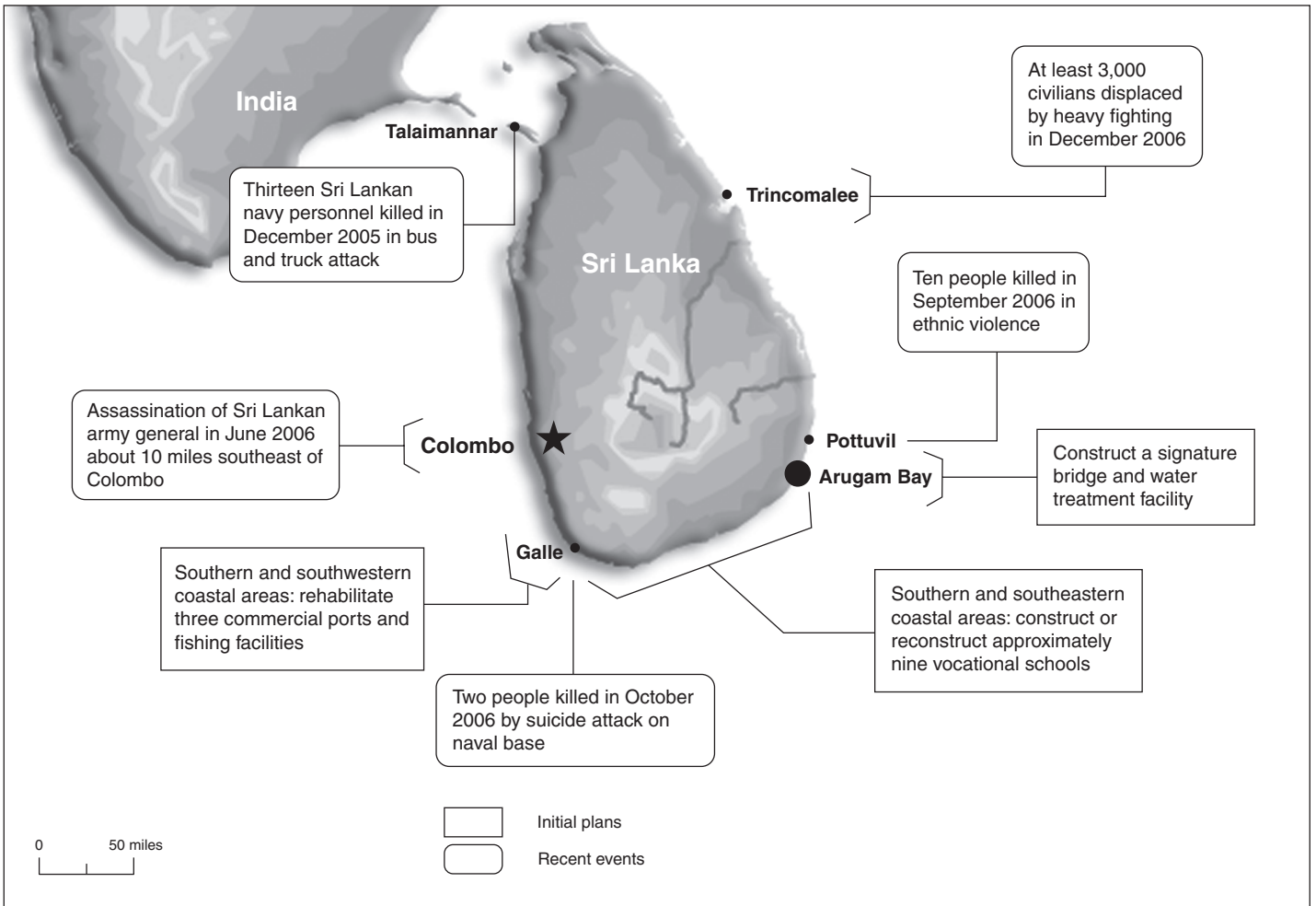
- *Rising construction costs.* As in Indonesia, labor and material costs in Sri Lanka have increased since the tsunami. For example, salaries for certain types of skilled laborers, such as masons, have risen substantially since early 2005. These costs increased primarily because of shortages of skilled labor and increased demand for construction materials owing to the large number of reconstruction efforts in tsunami-affected areas.

Worsening security. Conflict between the government of Sri Lanka and a separatist group, which began in 1983, has intensified in the 2 years since the tsunami.²⁹ The violence, previously confined largely to northern and northeastern areas controlled by the separatists, has spread to other areas of the country, including some areas where USAID's reconstruction activities are planned or ongoing. For the 15-month period ending December 2006, CH2MHill officials told us that USAID's additional

²⁹Since the 1980s, some areas of Northern and Northeastern Sri Lanka have been under the control of the Liberation Tigers of Tamil Eelam (LTTE). According to the U.S. Department of State, the LTTE is a terrorist organization that has advocated secession of these areas to form a separate ethnic Tamil state.

security costs were approximately \$104,000, and total additional security through 2008 is projected to cost about \$237,000 unless the security situation changes significantly. Although the projected additional security costs are small—less than 1 percent of the overall program budget—terrorist-related violence could enhance the risk that USAID may not be able to complete its efforts as planned. Figure 6 shows the locations of recent terrorist incidents relative to USAID’s Sri Lanka signature project areas.

Figure 6: Locations of Selected Signature Project Components and Recent Terrorist Incidents



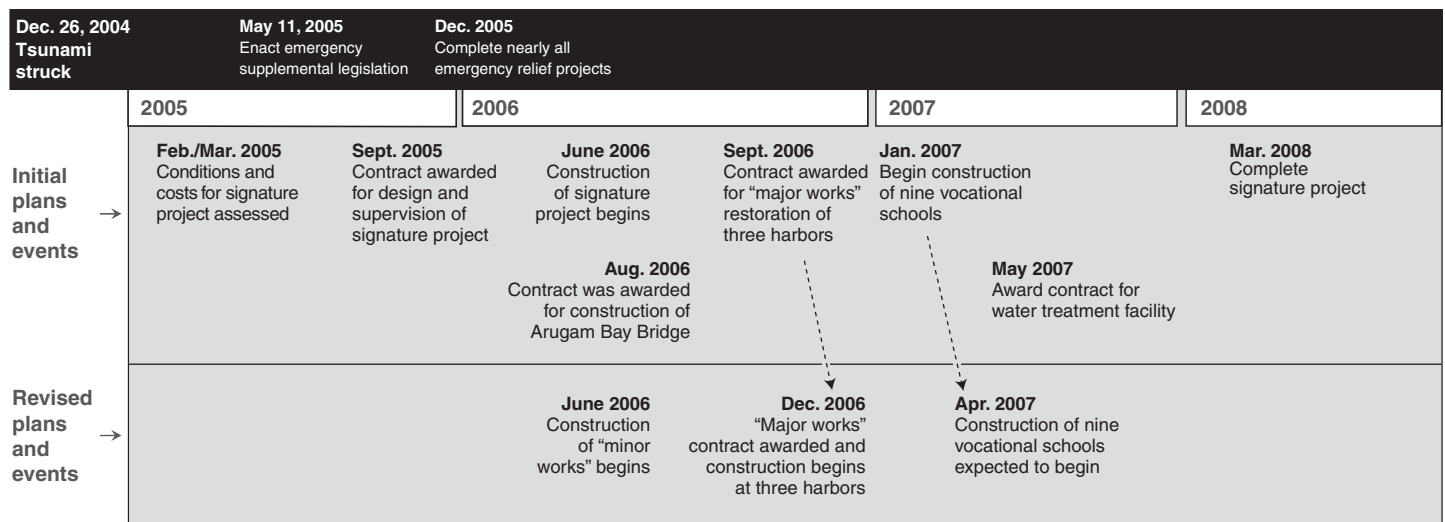
Sources: USAID, United Nations, State Department, and Map Resources (map).

Other factors. Specifically, delays in selecting the sites, determining what would be taught, and designing the vocational educational facilities and water treatment facility have led to slippages in the schedule for the signature project.

USAID May Extend the Sri Lanka Signature Project Completion Date

The completion date for the Sri Lanka signature project is March 2008. However this date may be extended.³⁰ The possible extension of the completion date resulted from other factors such as design related delays and the upsurge of violent incidents. Figure 7 shows USAID’s initial and revised plans for signature project activities in Sri Lanka.

Figure 7: Initial and Revised Plans for USAID’s Signature Project Activities in Sri Lanka



Source: GAO analysis of USAID data.

³⁰Several signature project components have experienced delays of longer than one month. For example, the minor works at three harbors, expected to be completed by September 2006 and formally extended to November 2006, was substantially completed by January 31, 2007.

USAID Acquired Financial and Technical Oversight, but Lacked Guidance for Disaster Recovery and Reconstruction and Faces Further Risks

To ensure financial oversight of its reconstruction programs in Indonesia and Sri Lanka, USAID augmented its standard financial controls with external and internal audits. USAID is also implementing project activities to strengthen the audit capabilities of government entities in tsunami-affected countries. To strengthen its technical oversight, USAID reassigned and hired needed staff and extended its interagency agreement with the U.S. Army Corps of Engineers (USACE) for engineering services. However, when beginning its tsunami reconstruction program in early 2005, USAID did not have comprehensive guidance and did not consider some lessons learned from prior disaster reconstruction efforts. Further, USAID faces additional risks that may affect its ability to complete its signature projects as planned.

USAID Provided for Financial Audits and Is Helping Indonesia and Sri Lanka to Strengthen Audit Capabilities

USAID has augmented its standard financial controls through external and internal audits of its tsunami reconstruction activities in Indonesia and Sri Lanka. USAID has also strengthened the audit capability of the Indonesian and Sri Lankan governments through funding for technical assistance.

USAID's Financial Controls Include External and Internal Audits

In addition to providing for required financial controls, such as preaward surveys of prospective award recipients and financial audits,³¹ USAID has provided for external and internal audits of its reconstruction program activities.

- External audits. USAID signed an agreement with the Defense Contract Audit Agency (DCAA) to concurrently audit material and labor controls for its signature road construction project in Aceh, Indonesia. According to USAID officials, the audits are being undertaken because of the additional risk inherent in large construction projects. The initial DCAA audit began in December 2006 and, according to USAID officials, is expected to be completed by April 2007.
- Internal audits. USAID's Office of the Inspector General (IG) completed three audits of USAID's tsunami reconstruction projects in Indonesia and Sri Lanka) in fiscal year 2006. The completed audit reports identified some

³¹USAID requires an annual audit of foreign nonprofit organizations expending \$300,000 or more of USAID funds and a preaward survey or audit before negotiating a contract of \$500,000 or more.

deficiencies in USAID's reconstruction programs in the two countries.

- *Indonesia.* The IG completed two of the three audits it had planned for Indonesia, finding that USAID could not account separately for some project expenditures, as required. To correct this weakness, the IG recommended that USAID (1) include clear and specific language requiring separate tracking, recording, and reporting of expenditures in its implementing agreements; and (2) develop and implement procedures to ensure that funds are charged to the correct tsunami appropriations. USAID generally agreed with both recommendations.
- *Sri Lanka.* The IG found that USAID was generally on schedule in its Sri Lanka signature project, having met 25 of 46 interim milestones dates. However, because of some uncertainties, the IG recommended that USAID develop procedures, with time frames, for achieving specific tasks. USAID generally agreed with the recommendations.³²

USAID Is Supporting Efforts to Strengthen Indonesian and Sri Lankan Audit Capabilities

USAID is funding several efforts to provide technical assistance and training in fraud awareness, financial planning, and other activities, aimed at increasing the audit capacities of the local Indonesian government and Sri Lankan government audit organization.

- *Indonesia.* USAID is providing technical assistance to help local government entities increase their capacity to plan and manage public services and finances; be transparent and accountable in legislative and administrative processes; respond to citizen priorities; include opportunities for citizens to participate in local government decision making; and work with local service providers to deliver services. For example, the USAID-funded Aceh Technical Assistance Recovery Project (A-TARP) is providing technical support to the Indonesian Rehabilitation and Reconstruction Agency and the Office of the Governor of Aceh Province. One of the aims of A-TARP is to assist Indonesian officials in better planning, coordinating, managing, and overseeing tsunami reconstruction efforts.

³²USAID Inspector General, *Audit of USAID/Indonesia's Tsunami Recovery and Reconstruction Program Activities Implemented by Development Alternatives, Inc.*, Audit Report No. 5-497-06-009P (Manila, Philippines; Sept. 15, 2006); and *Audit of USAID/Sri Lanka's Large-Scale Infrastructure Rebuilding Activities Under Its Sri Lanka Tsunami Reconstruction Program*, No. 5-383-07-001P (Manila, Philippines; Nov. 30, 2006).

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- *Sri Lanka.* USAID is providing support to the Sri Lanka Anti-Corruption Program, to assist key government agencies and selected civil society organizations in strengthening measures to combat corruption and monitor the disbursement of tsunami-related assistance. Some of the program's core government partners include the Auditor General's Department, the Commission to Investigate Allegations of Bribery or Corruption, and various civil society organizations. The program goals include improving the delivery of technical services in multiethnic communities, especially those affected by the long-standing conflict and tsunami.

USAID Has Acquired Needed Technical Oversight for Tsunami Reconstruction Programs

In April 2006, we reported that USAID had not filled some needed technical positions in both Indonesia and Sri Lanka. To establish technical oversight, USAID has filled the positions with experienced staff, such as engineers, and acquired additional technical expertise through interagency agreements.

- *Indonesia.* As of October 2006, USAID had filled needed technical positions with qualified and experienced staff, including a senior engineer who is currently the team leader for the signature road project. In addition to filling these internal technical positions, USAID extended its interagency agreement with USACE to March 2007. Under the agreement, USACE will assist in reviewing the technical design to provide environmental protections involving the signature road construction project.
- *Sri Lanka.* Our prior report noted that USAID had hired two of the three engineers needed to oversee infrastructure construction activities in Sri Lanka. In June 2006, USAID filled the third engineering position needed for technical engineering services on the Sri Lanka signature project.

USAID Lacked Guidance and Faces Risks in Completing Signature Projects as Planned

Since beginning its tsunami reconstruction program in 2005, USAID has taken actions to address various problems, such as rising costs and delays in acquiring land. However, when it began the tsunami reconstruction program in early 2005, USAID missions in Indonesia and Sri Lanka did not have disaster reconstruction program guidance—including lessons learned from its prior programs, such as the importance of setting appropriate time frames, conducting thorough cost assessments, and understanding local land tenure systems. As USAID moves forward in its efforts to implement the signature projects in both countries, a variety of risks will continue to present challenges that USAID must be prepared to address.

When faced with cost, schedule, and external difficulties in both countries, USAID took some actions. For example, in Indonesia, when USAID found that costs for building the signature road had escalated, the agency (in cooperation with the Indonesian and Japanese governments) reduced the length of road it planned to build, while still preserving the original concept of building the entire 150-mile road. Also, to facilitate progress in land acquisition in Indonesia, the U.S. Ambassador and USAID Mission Director have engaged senior Indonesian government officials and stressed the importance of acquiring land more quickly. Further, in both Indonesia and Sri Lanka, USAID reallocated funds from other sources to cover estimated cost increases to its signature projects.

Although USAID took actions to address difficulties in its signature projects, the agency did not have guidance, including lessons learned from its prior disaster reconstruction efforts, in its planning process. During recent years in which USAID has been involved in postdisaster recovery situations, such as responding to hurricanes and earthquakes, the agency has faced similar or nearly identical circumstances that have shown the likelihood of cost increases, schedule extensions, land acquisition delays, and other potential problems. However, USAID's lack of guidance and lessons learned created challenges that sometimes resulted in an ad-hoc approach to planning its activities. For example, we reported in May 2006 that, if USAID had had access to lessons learned regarding likely increases in demand for construction materials and labor, it might have helped USAID establish more realistic expectations for what could be achieved within a 1-year time frame.³³

As the reconstruction progresses, USAID signature construction projects continue to face risks that may further increase costs, extend schedules, and threaten successful completion. As we reported in May 2006, numerous risk factors are commonly experienced when carrying out postdisaster activities.³⁴ Also, during our current review, we identified at least three of these risk factors that are particularly relevant to USAID's ongoing tsunami reconstruction program:

³³GAO-06-645, 20-21.

³⁴A May 2006 GAO report (GAO-06-645) summarized common lessons and examples of USAID's efforts to address disaster recovery challenges. Prior to the issuance of this report, USAID's planning efforts for posttsunami reconstruction did not provide adequate contingencies and allowances for cost, schedule, and scope changes. In response to our recommendation in the report, USAID issued guidance that is now available for staff involved in disaster recovery activities.

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- *Schedule factors.* The Indonesia signature road project schedule may continue to slip, depending on the governments' pace in acquiring land and property, and the current pace of acquisition may not be sufficient to enable timely completion of construction. In addition, if USAID experiences further delays in awarding its large-scale construction contract, the project completion date may be later than February 2010, as currently projected. In Sri Lanka, other factors, such as delays for designs of the signature project components have affected the schedule.
 - *Cost factors.* As discussed earlier, uncertainties regarding the projects' schedules increase cost risks, because longer projects generally cost more. Additionally, continued price inflation increases the risk that the project may cost more than USAID's budgets. As we reported in April 2006, posttsunami construction spending in Aceh Province, Indonesia, was expected to increase fortyfold from pretsunami levels, from \$50 million to \$2 billion per year, creating inflationary pressure. However, in its March 2005 cost estimate, USAID included a 20 percent contingency—less than the 41 percent annual inflation rate that was later reported by the government of Indonesia's Reconstruction and Rehabilitation Agency.³⁵ Although the annual rate had declined considerably to 6 percent, as of September 2006, USAID expects that continuing cost increases in Indonesia are likely to affect reconstruction efforts. In Sri Lanka, although USAID has already increased its cost estimate for the signature project by over 37 percent because of rising costs for materials and labor, price uncertainties may continue to affect overall costs.
 - *External factors.* Community unrest related to the road in Indonesia and the increasing threat of violence in Sri Lanka may limit USAID's ability to continue the signature projects and complete them as planned. In Indonesia, work under the priority construction contract was hindered in late 2006 by Acehese protesters demonstrating against the Indonesian army's unreimbursed seizure of property to build a temporary road immediately after the tsunami. The demonstrations were not aimed directly at USAID. In January 2007, USAID reported that no demonstrations had occurred since December 2006 and that, even if they were to reoccur, they were not likely to cause delays in construction of the new road. In Sri Lanka, the rising number of violent incidents related to the long-running secessionist movement has had some impact on USAID's progress to date. However, USAID officials acknowledged that additional

³⁵Overall annual inflation rate in Aceh Province, as of December 2005.

incidents, particularly in or near project sites, could increase the uncertainty of whether USAID's efforts continue at the planned pace.

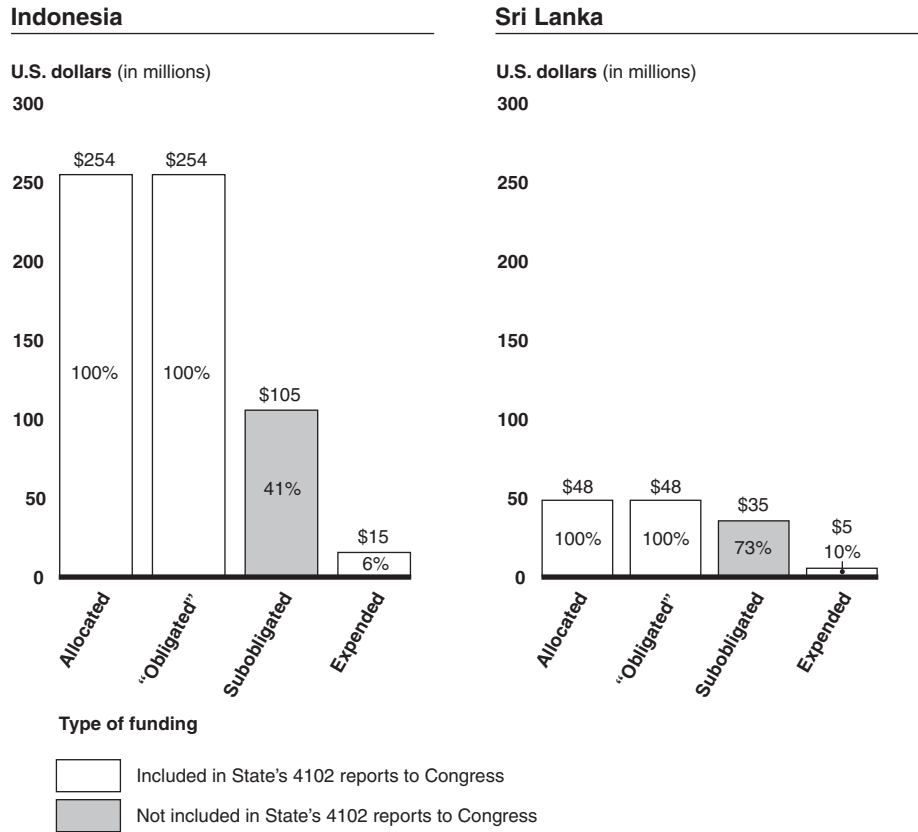
Required Reports to Congress Do Not Clearly Show USAID's Progress or Address Risks to Signature Project Schedules and Cost Estimates

In response to our April 2006 recommendation,³⁶ the Secretary of State provided updated cost estimates and schedules in its required semiannual report. However, the reports that State has submitted to Congress since April 2006 have not clearly depicted the agency's progress in its tsunami reconstruction program. Further, the reports do not address the ongoing risks to its cost estimates and schedules for the Indonesia and Sri Lanka signature projects or provide plans for mitigating the effects of these risks.

State's two most recent semi-annual reports to Congress (June and December 2006) show USAID's obligations to recipient governments rather than amounts it committed to organizations implementing project activities. The reports show as "obligations" the overall funding that USAID agreed to provide to recipient countries for tsunami reconstruction. The obligations shown also include funds that have not yet been committed to specific USAID transactions, such as contracts, grants, and cooperative agreements with implementing organizations. USAID treats funds included in these agreements as "subobligations"; however, the Department of State does not include subobligations in the reports. As a result, the data as reported to Congress do not clearly reflect USAID's actual progress in funding of its tsunami reconstruction programs. For example, State's December 2006 report to Congress states that all of the \$254 million budgeted for the signature road construction project in Indonesia had been "obligated." However, this figure does not reflect that USAID had signed agreements with implementing organizations for only \$105 million—slightly more than 40 percent of the amount budgeted for the work. (See fig. 8.) Moreover, the reported obligations for the Indonesia signature road project do not reflect that USAID has not yet awarded the major contract for large-scale construction.

³⁶Our April 2006 report recommended that the Secretary of State, in the department's required semiannual report to Congress in June 2006, provide updated cost estimates and schedules obtained from USAID. We also recommended that if the updated information differed substantially from initial projections, the report should include alternative cost estimates, schedules, and project scopes and the need for additional sources of funding, if necessary.

Figure 8: USAID Signature Project Funding Information Included and Not Included in Department of State Reports



Source: GAO analysis of USAID data.

Note: The amounts are as of December 31, 2006.

Generally, an obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received (GAO-05-734SP, 70). Consistent with 31 U.S.C. 1501, which defines when an agency can record an obligation, USAID treats as an obligation the bilateral agreements it makes with other countries to deliver assistance. However, except where denoted by quotation marks ("obligations"), this report defines obligations as amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or future period. USAID labels these actions subobligations. Expenditures are defined as the issuance of checks, disbursement of cash, or electronic transfer of funds to liquidate a federal obligation.

USAID's required semiannual reports to Congress do not include information on cost and schedule risks to the Indonesia and Sri Lanka signature projects or provide mitigation strategies for addressing the risks. For example, the reports omit information on the government of Indonesia's slow progress in acquiring land parcels and how this challenge may affect the successful completion of the Indonesia signature road project. Similarly, the report does not present USAID's strategy for completing the Sri Lanka signature project in the face of rising conflict and an upsurge in violence.

Conclusions

USAID has assisted numerous countries, including Indonesia and Sri Lanka, in recovering from the December 2004 tsunami. A variety of USAID tsunami reconstruction projects have made progress toward restoring the lives of the survivors. However, some key project activities in Indonesia and Sri Lanka—particularly its signature projects intended to generate increased visibility for U.S. assistance—have experienced increased estimated costs, are behind initial schedules, and in the case of Indonesia have been reduced in scope. In both countries, USAID has taken some measures to adjust the scope, budget, and schedule of the projects in an attempt to account for conditions that have affected the projects' progress, while preserving the initial project goals.

Although the Department of State has included updated information in its reports to Congress on the progress of the tsunami reconstruction program, the reports do not clearly reflect USAID's progress in the programs or risks that could affect its progress. The reports show as obligations the amounts that USAID intends to use for specific activities rather than amounts—"subobligations"—that it has agreed to in transactions with implementing agreements, such as contracts for specific projects. In addition, the reports do not indicate ongoing risks in both countries that may impact signature projects' costs, schedules, and scopes of work. As a result, Congress lacks some information that it needs to oversee USAID.

Recommendations for Executive Action

To ensure that Congress has access to information that clearly reflects both USAID's progress in its tsunami reconstruction programs in Indonesia and Sri Lanka and factors that may slow its progress, we are making the following two recommendations regarding the Secretary of State's required semiannual reports to Congress:

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- To clearly show USAID’s progress in using the appropriated funds for tsunami reconstruction, the reports should include the amounts that USAID obligated to recipient countries for tsunami reconstruction and the amounts that it “subobligated” in transactions with implementing organizations, such as contracts, grants, and cooperative agreements, for specific reconstruction projects.
 - To indicate risk of potential changes to the costs, schedules, and scopes of work of USAID’s signature projects in Indonesia and Sri Lanka, the reports should identify factors that may impact the agency’s implementation of the projects and provide strategies for mitigating any impact.

Agency Comments and Our Evaluation

At our request, the Department of State and USAID provided written comments and technical suggestions and clarifications on a draft of this report. (See app. IV for State’s written comments and app. V for USAID’s written comments.) The Department of State and USAID agreed to fully implement our recommendation to include “subobligation” cost data in State’s required reports to Congress. USAID also stated that it has regularly provided risk information and mitigation strategies in various sections of State’s required reports to Congress, but agreed to separately identify such data in future reports. We have incorporated technical suggestions and clarifications from USAID and State, as appropriate.

The U.S. Army Corps of Engineers declined our request to provide written comments on a draft of this report.

We are sending copies of this report to interested congressional committees as well as the Administrator, USAID; Commander, U.S. Army Corps of Engineers; and the Secretary of State. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO’s Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3149, or gootnickd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Individuals making key contributions to this report are listed in appendix VI.

A handwritten signature in black ink, appearing to read "David Gootnick". The signature is fluid and cursive, with the first name "David" written in a larger, more prominent script than the last name "Gootnick".

David Gootnick, Director
International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

We were directed¹ by Congress to monitor the delivery of U.S. reconstruction assistance to the tsunami-affected countries through periodic visits. In this report, we review (1) the status of the U.S. Agency for International Development's (USAID) signature projects in Indonesia and Sri Lanka, including its obligations and expenditures of funds for reconstruction assistance in Indonesia and Sri Lanka; (2) USAID's financial and technical oversight of the programs, and the extent to which the agency had issued guidance that includes lessons learned from prior disasters in order to identify and address project uncertainties; and (3) actions taken by the Secretary of State in response to our April 2006 recommendation regarding its provision of updated costs estimates and schedules to Congress.

To determine the progress of USAID's reconstruction programs in Indonesia and Sri Lanka, we met with officials of USAID's Bureau for Asia and the Near East and with the U.S. Army Corps of Engineers (USACE). We traveled to Sri Lanka in July 2006 and to Indonesia in October 2006. In Jakarta and Banda Aceh, Indonesia, and in Colombo, Sri Lanka, we reviewed USAID's status reports, applicable contracts, and cooperative agreements and discussed with USAID and other U.S. officials how their respective programs addressed reconstruction needs.

During our visit to Indonesia, we reviewed USAID's activities in tsunami-affected areas, including the signature road construction project in Aceh Province. During 2 days in Aceh, we visited and photographed 2 locations consisting of several building construction projects which were in various stages of completion. We also visited a 36-mile section of road where USAID-funded road maintenance work was ongoing or where USAID-funded construction had begun. During our visit to Sri Lanka, we reviewed and photographed USAID's activities in tsunami-affected areas, including the signature project components in the eastern and southern part of Sri Lanka. During these trips, we interviewed representatives of contractors, nongovernmental organizations (NGO), government ministries, and other entities responsible for day-to-day project implementation. We also interviewed many of the intended recipients of U.S. assistance, asking about the tsunami's impact on their homes, livelihoods, and communities and about the effectiveness of U.S.-funded projects in helping them rebuild infrastructure, restore their livelihoods, and obtain basic services. Finally, we reviewed prior GAO reports on USAID disaster assistance efforts.

¹H. Rept. 109-16, p. 49.

To assess USAID's financial and technical oversight, we reviewed USAID's financial procedures and discussed the procedures with cognizant USAID officials. In Indonesia, a licensed GAO professional engineer met with USAID and USACE engineers and other technical staff to discuss the level of technical oversight and planning. To determine the challenges that USAID faces in implementing its program, we discussed oversight procedures and financial systems with officials of host governments, multilateral and bilateral donors, and NGOs involved in reconstruction efforts. We also met with host government officials, including national and local officials, to discuss their procedures for ensuring that donor activities did not conflict or overlap and their views on donor coordination.

We assessed the reliability of funding and expenditure data compiled and generated by USAID's Office of the Controller in Washington, D.C., and by the USAID missions in Indonesia and Sri Lanka. We met with USAID officials to review the internal controls for the collection of data, comparing the consolidated reports with mission-specific reports, and discussed relevant data reliability issues with cognizant agency officials. In addition, we interviewed knowledgeable USAID officials about the systems and methodology they use to verify the completeness and accuracy of the data. Finally, we reviewed relevant reports from the USAID Office of the Inspector General and several GAO reports of USAID disaster reconstruction program funding since 1999. None of these sources noted any significant discrepancies or concerns about the reliability of USAID's data. Based on our comparison of data generated from different USAID sources at USAID headquarters and mission, we found that the sources generally corroborated each other, increasing our confidence that the data were reliable. We determined that USAID's funding and expenditure data were sufficiently reliable for our analysis.

Appendix II: USAID's Signature Projects in Indonesia and Sri Lanka

Table 2: Scope and Status of Indonesia Signature Road Construction Project

Contract	Scope (December 2005)	Status (December 2005)	Status (February 2007)
Priority segment	<p>Repair and maintain existing 50-mile segment from Banda Aceh to Lamno.</p> <p>Design and construct a short priority (3-mile) segment between Banda Aceh and Lamno.</p> <p>Perform the design work on a cost-plus-fixed-fee basis.</p> <p>Perform the maintenance and construction work on a fixed-price basis.</p>	<p>Contract awarded to an Indonesian firm (PT Wijaya Karya) on August 23, 2005.</p> <p>Contract cost is \$12.8 million.</p> <p>Maintenance and repair work is ongoing; route is passable.</p> <p>Design of the new 3-mile road segment is under way.</p> <p>Construction of new 3-mile road segment is expected to be completed by August 2006.</p>	<p>Contract modified to construct segments totaling 26 miles between Banda Aceh and Calang.^a</p> <p>Contract cost increased to \$81.4 million.</p> <p>Construction work began October 2006 and is expected to be complete in December 2007.</p>
Design and construction management	<p>Design the new road (except for the 3-mile priority segment).</p> <p>Supervise construction.</p> <p>Perform services on a cost-plus-fixed-fee basis.</p>	<p>Contract awarded to U.S. firm (Parsons Global Services Inc.) on November 10, 2005.</p> <p>Estimated contract cost up to \$34.9 million; amount obligated is \$20 million.</p> <p>Design work ongoing and planned to be completed in June 2006.</p> <p>Contractor required to prepare an updated estimate of construction costs.</p> <p>Construction management services being provided on the priority road segment and will continue in September 2006, when the contract for construction of Banda Aceh to Meulaboh road is awarded.</p>	<p>Design of new 91-mile road between Banda Aceh and Calang is complete.^b</p> <p>Management of priority construction work is ongoing.</p> <p>Management of large-scale construction expected to begin when contract is awarded in May 2007.</p> <p>Estimated contract cost up to \$35.1 million.</p>

**Appendix II: USAID's Signature Projects in
Indonesia and Sri Lanka**

Contract	Scope (December 2005)	Status (December 2005)	Status (February 2007)
Large-scale construction	<p>Placement of new road along a 150-mile route from Banda Aceh to Meulaboh (except for the portion covered under the priority segment).</p> <p>Construction will be done on a fixed-price basis according to the plans and specifications of the design prepared under separate contract.</p>	<p>Construction contract is expected to be awarded in September 2006, and construction is to be completed by September 2009.</p>	<p>Scope reduced to construct 65 miles of road between Banda Aceh and Calang; 26 additional miles of road between these 2 cities to be built under the priority contract.</p> <p>Contract was not awarded in September 2006, as planned, due to inability to reach agreement on price with prospective contractor.</p> <p>New contract solicitation process is ongoing with planned award in May 2007 and estimated completion in February 2010.</p>

Source: GAO analysis of USAID data.

^aDesign for approximately 23 of the 26 miles of road to be constructed will be provided by the design and construction management contractor. The priority contractor will complete the design for the remaining 3 miles.

^bThe contractor is also completing design for two separate bypasses, totaling 12 miles, along the segment of road between Calang and Meulaboh. According to USAID officials, construction of the bypasses is contingent on availability of funds.

**Appendix II: USAID's Signature Projects in
Indonesia and Sri Lanka**

Table 3: Description and Status of USAID's Signature Project in Sri Lanka

Project component description	Status
Construct a bridge over Arugam Bay in eastern Sri Lanka.	USAID through CH2M HILL awarded the contract in August 2006 to a private contractor based in India. Construction began in September 2006.
Drill wells for a water treatment facility to provide water for the town of Pottuvil and nearby communities near Arugam Bay.	USAID funds are being used for drilling wells for a water treatment facility. Cost estimates for construction and maintenance were reduced after USAID decided not to use surface water from a nearby lake.
Rehabilitate three commercial harbors in southern Sri Lanka, including <ul style="list-style-type: none"> • Minor works: construct/repair toilets, repair roofs, clean up debris, etc. • Major works: dredge harbors, repair quay walls, etc. 	<p>The minor works, scheduled to be completed in December 2006, were substantially completed on January 31, 2007. Work to complete punch list items is ongoing.</p> <p>The contract for major works was awarded and construction began in December 2006.</p>
Construct nine vocational education facilities (four are located in eastern Sri Lanka and five in southern Sri Lanka). USAID plans to make two of the facilities "green" (i.e., they will be built using renewable energy and materials whenever possible), and USAID also plans to obtain Leadership in Energy and Environmental Design certification for these two.	As of February 2007, construction is expected to begin by April 2007.
Provide coastal management training. A USAID-funded firm is providing training in construction and tourism-related skills, which USAID considers essential to rebuilding and reactivating the economy in the Arugam Bay area.	Coastal management training is continuing and projected to be completed by June 2007.

Source: USAID.

Appendix III: USAID's Nonsignature Activities in Indonesia and Sri Lanka

As of December 31, 2006, USAID's tsunami reconstruction programs in Indonesia and Sri Lanka include nonsignature projects budgeted at \$97 million and \$35 million, respectively. Tables 4 and 5 show the project sectors, amounts of funds budgeted, and descriptions of selected activities in each country.

Table 4: Project Sectors, Amounts of Funds Budgeted, and Descriptions of Selected Activities for USAID's Nonsignature Projects in Indonesia

Dollars in millions

Project sectors	Funds budgeted, as of December 31, 2006	Descriptions of selected activities
Small-scale infrastructure (construction of community buildings and sewage systems, reconstruction of schools, etc.)	\$23	USAID funds have been used to reconstruct community meeting centers and village offices, rehabilitate irrigation canals, clear agricultural land for re-planting, and construct and repair water systems.
Technical assistance and good governance (training and technical support to various Indonesian government entities)	\$12	<p>The USAID-funded Aceh Technical Assistance Recovery Project (A-TARP) activity is providing technical assistance to national and sub-national government ministries in planning, coordinating, managing, and overseeing reconstruction efforts.</p> <p>The USAID-funded Local Governance Support Program supports local governments' efforts to increase their capacity to plan and manage public services and finances; improve transparency and accountability in legislative and administrative processes; respond to citizen priorities; include opportunities for citizens to participate in local government decisionmaking; and work with local service providers to deliver services.</p>
Transition assistance (rebuilding shelters and helping to restore livelihoods through microenterprise support)	\$62	The USAID-funded Support for Peaceful Democratization program supports projects targeted at conflict prevention, mitigation, and resolution in selected areas of Indonesia. Local and international NGOs are provided with grants for building local and national constituencies for peace, promoting cooperation among diverse groups, increasing community-level participation in local governance, improving livelihoods, and increasing economic opportunities.

Source: USAID.

Note: Dollars are rounded to the nearest number.

**Appendix III: USAID's Nonsignature
Activities in Indonesia and Sri Lanka**

Table 5: Project Sectors, Amounts of Funds Budgeted, and Descriptions of Selected Activities for USAID's Nonsignature Projects in Sri Lanka

Dollars in millions

Project sectors	Funds budgeted, as of December 31, 2006	Descriptions of selected activities
Small-scale infrastructure (evaluating environmental impacts of building public facilities, improving access for disabled persons, building playgrounds in areas where many children are tsunami survivors, etc.)	\$15	<p>USAID funds are being used to evaluate the environmental impacts of building an agricultural reservoir, community health centers, and others facilities.</p> <p>A USAID-funded NGO is implementing construction projects to provide or improve access for disabled persons in at least seven facilities, such as hospitals and schools.</p> <p>USAID plans to construct approximately 85 playgrounds in Sri Lanka, with about half to be built in eastern Sri Lanka. Increasing security issues may affect USAID's progress and may ultimately impact its ability to achieve the goal of building all 85 playgrounds. As of February 2007, 18 playgrounds had been completed.</p>
Technical assistance and good governance (providing training and technical assistance to Sri Lankan government agencies and civil society organizations)	\$10	<p>The USAID-funded Sri Lanka Anti-Corruption Program is intended to assist key government agencies and selected civil society organizations in strengthening measures to combat corruption and monitor the uses and disbursements of tsunami-related assistance. Key government agencies include the Auditor General's Department, the Commission to Investigate Allegations of Bribery or Corruption (also known as the Bribery Commission), and various civil society organizations. This activity also includes plans to improve transparency and relationships in multi-ethnic communities, especially those affected by the long-standing conflict and the tsunami.</p>
Transition assistance (helping local organizations promote peace and democracy, through short-term assistance targeted at key political transition and stabilization needs)	\$10	<p>USAID's efforts are focused on three main activities: (1) building small scale infrastructure projects; (2) improving communication between local governments and affected community members, and; (3) improving and restoring livelihoods of those affected by the tsunami.</p>

Source: USAID.

Note: Dollars are rounded to the nearest number.

Appendix IV: Comments from the Department of State



United States Department of State
Washington, D.C. 20520

FEB 15 2007

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "FOREIGN ASSISTANCE: USAID "Signature" Tsunami Recovery Projects in Indonesia and Sri Lanka Exceed Initial cost and Schedule Estimates, and Face Further Risks," GAO Job Code 320423.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Jonathan Weyer, Financial Economist, Bureau of Economic, Energy, and Business Affairs at (202) 647-7411.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradford R. Higgins".

Bradford R. Higgins

cc: GAO – Emil Friberg
EEB – Elizabeth Dibble
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report

FOREIGN ASSISTANCE: USAID “Signature” Tsunami Recovery Projects
in Indonesia and Sri Lanka Exceed Initial Cost and Schedule
Estimates, and Face Further Risks
(GAO-07-357, Job Code 320423)

The State Department appreciates the opportunity to review and comment on the draft report, “Foreign Assistance: USAID ‘Signature’ Tsunami Recovery Projects in Indonesia and Sri Lanka Exceed Initial Cost and Schedule Estimates, and Face Further Risks.”

As USAID also noted in its comments on this report, we will ensure that cost data on “sub-obligated” funds are included in the semiannual report that the Secretary of State submits to Congress.

Appendix V: Comments from the U.S. Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



USAID
FROM THE AMERICAN PEOPLE

FEB 21 2007

Jacquelyn L. Williams-Bridgers
Managing Director
International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to comment on your draft report, "Foreign Assistance: USAID 'Signature' Tsunami Recovery Projects in Indonesia and Sri Lanka Exceed Initial Cost and Schedule Estimates, and Face Further Risks," GAO-07-357.

We are pleased that you reported progress on the U.S. Government's most significant tsunami recovery projects in Indonesia and Sri Lanka, and that USAID funding and expenditure data was sufficiently reliable for your analysis. We also thank you for acknowledging the steps USAID has taken to fill needed positions in both countries to ensure continued progress.

USAID is particularly pleased that construction on the road project in Indonesia is continuing apace, despite difficulties experienced by the Government of Indonesia in acquiring land and the unexpected setback on award of the second construction contract. In order to launch visible work on the coastal highway as quickly as possible, USAID engaged an Indonesian contractor to rebuild less damaged parts of the highway. With the delay in the award of the second contract to rebuild the most damaged parts of the highway, USAID added more miles to the first contract, for a total of 25.7, to ensure steady progress. Construction of the remaining 64.8 miles will begin as soon as a new contract is awarded with a large construction firm.

The first recommendation in the draft report is that USAID provide cost data to the Secretary of State on agreements with contractors and grantees ("sub-

U.S. Agency for International Development
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Washington, DC 20523
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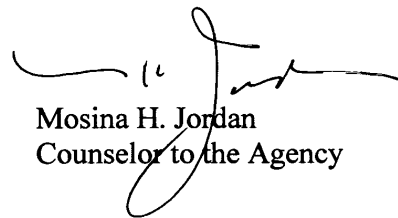
obligations”) in addition to agreements with governments (“obligations”), for the semi-annual reports to Congress. Although Congress did not ask for this information in the semi-annual reports, we agree to provide such data in the future to more clearly reflect USAID progress on these important projects.

The second recommendation is for USAID to provide risk information and mitigation strategies to the Secretary of State to be included in the semi-annual reports to Congress. USAID has regularly provided such information in various sections of the reports relating to specific projects. To clarify risks and mitigation strategies in future reports, USAID will separately identify such data in the future.

Finally, USAID is pleased to update you on progress made since the preparation of your report. A list of the projects and updates is provided with this letter.

If you have any questions concerning this response, please contact Debra Banks at 202-712-0821.

Sincerely,



Mosina H. Jordan
Counselor to the Agency

Enclosure

See comment.

Project Status Update as of February 15, 2007

Indonesia

- 899 of the total 3,679 parcels of land for the road have been acquired
- 22 of the total 26 miles of government land along the road have been released
- 38 miles of the total 90.5-mile road alignment have been acquired
- 280 of the 954 parcels of land for the priority road section have been acquired
- Seven miles of alignment on the 25.7-mile priority road section were acquired
- Notices to proceed for six miles of priority road sections were provided
- P.T. Wijaya Karya started structural backfill on three miles of priority road
- Two bridge superstructures were fabricated and are underway to the sites
- P.T. Wijaya Karya started constructing one bridge substructure
- The road blockages were resolved
- Graves and utility structures were moved from critical areas of the road

Sri Lanka

- 18 playgrounds were completed
- Nine playgrounds are under construction
- Pre-construction activities, such as site evaluation, documentation, and community consultation are ongoing for the remaining 58 of the total 85 playgrounds
- Civil conflict has presented delays for the program team to visit and conduct pre-construction site assessments in certain districts in the East/North; the overall program has been able to proceed by reprioritizing construction of playgrounds in the South
- Construction of bridge over Arugam Bay began in September 2006
- “Substantial completion” of minor works for three harbors in the South was completed on January 31, 2007; minor punch list correction items are still ongoing

The following is GAO's comment on the U.S. Agency for International Development letter dated February 21, 2007.

GAO Comment

Although USAID has provided some information, the required reports have generally contained limited information that has not fully identified risks and included mitigation strategies.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

David Gootnick, (202) 512-3149 or gootnickd@gao.gov.

Staff Acknowledgments

In addition to the contact named above, Michael Arnes, Mark Dowling, Emil Friberg, Phillip Herr, Dorian Herring, Reid Lowe, George Taylor, and Wilda Wong made key contributions to this report.

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