



# Auditor General

REVIEW OF  
HURRICANE RURAL RECONSTRUCTION AND RECOVERY II  
RURAL PRIMARY SCHOOLS  
LOAN No. 522-V-031  
USAID/HONDURAS

**Audit Report Number** 1-522-81-9  
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# Honduras



502476 1-76 (541406)  
 Lambert Conformal Projection  
 Standard parallels 9°20' and 14°40'  
 Scale 1:3,400,000  
 Boundary representation is  
 not necessarily authoritative

Hurricane Zone



Primary School Implementation Area



- Railroad
- Road
- Airport

HURRICANE RURAL RECONSTRUCTION AND RECOVERY II  
RURAL PRIMARY SCHOOLS  
LOAN No. 522-V-031  
USAID/HONDURAS

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EXECUTIVE SUMMARY

Introduction

On September 17, 1974, Hurricane Fifi struck the north coast of Honduras with high winds and rains of 25 inches in two days. The aftermath included severe damage to agriculture production, national income, and foreign exchange. Damage to property, including agricultural production, amounted to about half-a-billion dollars. AID assisted in the initial recovery phase by providing a \$15-million loan package to finance agriculture production and marketing credit, and rural primary school construction.

AID agreed to finance a second package of activities to help in moving from recovery to development. The three-part package finances: (a) agricultural credit to farm organizations and groups - \$5 million; (b) rebuilding approximately 240 miles of access roads including the introduction of labor intensive hand maintenance - \$2.4 million; and (c) the renovation and enlarging of 54 central and 270 satellite schools - \$2 million.

Loan 522-V-031 financed primary schools, Loan 522-T-030 financed the agriculture credit and access roads sub-project. Both loans were signed on November 2, 1976. Activities financed by Loan 522-T-030 are reported on separately in Regional Inspector General/Audit/Panama Report No. 1-522-81-8 dated February 24, 1981.

Scope

The purpose of the review was to assess the project results to date, and to determine if management of the project has been effective and if AID funds have been used according to Agency policies and procedures.

Audit Conclusions

Project implementation has not been effective and seemed to be limited by poor planning and possible disagreement with some project components by the GOH implementing agency. The GOH agency appeared to have emphasized the construction program and paid less attention to the training, equipment procurement, teaching aids and practical projects parts of the program. USAID/Honduras' role in overseeing project implementation was not as effective as it could have been. The end result has been that many of the project inputs will not be received until the last days of the project. Other components may be cut short with the funds channeled into school construction.

- The loan agreement project description called for enlarging and renovating 54 central schools and 270 satellite schools. This plan was scaled down to construction of 225 classrooms and 33 shops at 91 locations. Renovations were dropped altogether. The deviation from the loan plan was not documented. (See page 3 ).
- Construction of the In-Service Teacher Training Center was delayed. The delay resulted from uncertainty about the location and what kind of structure should be built. Construction of the facility was scheduled to begin in October 1980. (See page 4 ).
- Because construction of the Training Center was delayed, the plan to train 1,200 teachers at the facility could not be accomplished. Alternate facilities were not available. The training was being carried out using traveling teacher-trainers. (See page 5 ).
- Procurement for teaching-aid kits and shop equipment was still underway. These items may not arrive in time to be put into use during the life of the project. (See page 5 ).
- USAID/Honduras was less involved in project execution than it should have been. Little precise information could be obtained from Mission people. (See page 5).
- School furniture financed by the loan was falling apart, the wood finish was rough, and the chairs were not suitable for some students because the adjustable chairs seats were permanently fixed in one position. The Mission needs to make a review of the furniture situation and request the manufacturer to correct defects. (See page 7).
- Chalkboards made from cement were not usable because the painted surface was discolored and peeled. The result was that very few schools had usable chalkboards. The Mission is looking into alternatives and is committed to providing each classroom with an appropriate chalkboard. (See page 7 ).
- The 34 shops constructed so far were not being used because equipment and teaching aids had not been ordered. (See page 8 ).
- The amount paid to the GOH for completed classrooms and shops was in excess of actual costs. We calculate that by June 30, 1980, overpayments reached \$184,212, and if the current reimbursement rate is continued the amount will reach \$320,000. The overpayments resulted because costs of materials and quantities were overstated, community contributions were much greater than anticipated, and contributions were obtained from municipalities. In lieu of a reduction in the per unit reimbursement, USAID/Honduras needs to obtain a formal agreement which commits the overpayments to be used to construct classrooms, quantifies the amount of the overpayments, and lists the location and type of school building to be constructed with the funds. Any buildings constructed using reallocated funds would be reimbursed using a new fixed price. (See page 10).

- Signs noting the shared participation of the Governments of Honduras and the United States in financing the project were not being displayed at construction sites. Likewise, the vehicles and equipment acquired with loan funds were not marked with appropriate emblems. (See page 15 ).
- USAID/Honduras project monitorship needs to be improved. The Mission lacks the flow of information that is needed to be adequately apprised of project progress and problems, and the efforts that are underway to solve problems. (See page 16 ).

### Recommendations

This report includes ten recommendations for improved project implementation and monitoring. We believe that when these recommendations are effectively implemented a better project will result and AID resources will be more effectively utilized.

## BACKGROUND

On September 17, 1974, Hurricane Fifi struck the north coast of Honduras with high winds and rains of 25 inches in two days. In the Aguan Valley, torrential rains fell for seven consecutive days. The water even more than the winds devastated the area. Resulting flooding killed and injured thousands of people, destroyed and damaged tens of thousands of homes, washed out roads and bridges, and rendered civic functions (such as schools, markets, and health centers) inoperable.

The aftermath included severe damage to agriculture production, national income, and foreign exchange earnings. Damage to property, including agricultural production, amounted to about half-a-billion dollars - an amount equal to half the Honduran gross national product for that year. Hardest hit were the small farmers. Thousands of new farmers settled under an agrarian reform program lost their first crops.

Emergency assistance for immediate relief - food, medicines and shelter - poured in from all over the world and reconstruction begun in late 1974. The Government mobilized Central Bank resources, diverted funds within the National Budget, and sought special assistance from external agencies. In November 1974, AID responded with a \$5 million grant to meet immediate needs in agriculture, rural shelter, road repair, municipal infrastructure, and rural health services. These activities were completed by mid-1975.

AID assisted in the initial recovery phase by financing Hurricane Rural Reconstruction and Recovery I. The \$15 million loan package financed agricultural production and marketing credit (Loan 522-T-026), rural primary school reconstruction (Loan 522-V-027), and rural shelter reconstruction (Loan 522-W-028). These projects were completed in late 1976 and early 1977.

Because of the hurricane the 1974 Honduran Development Plan lost momentum. After the emergency operations were completed, projects primarily of a developmental nature could again be undertaken. To help the movement from recovery to development, AID agreed to finance a second Hurricane Rural Reconstruction and Recovery package. Loan 522-T-030 (\$7.5 million) and Loan 522-V-031 (\$2 million) were signed on November 2, 1976. The package consisted of three discrete activities. The Agriculture Credit activity (\$5 million) and the Access Road Reconstruction activity (\$2.5 million) were both funded by Loan 522-T-030, and are reported on separately in Regional Inspector General/Audit/Panama Report No. 1-522-81-8 dated February 24, 1981. A synopsis of the Rural Primary Schools activity follows.

### Rural Primary Schools - \$2 million Loan 522-V-031

The Government of Honduras (GOH) Ministry of Education was to expand its central satellite rural primary school program, plans for which had been set aside after the hurricane. The program consisted of:

- Renovating and enlarging of 54 Central and 270 Satellite schools. Approximately 335 new classrooms and/or multipurpose rooms. Construction will be done by community self-help under the direction of the Ministry's Office of School Construction.
- Constructing, equipping, and staffing of an in-service training center with a minimum professional staff of 24 and capacity to handle 80 teacher trainees.
- Training of 24 professionals to staff the training center.
- Providing one month of training at the training center for 1,200 teachers.
- Distributing basic teaching equipment kits to project schools.
- Providing funds for special practical projects initiated by project schools.

**Financial resources for the activity:**

	<u>Loan</u>	<u>Government</u>	<u>Community</u>	<u>Total</u>
Equipment	\$ 300,000	\$ -0-	\$ -0-	\$ 300,000
Furniture	200,000	-0-	-0-	200,000
Renovation/Expansion	900,000	240,000	235,000	1,375,000
Construction Training Center	400,000	-0-	-0-	400,000
Training for Training Center Teachers	100,000	-0-	-0-	100,000
Practical Projects	100,000	-0-	-0-	100,000
Operating Costs	<u>-0-</u>	<u>949,000</u>	<u>-0-</u>	<u>949,000</u>
	<u>\$2,000,000</u>	<u>\$1,189,000</u>	<u>\$235,000</u>	<u>\$3,424,000</u>

**Purpose and Scope**

This interim audit covered activities from inception of the loan in 1976 through June 30, 1980. The purpose of the review was to evaluate USAID/Honduras and the GOH effectiveness and efficiency in carrying out the project's objectives, assure that AID funds were used for project purposes, determine whether AID regulations were being complied with and identify problem areas requiring corrective action.

Our review included an examination of records and correspondence maintained by USAID/Honduras and GOH implementing agencies. Discussions to determine the adequacy of project monitoring and reporting were held with GOH and USAID/Honduras project officials. To review activities in the field we inspected 38 schools in 4 departments.

This report, in draft, was provided to USAID/Honduras for review and comment. Its comments were considered and incorporated in this report, as appropriate.

AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Implementation

Implementation of the project has not been satisfactory. Throughout the life of the loan there have been several problems which substantially affected the accomplishment of goals. Some of the problems stem from the ambiguity on the statement of purpose in the project paper and the loan agreement and others were attributable to Government of Honduras and USAID/Honduras ineffective project execution.

We were unable to trace the project purpose from the project paper to loan agreement and then to implementation. For example the project paper called for:

- |  |   |              |
|--|---|--------------|
| 1. Addition of 3 classrooms to 54 central schools                                  | - | 162 units    |
| 2. Addition of 1 multi-purpose room to 173 satellite schools                       | - | <u>173</u> " |
| Total  |   | 335 units    |
| 3. An unspecified number of repairs/renovations and construction of storage rooms. |   |              |

The loan agreement called for:

- |  |   |     |
|--|---|-----|
| 1. Renovation and enlarging of 54 central schools  | - | 54  |
| 2. Renovation and enlarging of 270 satellite schools                                     | - | 270 |
| 3. The number of units is listed as 335, but how the number was calculated is not shown. |   |     |

The actual program being implemented is different from the project paper and the loan agreement description of the building program.

- From the onset, renovations and the addition of storage rooms were dropped. Only new buildings were constructed.
- The enlarging of the 54 central schools and 270 satellite schools was dropped in favor of a new GOH plan that called for construction of 225 classrooms, 33 shops (a shop is equivalent to two classrooms) or a total of 291 units. The classrooms and shops would be built at 91 locations.
- In many instances, complete new schools were built. Some were built in locations where no schools existed before.
- In other instances, new classrooms and shops were added to existing schools that were not affected by the hurricane.

We were unable to find any official documentation authorizing the deviation from the loan agreement plan. We were told by GOH officials the negotiations between the GOH and USAID/Honduras were carried out in an informal manner and decisions were agreed upon orally. USAID/Honduras officials made no comment on the changes made to the loan agreement plan.

The overriding reason given to us for not adhering to the original plan was that renovations were, on occasion, more expensive than new construction. Therefore, no renovations were done. We found no evidence to support this view. Neither USAID/Honduras nor the GOH had done a review, analysis, or collected cost data that would indicate renovations would be more expensive.

In reviewing the actual implementation of the project, we found that not even the adopted GOH plan was being followed. Additions and deletions of schools were made without any inputs from USAID/Honduras. When comparing what was actually being built to the initial plan, the total number of units and locations were substantially different. For example: (1) for the Department of Cortes, 16 school locations were listed. The GOH recently reported that construction would be done at 22 locations; and (2) for the Department of Atlantida, 13 locations were listed. The GOH current listing showed 22 locations. Only 10 locations were the same on both listings. The remaining Departments have similar changes. At particular locations, the number of units planned were different than what was actually being built.

<u>Department of Atlantida</u>	<u>Plan</u>		<u>Being Built</u>	
	<u>Classroom</u>	<u>Shop</u>	<u>Classroom</u>	<u>Shop</u>
Francisco Morazan, Ceiba	2	0	1	0
Francisco Moraza, San Francisco	5	1	4	1
<u>Department of Colon</u>				
Augusto C. Coello, Trujillo	10	1	7	0
Manuel Bonilla, Trujillo	3	0	2	0
Manuel Maivena, Trujillo	5	1	4	0
14 of July, Trujillo	3	0	0	1

The explanation given for the differences is that more or less structures are built, and locations are added or dropped, depending on community support. From the standpoint of the quality of construction, the construction activity has been relatively successful, although the emphasis has been on easily accessible locations. With the addition of more building sites and number of structures at accessible locations, much less building than planned can be undertaken at the more inaccessible locations such as the Department of Gracias a Dios.

Construction of the In-service Teacher Training Center had not started. The delay stemmed from uncertainty about the location and what kind of structure should be built.

As early as December 1977, the decision was made to reduce the capacity of the center but it was not until early 1980 that a final decision was made regarding the exact location and building design. The reasons for the delays

were not documented in USAID/Honduras files. We were told the delays were due to political problems within the GOH. The center will be located within the GOH education complex in an existing wing. The building will be remodeled at about one-half the original planned cost and any excess funds will be used for additional classrooms. The construction of the Teacher Training Center should be under way by October 1980. Fortunately, 24 staff professionals have been trained and were actively visiting area schools conducting short-term seminars and training courses.

Other project components have not fared much better. The original plan called for the training of 1,200 teachers in the teacher training center. The plan could not be implemented because the center had not been built. When it became evident the center would not be ready, a decision was made to train the teachers at the Pan American Agriculture School located at El Zamorano, Honduras. This plan was dropped. Next it was decided to train the teachers at the Instituto Nacional de Formación Profesional (INFOP). This alternative also fell by the wayside because GOH was unable to pay per diem to participants in a timely manner. Now teachers depend on the traveling Teacher Trainers for assistance.

Procurement of teaching equipment kits and shop equipment was still underway. These items were not expected to arrive in time to be put into use during the life of this project. The Special Projects Scheme was a program where children would be taught as an extra curricular activity about agriculture. The loan provided \$100,000 to pay for tools, fertilizer, seeds, materials, etc. for these activities. About 45 schools started projects but the Ministry of Education never established an adequate mechanism to process claims. It took up to 6 months to receive reimbursement for payments made by local school officials. As a result the program came to a dead halt and most probably it will be abandoned.

From the onset, Construcciones Escolares (the Ministry of Education's dependency which acts as the implementing unit for the Government of Honduras) took total command in the execution of the project. USAID/Honduras' involvement in project implementation was primarily limited to desk reviews and tacit approvals of decisions taken by the Ministry of Education unit.

USAID/Honduras' extent of involvement in project implementation can best be illustrated by the fact that the Mission was not able to provide us with a revised plan by component because at the time of the audit the Ministry of Education unit had not decided how it would reprogram the resources available. USAID/Honduras was aware that reprogramming of funds was going to take place but since it had not taken an active part in the planning it could not tell us the extent of the changes.

At the conclusion of our field work, USAID/Honduras and the Ministry of Education were meeting to determine the exact financial and physical status of the project. We understand that all funds in excess of those originally set aside for Equipment and Furniture, Construction of the In-Service Teacher Training Center, Teacher Training and Practical Projects will be spent on school building construction. A new financial plan is to be agreed on and included in an implementation letter.

We were given three overriding reasons which influenced USAID/Honduras' participation in project implementation: (1) The Project Manager's inexperience with AID programs; (2) the limited staff in the Mission's Education Division; and (3) the emphasis being put on development of new projects. We recognize these impediments but, in our opinion, a more dynamic involvement by the Mission would have resulted in improved project implementation.

In its response to our draft report, the Mission did not agree that the project purpose, as stated in the Loan Agreement, was not being carried out. It contends there was no firm plan until the actual program was approved by Implementation Letter and that even that plan was very flexible. It said, "Neither the Project Paper nor the Loan Agreement nor any implementation letter called for a list of specific sites to be approved by the Mission. What was required was a plan for construction and a methodology for site selection". It goes on to say that the schedule for construction (Ministry list showing location, type, and number of buildings) was illustrative and not binding.

The Mission also takes exception to our comments on the extent and effectiveness of USAID/Honduras involvement in project implementation. Saying "Although not all of the Mission involvement is documented, many of the consultations with Ministers and Ministry staff are on record or are reflected in subsequent correspondence. ...In the reprogramming of funds (which centered on the actual cost of procuring school equipment, and hung on the decision as to whether a Teacher Training Center would be built), the Mission played an active role as it had from the beginning of the Project".

We feel the intent of the building program, as described in the Loan Agreement, was not fully met by the school building program actually implemented. The divergence of views on the involvement of USAID/Honduras in project implementation is attributable to the difference in view concerning the school building program (the Mission concept required far less participation) and our own inability to obtain progress reports and reasons for delays in project implementation. (See "Project Monitorship" for additional comments.)

While accomplishments have been made, we did note several areas where management attention was needed. These areas are discussed in the remaining sections of this report.

#### Condition, Use, and Maintenance of Classrooms, Shops and Equipment

Improvements were needed in the provision, use, and maintenance of classrooms, shops and equipment provided under this program. More attention to these areas could significantly improve the situation and result in improved facilities for the children's education.

We visited 38 schools in 4 departments to inspect construction progress and condition of the finished units. We also conducted interviews with teachers, school officials, students and community leaders. The areas needing attention and improvement are discussed below.

## School Furniture

At two schools the classrooms were not being used because furniture had not been provided. According to Ministry of Education records, full sets of furniture had been provided to these schools by the furniture manufacturer. In several instances, local school officials complained about the low quality of the furniture provided.

For example, we noted several instances where the furniture was not in use because it was falling apart, the wood finish was rough, and the chair seats were not at an appropriate height for older children. The general consensus of the teachers and students interviewed was that the quality of the furniture left a lot to be desired. The chair seat surface was so rough that children's clothes had been torn. Desk design was defective and they broke easily. Another complaint was that the same chair had to be used by children in kindergarten through grade six. Therefore, the chair seat was supposed to be adjustable to three different levels. But the chair seat has been glued at the middle level by the manufacturer, making the chair very uncomfortable for children above the second grade.

We were accompanied on our visits by Ministry of Education personnel. They were unaware of the furniture defects. The Ministry of Education personnel checked with the manufacturer to see why the two schools had not received furniture. The Ministry of Education personnel told us that the furniture had inadvertently been delivered to other schools in the area bearing the same school name. We were advised that the Ministry of Education initiated a review of furniture deliveries to verify that deliveries had been made to the correct school. The reasons for the quality and design defects of the furniture were not immediately known. In our opinion, the extent of the defects was wide-spread and a complete review of all furniture delivered was needed. The manufacturer should be required to put delivered furniture in usable condition and to correct design and manufacturing problems so that good, usable furniture will be delivered in the future.

### Recommendation No. 1

USAID/Honduras should, in conjunction with the Government of Honduras, conduct a review of furniture delivered and request the manufacturer to correct defects and take necessary steps to correct design and manufacturing problems so good, usable furniture will be delivered in the future.

## Chalkboards

The standard school design called for the construction of a chalkboard made from cement. We found that most of the chalkboards made from cement were not usable. The boards were not usable because the painted surfaces discolored and peeled. This was caused by low quality building materials and a chemical reaction. The result was very few schools had usable chalkboards. Some schools solved the problem by using portable chalkboards. These boards were smaller than what is needed, but something was better than nothing.

CARE has been building schools in Honduras for over 10 years. They currently build about 200 classrooms per year. The CARE project manager told us they abandoned the use of cement chalkboards for the very reason we observed - discoloring and peeling. The CARE official said that to make cement for use in a chalkboard, a very high grade sand and a very skilled mason were needed. Because of the self-help concept of building schools used by both CARE and the Ministry of Education these two elements were hard to find. Several years ago CARE started to install a chalkboard made of high quality plywood with a reinforced wood frame. These plywood chalkboards are attached to the cement wall of the school. The plywood has worked well and CARE has eliminated chalkboard problems. The cost of plywood chalkboard was about \$20 to \$30 more than a cement chalkboard.

We visited several CARE schools and inspected the plywood chalkboards. They were in good condition and very usable.

Because of time constraints, all loan funds are not going to be used. We believe USAID/Honduras should request the Ministry of Education to change the standard classroom design by substituting plywood chalkboards for cement chalkboards and approve the use of loan funds for the purchase of a plywood chalkboard for all classrooms constructed under the loan.

USAID/Honduras, in response to a draft of this report, commented that its engineering reports noted the problem of cement chalkboards well before the audit began. Its recommendations were responsible for the change to the technique of using colored, higher quality cement in the schools recently coming under construction. The plywood alternative is not attractive to the Ministry of Education because plywood is susceptible to termite damage.

Our concern is to assure that all schools financed with loan funds have usable chalkboards. If using colored, higher quality cement works, can be effectively installed, and is what the Ministry of Education wants, then that's what should be used.

#### Recommendation No. 2

USAID/Honduras should require that all classrooms financed under Loan 522-V-031 be fitted with appropriate chalkboards.

#### Shops

By June 30, 1980, 34 shops had been constructed under the loan. Of the shops we visited, the ones in use were not being used for the intended purpose and the others were vacant.

We found that shops were being used for temporary classrooms, storage rooms, and a directors' office. Faculty members and students expressed gratitude for having shops but likewise showed disappointment in not being able to use the facilities properly.

The reason the shops were not being used was because the equipment and teaching aids to be financed under the loan had not been ordered. The Ministry of Education and USAID/Honduras could not agree on the type and make-up of equipment or the timing for ordering what was needed. The equipment lists (Invitation for Bid) were released in July 1980, and the earliest possible date the equipment may be delivered is March 1981. Since procurement was underway at the time of our audit, we are not making a recommendation.

### Maintenance

We noted several classrooms built between 8 and 18 months before our visit that were showing signs of deterioration. The paint was fading or was black because of handprints or other matter. Wooden window louvers were loose or broken. Window locks did not work and wooden accessories in general were worn.

The reasons for the bad conditions of the classrooms were the lack of maintenance at the local level, and the non-existence of a Ministry of Education maintenance program.

USAID/Honduras recognized the maintenance problem and included a maintenance component in the new \$13.85 million Rural Primary Education Loan. We were assured by USAID/Honduras officials that all classrooms constructed under Loan 522-V-031 would be included in the new maintenance program.

### Water Supply

We found that some of the classrooms certified for payment were operating without a water supply. The reimbursement method agreed to by the GOH and USAID/Honduras provided that a unit was not considered complete unless it was served by an adequate water supply and latrines.

Implementation Letter 13, dated December 19, 1977, established a fixed amount to be paid to the GOH for each classroom, shop, latrine, and water supply. An important feature of a fixed-amount system is that reimbursement can be made only when a unit is 100 percent complete. If a unit does not meet previously agreed upon specifications, reimbursement must be refused. The GOH agreed that each school would have the benefit of sufficient water and latrines. We interpret this to mean that a unit would not be complete unless it has adequate water and latrines.

We noted several instances where USAID/Honduras had reimbursed for classrooms and/or shops even though the facility did not have an adequate water supply. In all instances, the GOH promised to provide the required facility some time in the future.

In reply to a draft of this report, USAID/Honduras stated that, "The Mission sought to encourage water and latrine installation and reimbursed for the costs of such installations, but it has not insisted on this as a precondition for reimbursement in every case. The statement in Implementation

Letter No. 13 regarding latrines and water supply is that: "We further understand that each school will have benefit of sufficient water and latrines." The expectation was that, where water supplies and latrines are not already in place, the Project would finance them at a FAR rate. Latrines and pumps are listed as separate items under the modified FAR. Most of the classroom units have been built at existing locations, which already had latrines and wells, and no reimbursements have been made in these cases. In some locations it is particularly difficult to obtain water supplies at school sites because of geological conditions in the subsoil or distance to sources. In those cases the provision of water directly to the school was not required. However, all schools do have latrines."

During our field visits, we saw several schools which had no water supply. No special conditions were observed that would preclude putting in a water supply. We noted that USAID/Honduras' files did not document why some schools were without water. We feel in those cases where no special conditions exist that preclude putting in a water supply, AID should not reimburse the cost of the classroom until a water supply is provided.

#### Recommendation No. 3

USAID/Honduras should reimburse for complete classrooms and shops only when an adequate water supply and latrines are provided, except in those cases where it is geologically difficult to obtain water. Such exceptions should be noted in inspection reports.

#### Recommendation No. 4

USAID/Honduras, in conjunction with the GOH, should review all completed units to ensure that where feasible a water supply will be provided. Any exceptions should be appropriately documented.

#### Fixed Reimbursement Amount

The amount paid to the GOH for completed classrooms and shops was in excess of actual costs. We calculate that, as of June 30, 1980, an overpayment of \$184,212 had been made and if the current reimbursement rate is continued the total amount of overpayments will be about \$320,000.

In Implementation Letter No. 13 dated December 19, 1977, AID agreed to the use of the Fixed Amount Reimbursement (FAR) System. Prices were fixed based on a study made by Ministry Engineers and reviewed by AID engineers and cognizant USAID/Honduras staff. Because of the variety of building and locations involved, a price was set to fit the various circumstances.

Amount of Fixed Reimbursement

	<u>Complete Classroom</u>	<u>Additional Classroom</u>	<u>Complete Shop</u>	<u>Additional Shop</u>
Zone 1	\$ 3,030	\$ 2,595	\$ 5,584	\$ 5,322
Zone 2	3,294	2,858	6,111	5,850
Zone 3	3,656	3,220	6,836	-

The amounts set took into consideration unskilled labor or materials cost supplied by the communities and a 12% inflation factor.

As of June 30, 1980, USAID/Honduras had reimbursed the GOH \$485,167 for the construction of 172 units of classrooms and shops. We calculated that USAID/Honduras was reimbursing the GOH \$1,071 more per unit than what it was costing the GOH to construct the unit. The total overpayment for 172 units was \$184,212 calculated as follows:

<u>Average Per Unit</u>		
Reimbursed by USAID/Honduras		\$ 2,926
Average Cost Per Unit <sup>1/</sup>	\$ 2,561	
Less: Paid by others	<u>706</u>	
Cost to GOH		1,855
Overpayment per unit		<u>\$ 1,071</u>
GOH Reimbursed for 172 units times overpayment per unit of \$1,071		<u><u>\$184,212</u></u>

<sup>1/</sup> The average per unit cost was obtained by analyzing the costs for constructing 27 units built in 12 locations between 1978 and 1980.

The reasons for the difference between the Fixed Amount Reimbursement (FAR) figure and actual cost to the GOH were: (1) costs of materials and quantities were overstated, (2) contributions by the community were much greater than estimated, and (3) contributions were obtained from municipalities. The cost proposal establishing the fixed amount did not include any contribution by the municipalities.

USAID/Honduras had been aware of the overpayment since November 1978. A Mission engineer while making the first physical inspection of buildings noted, "The major aspect requiring further analysis and consideration is the big difference (about 80%) between the FAR estimated costs and the Ministries actual construction costs." His observation was based on cost data for four schools in the Cortés area. The overpayment was \$1,400 per unit.

The primary distinction between FAR and traditional cost reimbursement methods is that reimbursement is not based on actual cost. Rather, the amount of reimbursement is fixed in advance based upon reasonable cost estimates reviewed and approved by AID. The emphasis is upon reimbursement based on planned outputs rather than inputs. The amount of AID's contribution to the total project is controlling. If costs are less than those estimated, AID's contribution will not be reduced.

The heart of the FAR system is that cost estimates are reasonable. The AID Handbook does not address instances where the cost estimate is bad because major cost elements are left out or, as in this case, the contribution by others was greatly underestimated. We believe in cases like this it is incumbent upon the Mission to adjust the estimate to reflect the actual situation.

The criteria and preconditions for using the fixed amount reimbursement method are difficult to meet. In those cases where it is extremely difficult to set a fixed amount that both parties can live with, a variation of the FAR should be adopted. Several acceptable variations are discussed in AID Handbook 3, Appendix 3F. For example, variation E.2 "Fixed Amount Reimbursement with Escalation Negotiated Periodically" describes an approach where inflation is a major problem. We suggest going one step further. By adopting the general approach of E.2, but making it variable so the price can be adjusted up or down depending on the experience gained on a stipulated number or percentage of units. We suggest in future projects where FAR is used that USAID/Honduras should adopt a more flexible variation.

In lieu of a reduction in the per unit FAR amount established, USAID/Honduras sought an agreement with the Minister of Finance to use the surplus funds for more school construction. The GOH and USAID/Honduras have an agreement in principle. The arrangement had not been included in an implementation letter or other method that would be binding at the time of our audit.

Generally, we would recommend an adjustment in the FAR price. In this case, where over 50% of the potential overpayment has already been paid out, we agree that the Mission should enter into a formal agreement with the GOH which quantifies the amount of the overage and lists the location and type of school buildings to be built with the over-reimbursement.

USAID/Honduras' response to the draft of this report was:

"The Mission believes that the management decision not to work up new cost estimates for the modified FAR system in late 1978 and early 1979 was the correct one. Inflation factors were built into the cost, and construction in less accessible areas where community contributions would be less would tend to balance out cost under-runs over the construction period. Of course that decision would have been withdrawn had the Mission not succeeded in securing a written, valid commitment from the authorized representative of the GOH to use any excess payments under the modified FAR to build additional classrooms in the Project areas. Reducing the cost estimate used for reimbursement would have had the same effect, but at a cost of staff time and delays in the construction activity of the Project.

"The (draft) report states on page 70 that "The arrangement had not been included in an implementation letter or other method that would be binding at the time of our audit." That statement is mistaken. Letter No. CP-0258 signed by the authorized representative of the GOH for this loan was considered to be binding, and has proven to be so.

"We do not think (draft report) recommendations No. 21 and 22 are appropriate. The current system of using FAR savings for additional classroom construction is working well. Most funds transferred from other components are going toward the purchase of school equipment, not new construction. The Mission is now in the process of evaluating the claim of the MOE that all "excess" funds have been used to

date to construct 29 additional schools. We expect that 19 more classrooms will be built using funds transferred from other components. Depending on the results of the analysis being done by the MOE and Mission personnel it will be determined if a new FAR is appropriate."

A copy of the Ministry of Treasury and Public Credit Letter No. CP-0258 was provided to us in response to our draft report. In our opinion, the letter does not constitute a binding agreement but is a simple acknowledgement that: (a) schools are costing less than anticipated and therefore more schools could be built; and (b) the Treasury and Public Credit Secretary's office approved the use of excess funds for the construction, furnishing, and equipping of additional rural schools in the program zone. The letter says that such changes should be mutually agreed between AID and the Ministry of Education. This letter supports our position.

Our review showed that the Ministry of Education had tentatively allocated to school construction most funds not being used for original purposes. It now appears that the Teacher Training Center will be built under a new project. Thus more funds will become available for reallocation. In the absence of a firm agreement on the use of funds and a realistic FAR price, we believe that our proposed recommendations are still valid.

#### Recommendation No. 5

USAID/Honduras should enter into a formal agreement with the GOH specifying the use of overpayments made by use of the FAR system. The agreement should quantify the amount of the excess and list the location and type of school buildings to be built with the funds.

#### Recommendation No. 6

USAID/Honduras, in conjunction with the GOH, should establish a new reasonable FAR for any buildings financed with funds transferred from other loan line items.

#### Advances under a FAR System

USAID/Honduras advanced the GOH \$375,000 to fund start up and working capital requirements of the school construction building program. Although 172 units were reimbursed, none of the advance had been recovered. The FAR system requires that the advance be recovered as reimbursements are made.

AID Handbook 3, Appendix 3F "Use of Fixed Amount Reimbursement Method for Local Cost Financing" paragraph E.1, states: "When reimbursement is made for completed subprojects, AID would deduct a pro rata amount from each payment until the advance is completely worked off with final reimbursement."

The school construction plan submitted by the GOH called for the construction of 291 units. Using this figure as the base, we calculate that with the reimbursement of 172 units about \$222,000 of the advance should have been recovered.

In a November 1977 memo, the USAID/Honduras Education Advisor mentioned that the Mission Controller was to work up a plan for the advance and reimbursements, taking into consideration the amount to be withheld from each reimbursement. For some unknown reason the plan was never implemented.

The current position of USAID/Honduras is that the recoupment provision of the FAR "Advance of AID Funds" alternate method is incorrect. The Mission says the GOH needs to retain the advance funds throughout the project. If funds were recouped as called for it would adversely effect the construction program. Therefore it chose not to recover the advance as reimbursements were made.

We find USAID/Honduras' position on this point incompatible with the reimbursement method selected. The AID Handbook points out the advantages of a FAR procedure but warns that criteria for its use may be difficult to meet. One of the criteria is "the fixed amount reimbursement method assumes that the recipient country and organization has sufficient financial resources to provide necessary working capital so that delays in reimbursement until completion of a subproject or element will not have a detrimental effect on project implementation. The Mission should thoroughly analyze the financial standing and resources and budgetary procedures of the recipient organization prior to recommending the use of the fixed amount reimbursement method."

"In those situation where the host country does not have the budget to provide working capital on a current basis so as to permit subprojects to get underway expeditiously AID can advance funds to permit work to begin. But the advance funds should be recovered as reimbursements are made for projects/subprojects."

Since the GOH could not meet the criteria for use of the FAR system and USAID/Honduras does not want to reduce the advance according to guidelines provided, the FAR system should not have been selected as the method of fund disbursement.

The working capital problem has been worked out. The GOH has accumulated about \$184,000 due to the FAR price being in excess of actual costs. We believe it would be no hardship at this time to recoup the advance as called for in the AID Handbook.

#### Recommendation No. 7

USAID/Honduras should start with the next reimbursement request and apply payments due against the advance. Once the recoupment is current, deductions should be made on a pro rata amount until the advance is worked off with the final reimbursement.

## FAR Payments

USAID/Honduras reimbursed the GOH for the construction of a water system and sanitary facilities at a school on Bahia Island in excess of the agreed amount.

The building program called for each school complex to have adequate latrines and water supply systems. If either were not available or not adequate, loan funds could be used to construct the facility. A fixed amount of \$70 per water system and \$243 per set of latrines was established.

USAID/Honduras reimbursed for ten units of water supply and ten units of latrines at Escuela Republica de Honduras located on Islas de la Bahia. The inspection report was unclear about the number of toilets and urinals, or the type of water supply installed, but the cost was equaled to the cost of ten units each of latrines and water supplies.

Under a fixed-amount method, only the agreed upon price per unit can be reimbursed no matter what the cost. The overpayment is calculated as follows:

	<u>Water System</u>	<u>Latrine</u>	<u>Total</u>
Paid.	\$ 700	\$2,426.35	\$3,126.35
Allowable	70	242.64	312.64
Overpayment	<u>\$ 630</u>	<u>\$2,183.71</u>	<u>\$2,813.71</u>

### Recommendation No. 8

USAID/Honduras should deduct \$2,813.71 from the next GOH Reimbursement Request.

## Signs and Markings

Signs were not displayed at construction sites noting the shared participation of the Governments of Honduras and the United States in the financing of the project. Likewise, the vehicles and equipment acquired with loan funds were not marked with appropriate emblems.

Loan Agreement Section 6.12 requires that loan-financed goods be marked with both the Alliance for Progress and the Hand-Clasp emblems. Signs should be placed at all construction sites where loan funds are used, noting the shared participation of Honduras and the United States.

We inspected vehicles financed by the project and made site visits to 38 schools. We saw no signs or other markings which would show the shared participation of the Governments of Honduras and the United States. What we did see at several sites was a bronze plaque attached to the completed school buildings giving recognition to the local community, community leaders, GOH leaders, and the GOH. The United States participation was not mentioned. We also noted that on school buildings built by CARE a plastic plaque was attached to the building giving recognition to the community, the GOH and CARE. CARE officials told us they receive no resistance to putting up the plaques. In fact, community leaders take pride in giving recognition to CARE and their own efforts in building school classrooms. The

plaques showed the year that the building was constructed. These dates help gauge the effectiveness of maintenance.

Ministry of Education officials were aware of the marking requirements. These officials advised us that USAID/Honduras had not asked them to comply with the marking requirements. We discussed the lack of signs and markings with USAID/Honduras and Government officials and were advised that action would be taken to ensure compliance with the Loan Agreement. They were also affirmatively responsive to our recommendation that permanent plaques be affixed to the finished units.

In response to a draft of this report, USAID/Honduras advised us that the GOH implementing unit was preparing signs for all construction locations and has agreed to appropriately mark project-financed vehicles.

#### Recommendation No. 9

USAID/Honduras should ensure that appropriate markings are placed at all construction sites and completed projects, and that all vehicles and equipment acquired for the project are marked with appropriate emblems.

#### Project Monitorship

USAID/Honduras oversight of program activities needs to be improved. The Mission lacks the flow of information to be adequately apprised of project progress, problems, and efforts underway to solve problems. The inadequate flow of information contributed to the shortfall in project progress.

USAID/Honduras did not get a periodic report from the GOH implementing agency. This is because USAID/Honduras never issued an implementation letter establishing the format, scope, and timing of progress reports. Most information was obtained orally. When requested, an occasional program report was received. Consequently, USAID/Honduras had not been able to keep abreast of project progress.

For us to get a picture of where the project was, we had to rely on information developed by the GOH implementing agency because most of the basic data could not be obtained from Mission files or through discussions with the Project Manager. For example, there were no detailed progress report by component in the files. Data for the construction activity such as units under construction, site and structure additions and deletions, furniture and equipment distribution and control schedules were not available and had to be compiled by the GOH.

We could not determine when specific problems were first encountered nor what had been done to solve the problems either by the GOH or USAID/Honduras. To illustrate, the Special Practical Projects component was experiencing serious problems. Projects had been started at 45 locations but new projects may not be started. While visiting schools we saw several practical projects. Local school officials were happy with the results of ongoing projects. They were well received and supported by the pupils. However, because the teachers have to use their own funds and must wait up to six months to get reimbursed, they were reluctant to start new projects.

The teachers were fed up with Ministry of Education red tape and the little support received from the GOH project manager.

At June 30, 1980, USAID/Honduras had only paid out \$7,000 against an allocation of \$100,000 for the Special Practical Projects component of the loan. This problem had not been discussed in any written report or letter. We were told orally that the GOH project manager had been "unable" to come up with a proper procedure. There was no information available indicating what had been tried to solve the problem by either the GOH or USAID/Honduras. We were told unofficially the GOH project manager wanted to abandon the Special Practical Projects component and use the remaining funds for building more classrooms.

Other components have been delayed and this has had an adverse effect on the project. Teaching equipment kits and equipment for shops were just being procured. Invitation-for-bids were finally released in July 1980, and it was hoped the materials could be obtained by March 1981. No written evidence was available to show why these vital materials were not ordered in a timely manner. We were orally given reasons for the delays.

The GOH wanted to make only one order to avoid administrative, custodial, and insurance expenses; therefore, the procurement process was held up until the midway point in project implementation. The lists bounced between the GOH project manager, the procurement agent, and USAID/Honduras for over a year.

Specialized training for teachers was halted due to a lack of policy and planning on the part of the GOH, and delays of up to six months in processing teachers' travel vouchers.

The importance of active monitorship cannot be over-emphasized. We believe this project would have been implemented in a more timely manner if the necessary reporting requirements had been imposed and if USAID/Honduras had taken more affirmative action with respect to monitoring.

In response to our draft report, USAID/Honduras provided extensive additional information. Major comments were:

"Mention of "infrequent field visits" is mistaken, as stated earlier in this response to the draft. Field visits by the Mission Project Manager were curtailed during a period of months during intensive review of the new education project, but were frequent during the remainder of the Project period.

"Section 4.11 of the Loan Agreement does state that AID may request reports, and the draft audit report is accurate in stating this had not been done in writing. However, shortly after construction began, written reports on a quarterly schedule were requested informally of the Ministry, and they have been received. The Mission regrets that the auditors could not find them in our files. However, they are summarized in the Mission's own quarterly reports to AID/Washington, and have now been collected from various points in the Mission. The draft report also is correct in stating that most information was obtained orally. However, in most cases, oral information later was included in reports, letters, and memorandums.

"The draft is correct that the school equipment was not ordered in a timely manner. Procurement by the GOH has been a severe problem in many AID and other donor projects. In this case (as documented in the progress report of June 1, 1979 and in the Mission's quarterly report for the period January-March 1979), the MOE Project Director tried to secure a list of equipment from the Director General of Primary Education; was unsuccessful; and developed the list himself. He then hesitated, wanting to be sure about the number of additional schools to be built before going through the arduous procurement procedure. His indecision was amplified by uncertainty over the future of the Teacher Training Center for which equipment also was to be procured. The Mission was aware of the indecision. Once the decision was made (at the encouragement of the Mission's Project Officer), several Mission officers participated in reviewing and revising the list. It is expected that all the equipment will be in place before the end of the Project.

"The draft report uses the case of the practical projects to illustrate that the audit team could not determine from our files when specific problems arose and what had been done about them. However, the progress report of June 1, 1979 outlined the problem; and indicated what measures were being taken to correct it. Basically, the problem lay in confusion on the part of the teachers over the administrative requirements for handling the fund. The solution (suggested informally by the Mission Project Officer) was to appoint a team of two Ministry teacher trainers to go to the field and explain the steps necessary. This was done; and, by the end of 1979, the advance for practical projects was practically exhausted. (See a letter dated January 17, 1980 from the Ministry Project Director.) By the time the audit was conducted, 200 projects either had been financed or had proposals prepared for submission, but the new Minister of Education had decided to review the activity with the idea of having fewer but larger projects that would serve as demonstration activities and sources of supply for smaller schools. The Mission's awareness of the problem is thus documented as are the steps taken to correct the situation. What is not a matter of record, and perhaps should be, is the role taken by Mission personnel in discussing the problem with Ministry of Finance officials in helping to find solutions, and in working with teachers in the field to help them understand the required procedures. In the Mission's view this shows that at least some progress had been made in overcoming the obstacles and that the activity was not "on the brink of failure" as the draft report states. The activity met with problems, the Mission was aware of the problems and had taken several steps to deal with them. Moderate success was achieved in the process."

Our findings are based on the data available at the time of our visit. In its comments the Mission provided additional information which it states was supported by documents the auditors could not find. Some of the information was obtained orally by the Mission and was subsequently included in reports, letters and memorandums. We sought the help of the Project Manager to fill the gaps (field visit reports, specific data on problems, status and progress reports, etc.). Many of the file searches were conducted jointly with the Project Manager and his staff. Even with this help, we could not find the needed information.

Recommendation No. 10

USAID/Honduras, in accordance with Implementation Letter No. 1 of Loan Agreement 522-V-031, should request periodic progress reports on project activities from the Ministry of Education. The format, scope, and timing should be directed by USAID/Honduras.

HURRICANE RECONSTRUCTION AND RECOVERY II  
FINANCIAL STATUS AS OF JUNE 30, 1980

LOAN 522-V-031

	<u>Loan Agreement Budget</u>	<u>Expenditures</u>	<u>Unexpended Balance</u>
<u>Rural Primary Schools</u>			
Equipment	\$ 300,000)	\$ 111,333	\$ 388,667
Furniture	200,000)	1/	
Renovation/Expansion	900,000	875,640	24,360
Construction Training Center	400,000	51,209	348,791
Trng. for Trngs. Center Teachers	100,000	-0-	100,000
Practical Projects in Schools	<u>100,000</u>	<u>27,203</u> 2/	<u>72,797</u>
Total	<u>\$2,000,000</u>	<u>\$1,065,385</u>	<u>\$ 934,615</u>

Includes Advances of:

1/ School Construction	\$375,000	
2/ Practical Projects	<u>20,000</u>	
	<u>\$395,000</u>	

**HURRICANE RECONSTRUCTION AND RECOVERY II  
PROGRESS MADE AGAINST PROJECT TARGETS AS OF JUNE 30, 1980**

	<u>Target</u>	<u>Completed Units or Amount Disbursed</u>	<u>Percent</u>
Classrooms	292	195 <sup>1/</sup>	67
Shops	48	43 <sup>2/</sup>	90
Furniture sets	292	50	17
Equipment sets	48	0	0
Construction Trng. Center	Constructed	Not Started	0
Training Personnel - Persons	160	24	15
Practical Projects Fund	\$100,000	\$7,203	7
Latrines	Not Established		NA
Water Supply (Well and Pump)	Not Established		NA

1/ 79 Classrooms are under construction.

2/ 9 Shops are under construction.

LIST OF REPORT RECOMMENDATIONS

Recommendation No. 1

USAID/Honduras should, in conjunction with the Government of Honduras, conduct a review of furniture delivered and request the manufacturer to correct defects and take necessary steps to correct design and manufacturing problems so good, usable furniture will be delivered in the future. (Page 7.)

Recommendation No. 2

USAID/Honduras should require that all classrooms financed under Loan 522-V-031 be fitted with appropriate chalkboards. (Page 8.)

Recommendation No. 3

USAID/Honduras should reimburse for complete classrooms and shops only when an adequate water supply and latrines are provided, except in those cases where it is geologically difficult to obtain water. Such exceptions should be noted in inspection reports. (Page 10.)

Recommendation No. 4

USAID/Honduras, in conjunction with the GOH, should review all completed units to ensure that where feasible a water supply will be provided. Any exceptions should be appropriately documented. (Page 10.)

Recommendation No. 5

USAID/Honduras should enter into a formal agreement with the GOH specifying the use of overpayments made by use of the FAR system. The agreement should quantify the amount of the excess and list the location and type of school buildings to be built with the funds. (Page 13.)

Recommendation No. 6

USAID/Honduras, in conjunction with the GOH, should establish a new reasonable FAR for any buildings financed with funds transferred from other loan line items. (Page 13.)

Recommendation No. 7

USAID/Honduras should start with the next reimbursement request and apply payments due against the advance. Once the recoupment is current, deductions should be made on a pro rate amount until the advance is worked off with the final reimbursement. (Page 14.)

Recommendation No. 8

USAID/Honduras should deduct \$2,813.71 from the next GOH Reimbursement Request. (Page 15.)

Recommendation No. 9

USAID/Honduras should ensure that appropriate markings are placed at all construction sites and completed projects, and that all vehicles and equipment acquired for the project are marked with appropriate emblems. (Page 16.)

Recommendation No. 10

USAID/Honduras, in accordance with Implementation Letter No. 1 of Loan Agreement 522-V-031, should request periodic progress reports on project activities from the Ministry of Education. The format, scope, and timing should be directed by USAID/Honduras. (Page 19.)

LIST OF REPORT RECIPIENTS

	<u>Copies</u>
IDCA, AID/W	1
IDCA's Legislative and Public Affairs Office, AID/W	1
Deputy Administrator, AID/W	1
Assistant Administrator - Bureau for Latin America and the Caribbean (LAC), AID/W	5
Mission Director, USAID/Honduras	5
Assistant Administrator - Bureau for Development Support, Office of Education (DS/ED)	1
Assistant Administrator, Office of Legislative Affairs (LEG), AID/W	1
Office of Financial Management (OFM), AID/W	1
General Counsel, AID/W	1
Country Officer, ARA/CEN, AID/W	1
Audit Liaison Officer, LAC/DP, AID/W	3
Director, OPA, AID/W	1
DS/DIU/DI, AID/W	4
PPC/E, AID/W	1
Inspector General, AID/W	1
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IG/EMS/C&R, AID/W	12
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