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Auditor General

AUDIT REPORT
MUNICIPAL DEVELOPMENT BANK
USAID/HONDURAS

Audit Report Number 1-522-79-1

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Area Auditor General Latin American
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I INTRODUCTION

The Municipal Development Bank project began in 1972. Objectives were to restructure and recapitalize the Autonomous Municipal Bank so that it could provide financial and technical assistance contributing to the development of municipalities throughout the country.

On July 10, 1974, AID and the Government of Honduras signed a \$4.1 million loan to finance completing the Bank's reform program and enable the Bank to provide continuing assistance to municipal projects of benefit to the rural sector. Such projects concentrate on the capacity of the governments of 27 rural municipalities to function effectively as agricultural source centers.

The purpose of our audit was to see how well AID-provided resources are being used in the pursuit of project goals.

The findings and recommendations in Part IV were discussed with the staff of USAID/Honduras. Their comments were considered in the preparation of the report.

II SUMMARY

The Municipal Development Bank project is behind schedule. Original plans called for completion in 41 months. After 4 years of effort, the loan is about half disbursed. Loan funds are now substantially committed and it is estimated that they will be fully disbursed by September 30, 1978.

Delay in implementation was due to the Bank's inability to meet the conditions precedent to disbursement of loan funds on time. The Bank did not have the capacity to do the amount of work called for by the project.

Of the \$3.5 million for sub projects AID has approved contracts totalling \$2.5 million. The purchase of heavy equipment costing approximately \$1 million is pending AID approval. Eighty-two percent of project funds were allocated to the targeted 27 municipalities. The project plan called for approximately 90 percent of the funds to be spent in the designated communities.

It is too soon to say what the future holds for the Bank. Chances for success are good. If the Bank is to succeed in its undertakings, however, it is clear that the problems summarized here must be resolved.

Sub-project implementation is taking 24 months longer than expected. The Bank has been unable to give needed help to municipalities and has not provided adequate qualified and experienced staff to the project. We have recommended that the Mission ask the Bank to hire qualified contract employees, discuss specific areas where management needs to be reinforced, and recommend staff changes to the Bank. (See page 2).

Technical assistance to complete the reform program and strengthen the Bank has not been effective. It was weakened by lack of a definite plan, failure to identify needs, and repeating services already provided. Systems work and preparation of operating manuals are now in progress. We have recommended that the administrative and accounting systems and operating manual now under development be formally adopted by the Bank. (See page 4).

An expert has been hired to establish an evaluation system and train personnel. The services are to take 3 months. It is doubtful that Bank personnel will be able to learn how to maintain the system in such a short period of time. We have recommended that the Mission follow-up to make sure that the system is being implemented. (See page 6).

The Bank's internal audit group has not been effective and is not following guidelines for the operation of the Internal Auditing Department. Funds for financing external audit services until the loan is disbursed are depleted. We have recommended that the Mission ask the Bank to carry out the established audit program, have the external auditors check on progress in implementing the program, and notify the Bank that external audits for 1978 and 1979 must be financed with Bank funds. (See page 8).

Poor feasibility studies of potable water projects may be resulting in bad loans, the delivery system for Potrerillos needs to be replaced, and at Santa Rita one of two wells is not working because of an obstruction. We have recommended that the Mission review the Bank's feasibility study techniques, evaluate Potrerillos sub-loan application for a new distribution network, and find out what needs to be done to unblock the well at Santa Rita and urge the Bank to get it done. (See page 9).

In municipal markets we noted leaks and damaged merchandise that seemed to result from design problems. We have recommended that the Mission ask the Bank to review the design of the Tela and Puerto Cortes markets for errors. (See page 11).

Increases in municipal tax rolls were made as a result of the property tax reform program. But resulting increases in revenues, if any occurred, could not be verified because data collected by the Bank is inconclusive. We have recommended that the Mission ask the Bank to design and implement a data collection program that can be used to gage progress of the tax and municipal reform program, identify problems and make corrections. (See page 12).

III FINDINGS AND RECOMMENDATIONS

A. Institutional Development

Sub-project implementation is taking up to 24 months longer than expected. There are two reasons why: On the one hand, the Bank has been unable to give needed help to municipalities and has been slow to correct

its own deficiencies once known. On the other, the Government commitment to provide qualified and experienced management for the project was not fully satisfied. So far, AID has not chosen to press loan covenants to correct the situation.

The conditions precedent to disbursement (Section 3.01) require that the Bank hire qualified, professional personnel to head up the Technical Services and Finance Departments. Chiefs were named and found acceptable to AID. One has resigned; the other moved to a more senior position at the Bank. These changes took place in 1976.

The 1976 evaluation pointed out a shortfall in the ability to help municipalities and to process loan applications within the Bank. Although the evaluation did not specifically identify the skills needed to fill the gap, correspondence shows that the subject of personnel was discussed and an increase in Bank staff contemplated. The need for a general advisor was specifically mentioned.

We were told that the Bank was very slow to procure equipment and services paid for under the Loan. Examples are audit, evaluation, and general advisory services and heavy equipment. For example, it took 18 months to hire a general advisor. AID became unnecessarily involved and assisted in writing scopes of work, preparing bid documents, etc. to move procurement along.

Audit reports made by the Bank's independent accountants list numerous deficiencies in accounting and management. Accounting problems were so serious that consultants were hired to analyze bank activities and set up new procedures. The work includes preparation of operating manuals. Systems analyses and operating manuals were provided under a prior AID project. Work underway essentially repeats what has been already provided.

Under the Tax Reform - Administrative Reform programs, the Bank's consultants have trained eight people. Two people trained in tax reform have left the Bank. Four of the six remaining are under contract and are not direct-hire employees of the Bank.

Under Section 4.04 of the Loan Agreement, the Government of Honduras agreed to provide qualified management for the execution of the project. All indications are that Bank management has been reluctant to staff the Bank with qualified and experienced people who get the job done. The evaluation, systems analyses, and general advisory effort now underway may result in improved management. Meanwhile, immediate action should be taken to convert to direct hire the four contract people trained in tax and administration.

Recommendation No. 1

The Mission should ask the Bank to hire the four contract employees trained by the Tax-Municipal Administration Consultants.

Recommendation No. 2

The Mission should discuss specific areas where management needs to be reinforced with the Bank and recommend staff changes. Should the talks prove fruitless, Section 4.04 of the Loan Agreement should be invoked.

B. Technical Assistance

Technical assistance provided under the loan did not focus on known problems. The intent of the assistance was to complete the management reform program started under an earlier project. Some of the assistance repeats what has already been provided. General advisory services not only repeat earlier aid but are being contracted for so late as to have little effect on the project.

Before any disbursements had been made Audit Report No. 1-522-75-83, June 9, 1975, pointed out:

"The technical assistance requirements of the municipalities were not given adequate attention when the project was designed. As a result, the Bank does not have adequate staff to provide the magnitude of assistance that will be needed, and it is doubtful that the 2 1/2 years remaining for loan disbursement will be adequate for completion of the project. The Mission and the Bank should evaluate the technical assistance needs of the Bank and the municipalities, and should make such project changes in the technical assistance plan and in the Bank's projected staffing requirements as may be indicated to enhance the chances of timely project completion."

The Mission intended to carry out the audit recommendation by making a complete study of the technical assistance needs of the Bank and the municipalities.

On completion of the study a report was to be issued recommending changes in the technical assistance plan and projected staffing pattern for the Bank.

All that ever materialized was a series of meetings with the Bank. Kinds of technical assistance needed were never identified, and no mention of staffing was made. Net result of the meetings was extending time for services or eliminating services of advisors who were included in the original plan which the auditor had recommended changing. The adjusted plan programmed \$308,000 of the available \$400,000.

As the program unfolded problems in the processing of sub-project funding requests surfaced. The Capital Assistance Paper contemplated that the Bank's technical staff would help municipalities prepare loan applications which would include architectural and engineering studies. According to the Capital Assistance Paper, municipalities lack these skills. In the beginning the Bank did not provide the needed services.

The Bank's December 1976 evaluation says that sub-loan applications submitted by municipalities were deficient. They did not contain some of the data needed for processing. Final architectural and engineering studies, for example, were full of errors. In some cases, needed information was missing.

The evaluation report admits that the Bank did not have the capacity to help out the municipalities; it did not specifically identify deficient areas or ways to correct them. In a later review by AID, the subject of personnel was mentioned, but no plan was devised to bridge the technical assistance gap.

Part of the purpose of the Bank reform, according to the Capital Assistance Paper, was to "straighten out internal operations, install a modern accounting system; put accounts in order; initiate an aggressive collection effort." To that end, an AID grant-funded advisor was provided to the Bank. Prior to the request for the loan, the Bank's accounting system had been reviewed and found adequate.

Similarly, codifying internal operating procedures had been included in prior technical assistance. The external audit for 1974-1975 and for 1976-1977 showed that the accounting system previously installed had been discarded somewhere along the way. In their 1974-1975 report, the auditors noted that the bank did not have manuals regulating its operations. In 1976-1977 the auditors reported that there was no official guide so that all departments would know the procedures that must be met before giving loans. To remedy this back sliding, \$30,000 was allocated for the analysis, design, and installation of systems and accounting procedures, preparation of operating manuals, and the orientation of employees to these new systems.

The Capital Assistance Paper contemplated hiring a general advisor to the Bank. Such services were originally included in the first technical assistance plan (November 1974) but later eliminated. After the December 1976 evaluation, AID again entered into discussions with the Bank to hire a general advisor. It took about 18 months to arrange for such services. The services are expected to start in September or October 1978.

The effect of the \$400,000 for technical assistance was diluted by lack of a definite plan, failure to perform a complete study of technical assistance needs, not allocating funds for help in the loan processing area, again funding services provided previously, and the late funding of general advisory services which were most needed at the beginning of the project. Even so, all indications are that the \$200,000 spent on tax reform and municipal administration are now paying dividends and will continue to do so. The systems work is now in progress. Although this work was done before, it was not effective. Systems manuals developed under a prior AID grant were given to the Bank as suggested procedures to follow but the Bank chose not to adopt the suggestions. The work services now being done will have a better chance if adopted by the Board of Directors.

Recommendation No. 3

The Mission should ask the Bank for evidence that the administrative and accounting systems and operating manuals now under development are formally adopted by the Board of Directors.

C. Evaluation

The Bank's first project evaluation did not measure progress against project goals. Although the problem of processing sub-loans was identified, specific needs on the personnel side were not identified. An extensive evaluation is scheduled in the near future. Work to be performed includes establishment of an evaluation system and training of evaluation personnel. It is doubtful that the evaluation system can be installed and debugged in the planned three-month work period.

Condition precedents to initial disbursement (Loan Agreement Section 3.01) require the Bank to prepare a detailed scope of work for a specialist to design an evaluation system. The system would include: methodology, personnel and work plans, sources and methods of obtaining data, report make-up, and a description of how interested parties intend to use the plan.

Conditions precedent to commitment of loan funds in excess of \$1,000,000 (Loan Agreement Section 3.03) require the Ministry of Finance, the Bank, and AID to jointly plan and conduct an evaluation of progress achieved in meeting the goals of the project. The evaluation is to focus on operational matters, attempting to identify and resolve problems interfering with or slowing implementation: subblending, technical assistance, training, and procurement of equipment.

The condition precedent to disbursement was met by submission of a scope of work for a short term consultant to design the evaluation system but the consultant was never hired, and the evaluation system was

never established. The Capital Assistance Paper is clear. It was intended that the evaluation system be established, base line data selected, and the system in place to ensure that the needed data would be collected on a routine basis. The established system was to be the source of information and data for use in conducting evaluations when commitment reaches \$1,000,000 and \$3,000,000.

Our review of the Evaluation Report prepared in compliance to Section 3.03 (a) of the Loan Agreement showed that the report was vague; it did not report specifically on progress made in completing the Bank's reform program and preparing the Bank to carry out an expanded lending and technical assistance program. For example:

- Comment on technical assistance was limited to a list of services contracted.
- No mention was made of the reform program.
- Training courses were simply listed.

For the most part, the report addressed the problem of processing sub-loans. Loan requests took much too long to process. As a result, the AID loan could not be completed on time. Failure to process sub-loans promptly was attributable to problems at the municipal level, Bank shortcomings in providing technical assistance, and delays on the part of AID in processing documents. The report recommended streamlining the sub-loan process and increasing Bank personnel. Subsequently, Mission correspondence showed that AID agreed to limit its participation to one inclusive review late in the process. Hiring of personnel was mentioned, but no specific numbers or qualifications are stated. AID now limits its review. Little was done in hiring more qualified staff.

The loan is approaching \$3 million in commitments, and an evaluation consultant is being selected. At that point, the Loan Agreement calls for an exhaustive review of project progress, growth of the Bank as an institution, effects of the project at the municipal level, and costs and benefits of specific sub-projects. The scope of work requires the consultant to prepare an evaluation methodology and train Bank personnel in project evaluation.

The purchase of \$1 million worth of heavy equipment is waiting Mission approval. Once approved, the loan is essentially committed.

It is evident that the last evaluation can have little or no effect upon the loan. It would have been more effective if the more extensive evaluation had been done first.

Providing the technical assistance to install an evaluation system and to train personnel meets the intent of the condition precedent. But it seems doubtful that a short-term consultant (approximately 3 months) will be able to install and debug the evaluation process in such a short period of time. It is, therefore, incumbent on the Mission to follow-up and see that the system is being maintained by the Bank.

Recommendation No. 4

The Mission should follow-up within 6 months after installation of the evaluation system is complete to see that it is being kept up.

D. Audit

The Bank has not made adequate provision for audit services. Internal audit performance is unsatisfactory. Required external audits have not been contracted for.

Audit Report No. 1-522-75-83, June 9, 1975, noted that the Bank's internal audit function was weak, there were no audit plans, and very little auditing was being done. The report recommended that the Bank hire an external audit firm to help set up a satisfactory internal audit program.

As part of the 1974-1975 audit, the Bank's external audit firm wrote "General Guidelines for the Organization of the Internal Auditing Department". The guidelines were accepted by the Bank, and on this basis, the audit recommendation was closed.

In a July 18, 1978, audit report covering 1976 and 1977, the external auditors refer to their prior report: "Considering the importance of our recommendations to strengthen the internal control system, we insist that they should be adopted...". Internal Audit was one of the 10 items listed. We discussed the performance of the Bank's internal audit staff with the external auditors. They said the internal audit effort had progressed little and had not contributed to the internal controls of the Bank. Therefore, they were repeating the audit finding by reference to the prior report.

Recommendation No. 5

The Mission should ask the Bank to implement the internal audit program recommended by the external auditors and to include a progress evaluation in the External Auditor's scope of work.

The Loan Agreement requires that the Bank contract annual external audit services until the loan is disbursed. These services were eligible for financing under the "Technical Assistance, Evaluation and Audit" part of the Loan. The Bank's Charter and By-laws do not require an external audit.

Loan funds to finance external audits are now depleted. But the terminal disbursement date runs to December 31, 1978, and may be extended to

September 30, 1979. The Bank should be notified that the 1978 and 1979 audits will have to be internally financed. The desirability of annual external audits should be pointed out.

Recommendation No. 6

The Mission should notify the Bank that annual external audits are required under the terms of the Loan Agreement and that 1978 and 1979 external audits must be funded by the Bank.

E. Potable Water

Poor feasibility studies may be resulting in bad loans. A review of four potable water projects showed that two were operating at a loss. Three have construction or design problems.

Loan funds for water projects are to be repaid from water sales. By so doing, the projects will be self-liquidating and no burden to the municipality.

Six water projects were approved by the Bank's Board of Directors. We visited projects at Potrerillos, Santa Rita, El Progreso, and Goascoran. In three locations the actual number of water connections made fell far below the number planned:

	<u>Actual</u>	<u>Planned</u>	<u>Short Fall</u>
Potrerillos	480	980	50%
Santa Rita	460	850	46%
Goascoran	<u>136</u>	<u>310</u>	56%
Totals	<u>1,076</u>	<u>2,140</u>	51%

Shortfalls cause municipalities to lose revenue needed to repay loans and operate the systems. Exact reason for the shortfalls are unknown. The Bank suggested possibilities:

- A recalculation of the debt servicing capacity showed that Santa Rita could only pay for 460 connections.
- After feasibility study was made, 480 possible users at Potrerillos decided not to take service possibly because of the rate increase from \$0.50 to \$3.50 per month.
- After a feasibility study was made, 174 possible users at Goascoran decided not to take the service because of a rate increase, so people bought water from their neighbors.

According to our calculations, neither Potrerillos nor Goascoran is generating enough cash to repay the loan and operate the water systems. Potrerillos falls short by \$1,602 per year, Goascoran by \$855 per year. In neither case was depreciation of the system considered. Even so, both municipalities are current in their loan payments.

Potrerillos has an added problem. The loan request included a new water delivery system. It was omitted from the project because the Bank believed Potrerillos could not service the debt. The new source was simply connected to the old system which is practically worthless. Customers complain that they are being charged \$3.50 per month for the same faulty, unreliable service that used to cost \$0.50 monthly. They are now refusing to pay, and Potrerillos' loss will most likely grow. We were told that the application for a new distribution system is under consideration, and a study is now being done.

The Bank's feasibility studies appear to be faulty and may be resulting in bad loans. We have already seen that estimates of new connections are off by an average of 51 percent. Poor estimates are serious, because municipalities use a flat rate system, and revenue is directly tied to the number of water hookups. The shortfalls seem modest but maintenance costs will grow as the systems get older. These municipalities do not have other sources of revenue from which to repay the loan.

Recommendation No. 7

The Mission should review the Bank's feasibility study techniques to identify any faulty methodology and urge the Bank to explore ways to increase the number of connections at Goascoran to make the system self-liquidating.

Recommendation No. 8

The Mission should evaluate Potrerillos sub-loan application for a new distribution network and, if appropriate, urge the Bank to fund the cost.

At Santa Rita, the system design calls for two wells to feed a 60,000 gallon storage tank. The water is gravity fed to the distribution system. Two wells were constructed, but only one is being used. Both were to be 100 feet deep. One is only 60 feet deep, because an unidentified obstruction was thrown into the well before the casing was sunk. We were told that one pump cannot operate at capacity due to the obstruction. It is not presently being used for fear that it will be damaged.

What effect the lack of one pump will have is not clear. Santa Rita authorities said the one pump was providing enough water. The obstruction problem has been known for some time and was covered in construction progress reports. But the Municipality and the Bank accepted the well. Our concern is that AID loan funds were used to build a two-well system, only half of it is usable.

Recommendation No. 9

The Mission should find out what needs to be done to unblock the well at Santa Rita and urge the Bank to get it done.

F. Markets

Overall planning of municipal markets was good. Space was leased promptly and at reasonable rates. More than enough funds were being generated to repay loans. But we did note leaks and damaged merchandise that seemed to result from design problems.

Twenty markets are scheduled for construction. We visited completed markets in Danli, Tela, and Puerto Cortes, and two others in the early stages of construction at Choluteca and Potrerillos. Our observations deal with the completed markets.

At Tela, faulty design caused roof leaks and drainage problems. Insufficient overlapping of the roof section and poor drainage angles caused the leaking roofs. Rainwater is forced in through these poor overlaps; it also collects at surfaces where the gutters and down spouts join. The interior drainage problem is twofold. Sink drains in kitchens are too small and are constantly being plugged up with refuse, surface drains on the floor level also are undersized causing flooding.

At Puerto Cortes, we saw similar problems. The main building roof is of saw-tooth design with louvered sky-lights. The corrugated asbestos roofing material has insufficient overlapping where the sections meet causing rain water to enter. Sink and floor drains are too small. Temporary flooding damages merchandise. The electrical system is both 110 and 220 volts. Recepticals are not marked and are constantly confused.

We also noted broken and cracked concrete wall uprights and roof beams. These ruptures are caused either by uncalculated stress at joints or by weak material composition.

We discussed these problems with the municipal market operators. Minor problems such as marking electrical outlets can be corrected, but the operators feel they cannot correct construction design errors.

The two locations have similar problems. We believe they result from faulty designs. It is our understanding that the Bank uses standard market designs.

Recommendation No. 10

The Mission should ask the Bank to review the design of the Tela and Puerto Cortes markets for errors. Should errors be found, the standard design should be corrected; if the problems are found to be construction faults the contractor should be required to correct the deficiencies.

G. Tax Reform

Significant increases in the tax roll were made as a result of the property tax reform program. But resulting increases in revenue, if any occurred, could not be verified because data collected by the Bank is inconclusive. The Bank should have enough data on hand to gage the success of the program and redesign it as needed.

The tax reform program includes training people to identify, measure, and define legal boundaries, catalogue real property, and prepare tax bills. Bank employees are trained by a contractor; municipal employees are trained by the Bank staff. The objective is to increase the tax base and leave behind a trained staff capable of expansion.

The work is being done under unfavorable conditions. Resentment toward taxes is a long-standing tradition in Honduras. People are hostile toward anyone seeking tax data.

The direct benefit of the tax reform project is immediate additions to the tax rolls. But a more important goal is giving the municipality the ability to carry on by itself. In the opinion of the Bank's contractor, municipalities backed up by the Bank's staff do have the ability to continue the effort.

To test the increase in tax billings, we reviewed revenue reports filed with the Bank by municipalities. Reports contained revenues from all sources, and did not isolate or identify real property taxes; reported collections did not identify the period for which the tax was assessed. Tax law provides for partial payments to be remitted at specific times throughout the year. Therefore, we could not gage the impact on revenues of the increase in tax billings and tax rolls. A review made by the Bank's consultant (using rough data and treating all revenues together) estimated that the program had increased collections from 20 percent to 50 percent.

Administrative reform is an ongoing program. The Bank used \$200,000 of loan funds to institutionalize the program and should establish a method to measure progress and find and correct problems. The basis of such a system is a standard reporting format that will isolate revenue collections as to type and period, along with guidelines for preparation.

Recommendation No. 11

The Mission should ask the Bank to design and implement a data collection program that can be used to gauge progress of the tax and municipal reform programs, identify problems and make corrections.

IV BACKGROUND AND SCOPE

Municipal Development Loan No. 522-W-022 was signed by AID and the Government of Honduras on July 10, 1974. The overall project objective of the \$4.1 million loan is to reinforce the Autonomous Municipal Bank's capacity to complete its reform program. Completing the program will enable the Bank to expand credit and technical assistance to municipal and inter-municipal projects that benefit the rural population. Subloan projects are to concentrate on improving the capacity of the 27 municipalities identified as centers and sub-centers of development so that they can function as effective and efficient agriculture service centers. To achieve this purpose, the AID loan will finance a variety of undertakings:

- Technical assistance advisors in capital projects, tax administration, road equipment, municipal marketing and other areas.
- Auditing and evaluation services.
- Training of municipal officials and Bank employees.
- Vehicles, office, and other equipment.
- Loans to municipalities for markets, slaughterhouses, road construction, potable water systems, municipal tax billing, accounting and collection systems.
- Other projects as may be indicated.

The AID loan will be complemented by \$2,010,000 from other sources:

<u>Source</u>	<u>Amount</u>
AID Loan 022	\$4,100,000
Government of Honduras contribution	1,500,000
Bank contribution	500,000
Community contribution	<u>610,000</u>
Total	<u>\$6,710,000</u>

The community contribution will be in the form of cash, land, or services. In addition to the direct contribution to the project, the Government of Honduras is to contribute capital to the Bank of \$500,000 annually during each of the 7 years subsequent to the last disbursement of the AID loan.

According to the Mission Controller's records \$1,701,115 had been expended as of July 31, 1978, against total obligations of \$4,100,000:

	<u>Obligated</u>	<u>Expended</u>
Sub-loans Municipalities	\$3,500,000	\$1,363,146
Technical Assistance, Auditing and Evaluation	364,339	182,865
Training Programs	185,661	111,587
Bank Equipment	<u>50,000</u>	<u>43,517</u>
	<u>\$4,100,000</u>	<u>\$1,701,115</u>

The loan is to be disbursed over a 3-year period and is repayable within 40 years in 61 semiannual payments beginning 9 1/2 years after the first interest payment is due. Interest is 2 percent per annum for the first 10 years and 3 percent thereafter.

The Government of Honduras will pay the AID loan in accordance with the agreement. Recovery of loans given to municipalities will become part of the equity of the bank.

Throughout this report, currency amounts are expressed in United States dollar equivalents at the rate of 2 Honduran Lempira to the dollar.

Prior Audit Report No. 1-522-75-83, June 9, 1975, covered the period from project inception through March 31, 1975. The report contained 12 recommendations all of which have been closed.

We have made an audit of AID Loan No. 522-W-022 to the Municipal Development Bank of Honduras. Our audit covered the period from April 1, 1975, through July 31, 1978. The audit was made on a selective basis and included such tests as were considered necessary in the circumstances.

<u>Municipality</u>	<u>Project</u>	<u>Completion or Estimated Completion Date</u>	<u>Amount</u>
<u>Projects in Progress</u>			
Choluteca, Choluteca	Road equipment	December, 1978	\$ 147,600.00
Choluteca, Choluteca	Market	July, 1978	694,898.00
San Lorenzo, Valle	Road equipment	December, 1978	72,720.00
San Lorenzo, Valle	Sewer	December, 1978	243,286.00
Siguatepeque, Comayagua	Storm drain and sewer	March, 1979	382,426.00
Santa Rosa de Copan	Market	January, 1979	240,000.00
Trujillo, Colon	Market	November, 1978	61,025.00
Talanga, Francisco Morazan	Market	May, 1979	172,500.00
Potrerillos, Cortes	Administrative reforms	September, 1978	27,715.00
Santa Rosa de Copan	Transportation terminal	October, 1978	150,000.00
Catacamas, Olancho	Road equipment	December, 1978	15,000.00
Trujillo, Colon	Road equipment	December, 1978	15,000.00
El Porvenir, Atlantida	Road equipment	December, 1978	15,000.00
Potrerillos, Cortes	Market	November, 1978	129,459.00
Choluteca, Choluteca	Transportation terminal	April, 1979	288,500.00
Santa Cruz Yojoa, Cortes	Road equipment	December, 1978	15,000.00
El Triunfo, Choluteca	Road equipment	December, 1978	15,000.00
La Lima, S.P.S. Cortes	Market	March, 1979	135,133.00
Danli, El Paraiso	Road equipment	December, 1978	172,997.00
Cofradia, S.P.S. Cortes	Market	March, 1979	64,096.00
El Paraiso, El Paraiso	Potable water	January, 1979	201,661.00
Villanueva, Cortes	Administrative reforms	December, 1978	36,670.00
San Jose Colinas, Santa Barbara	Sewer	July, 1979	105,750.00
San Marcos de Colon, Choluteca	Market	March, 1979	72,500.00
Villanueva, Cortes	Market	February, 1979	133,458.00
Catacamas, Olancho	Market	March, 1979	133,458.00
San Rosa de Copan, Copan	Administrative reforms	May, 1979	37,831.00
Sonaguera, Colon	Market	February, 1979	114,500.00
Tocoa, Colon	Market	February, 1979	112,910.00
Saba, Colon	Market	February, 1979	112,910.00
La Entrada, Copan	Administrative reforms	October, 1978	21,876.00

<u>Municipality</u>	<u>Project</u>	<u>Completion or Estimated Completion Date</u>	<u>Amount</u>
<u>Projects in Progress</u>			
San Antonio, Cortes	Road equipment	December, 1978	\$ 15,000.00
Olanchito, Yoro	Market	May 1979	180,540.00
Valle de Angeles, F. M.	Market	March 1979	72,025.00
La Ceiba, Atlantida	Market	September, 1979	331,719.00
San Jose Colinas, Santa Barbara	Administrative reforms	February, 1979	18,673.00
		Total Projects in Progress	<u>\$4,758,836.00</u>
		TOTAL ALL PROJECTS	<u>\$6,682,846.00</u>

LISTING OF RECOMMENDATIONS

Recommendation No. 1

The Mission should ask the Bank to hire the four contract employees trained by the Tax-Municipal Administration Consultants.

Recommendation No. 2

The Mission should discuss specific areas where management needs to be reformed with the Bank and recommend staff changes. Should the talks prove fruitless, Section 4.04 of the Loan Agreement should be invoked.

Recommendation No. 3

The Mission should ask the Bank for evidence that the administrative and accounting systems and operating manuals now under development are formally adopted by the Board of Directors.

Recommendation No. 4

The Mission should follow-up within 6 months after installation of the evaluation system is complete to see that it is being kept up.

Recommendation No. 5

The Mission should ask the Bank to implement the internal audit program recommended by the external auditors and to include a progress evaluation in the External Auditor's scope of work.

Recommendation No. 6

The Mission should notify the Bank that annual external audits are required under the terms of the Loan Agreement and that 1978 and 1979 external audits must be funded by the Bank.

Recommendation No. 7

The Mission should review the Bank's feasibility study techniques to identify any faulty methodology and urge the Bank to explore ways to increase the number of connections at Goascoran to make the system self-liquidating.

Recommendation No. 8

The Mission should evaluate Potrerillos sub-loan application for a new distribution network and, if appropriate, urge the Bank to fund the cost.

Recommendation No. 9

The Mission should find out what needs to be done to unblock the well at Santa Rita and urge the Bank to get it done.

Recommendation No. 10

The Mission should ask the Bank to review the design of the Tela and Puerto Cortes markets for errors. Should errors be found, the standard design should be corrected; if the problems are found to be construction faults the contractor should be required to correct the deficiencies.

Recommendation No. 11

The Mission should ask the Bank to design and implement a data collection program that can be used to gage progress of the tax and municipal reform programs, identify problems and make corrections.

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