

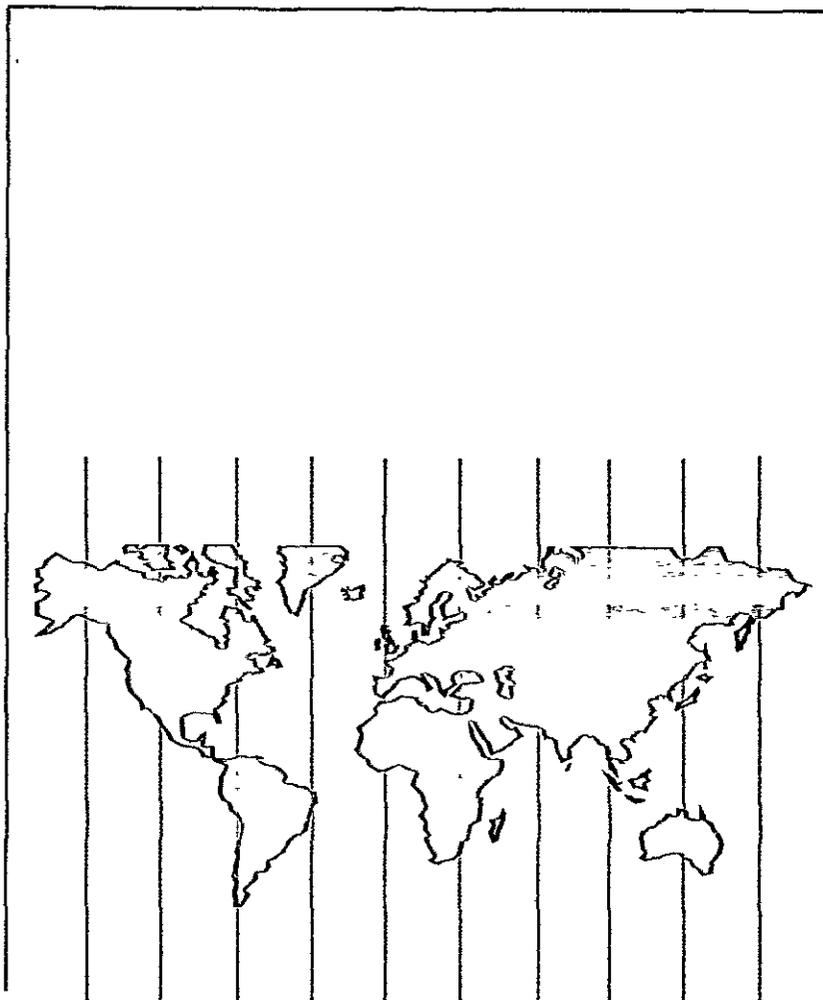
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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
LATIN AMERICA
(Washington, D.C.)

AGUAN VALLEY RURAL ELECTRIFICATION

PROJECT NO. 522-0138

LOAN NO. 522-T-033

USAID/HONDURAS

AUDIT REPORT NO. 1-522-82-6

JANUARY 29, 1982

To assist the Government of Honduras in its effort to install a rural electrification system in the Aguan Valley, AID provided \$10 million in loan funds. The system was designed to furnish some 25,000 consumers with power.

While none of the consumers had received power, much had been accomplished. Transmission lines were completed in April 1981. Secondary and distribution lines remained to be constructed. Substations were scheduled to be completed by April 1982. Most of the materials required had been received. We noted several areas where improvements were needed. Some towers on transmission lines were not properly painted, the fund designed to facilitate use and acceptance of electricity had not been initiated, and accounting and inventory records were not properly maintained. USAID/Honduras concurred with our findings and has initiated action to implement the recommendations made.

AGUAN VALLEY RURAL ELECTRIFICATION PROJECT
Project No. 522-0138
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AGUAN VALLEY RURAL ELECTRIFICATION PROJECT

Project No. 522-0138

Loan No. 522-T-033

USAID/HONDURAS

EXECUTIVE SUMMARY

Introduction

On April 4, 1978, a \$10 million Loan Agreement (No. 522-T-033) was signed between the Agency for International Development (AID) and the Government of Honduras (GOH) to help finance a rural electrification system in the Aguan Valley of Honduras. The project was designed to improve the quality of life for the residents of the Valley. The GOH will contribute \$10.1 million for this purpose.

The project provides for the installation of about 1,250 kilometers of transmission, distribution and secondary lines. The project was designed to serve 25,000 consumers in 240 small villages and farm cooperative clusters in the Valley area. To facilitate acceptance of electricity and to assist those who were unable to finance initial installation costs, an Internal Wiring Fund was to be established to provide small loans. In addition, a training program and billing and collection system were to be designed for the region.

The Empresa Nacional de Energia Electrica (ENEE), an autonomous agency of the Republic of Honduras, was given responsibility for implementing the project. The project was to be completed in four years from the time the agreement was signed. As of September 30, 1981, AID had disbursed \$4.3 million under the loan.

Purpose and Scope

This is the first audit of this project. The period covered by the review was April 4, 1978, to September 30, 1981. The purpose of the review was to evaluate the effectiveness and efficiency in carrying out the project's objectives, assure that AID funds were used for project purposes and determine compliance with AID regulations.

Conclusions

Considerable delays were incurred during the first year of implementation due to bidding and contracting problems. Subsequently, no further delays have occurred and the project should be satisfactorily implemented in accordance with the current construction plan. However, because of the initial delays it will be necessary to extend the original termination dates in order to achieve the project goals and objectives. Although satisfactory progress has been made towards achieving project goals and objectives, we found several areas where changes should be made to improve the efficiency and effectiveness of project implementation. A synopsis of the problem areas follows:

- Construction of approximately 180 kilometers of transmission lines was completed in April 1981. However, a problem developed wherein the coating of the towers did not meet contract specifications. Although the contractor had accepted responsibility for the problem, at the time of our audit, no settlement had been negotiated nor had an agreement been reached for the contractor to return to Honduras to do the required work. To meet project completion schedules and prevent further corrosion of the towers, it is essential that the damaged towers be painted as soon as possible. (Page 4)
- No effort had been made by ENEE to establish the special Internal Wiring Fund to provide loans for interior home wiring to promote system acceptance. Moreover, in view of the current cost estimates for internal wiring, the size of the Fund should be substantially increased; (Page 6)
- ENEE accounting records did not accurately reflect the amount of AID funds disbursed. This resulted because the Mission had not notified ENEE of all disbursements made. Without an adequate accounting system for control of disbursements, ENEE cannot effectively manage the project. (Page 8)
- ENEE was not maintaining adequate inventory records and controls over project materials. As a result, we found it impossible to reconcile the inventory of project materials being stored at the San Pedro Sula warehouse. Furthermore, we were informed that many project items had been damaged or used elsewhere in the national electric system. (Page 9)
- The financial plan under which the project was being implemented was outdated and did not accurately reflect the anticipated funding requirements. In view of current commitment and revised project cost estimates, it will be necessary to reprogram funds from one component to another. (Page 11)
- USAID/Honduras had not received periodic progress reports from ENEE. As a result, the Mission was not utilizing a valuable tool in staying abreast of the project. (Page 13)

Recommendations

The six recommendations in this report were discussed with USAID/Honduras officials and a draft of this report was submitted to the Mission for review and comment. Mission comments were considered in preparing the final version of this report.

BACKGROUND AND SCOPE

Background

On April 4, 1978, a \$10 million Loan Agreement (No. 522-T-033) was signed between the Agency for International Development (AID) and the Government of Honduras (GOH) to finance a rural electrification system in the Aguan Valley of Honduras. The GOH was to provide an additional \$4.7 million. The GOH contribution was subsequently increased to \$10.1 million because of cost overruns; thus the total cost of the project was estimated to be \$20.1 million. The Empresa Nacional de Energia Electrica (ENEE), an autonomous agency of the Republic of Honduras was given responsibility for implementing the project.

The project had six major outputs:

- To install approximately 1,250 kilometers of transmission, distribution and secondary lines. In addition, one switching station and four substations were to be constructed. Tied to the national network at La Ceiba, approximately 80 kilometers of 138 KV transmission lines were to run to a switching substation in the Aguan Valley. From the switching station, a total of 120 kilometers of 138 KV lines were to carry electricity to four substations. From the substations, approximately 500 kilometers of distribution lines were to carry power to about 240 villages. Within these villages about 550 kilometers of secondary lines were to furnish approximately 25,000 consumers with power for irrigation, agro-industry, household use, street lighting, and lights for schools and health centers;
- To construct two centrally located storage, maintenance, office and training facilities, each with about 12,500 square feet, in the valley, for storing equipment, tools and materials, and providing classroom and office space for training;
- To achieve approximately 25,000 hookups to the new network. To assist in achieving this goal, an Internal Wiring Fund was to be established in order to promote acceptance and assist consumers who were unable to finance the initial installation costs for interior wiring and fixtures. The Fund was to provide 12 to 24-month loans at 7 percent interest. Loan payment charges were to be added to the monthly electric bills. No hook-up fee was to be charged;
- To train approximately 40 persons as administrators, electricians, linesmen and meter readers, and 50 persons as potential contract personnel for part-time work on specific installations, emergency repairs and maintenance. In addition, approximately 60 persons were to be enrolled in the training centers for instruction in the repair and maintenance of electrical appliances and irrigation pumps, home wiring, installation of electrical fixtures, and small business management;
- To design and implement a billing and collection system tailored to the needs of consumers in the Aguan Valley area; and

- To develop an evaluation framework to measure the effects of the Project on the quality of life of the residents of the area including, but not limited to, the creation of additional employment opportunities, increased food consumption, increased real income and improved nutritional status.

In summary, the purpose of the project was to establish a rural electrification system in the Aguan Valley, which for the residents of the valley would result in improved quality of life including - increased employment opportunities, increased income and improved nutritional status. The project was to directly affect a large majority of the population living in the valley by supplying inexpensive power to households and benefit the region by providing power for community services, agro-industry, and irrigated agriculture.

The detailed status of AID loan funds as of September 30, 1981 was:

<u>Component Activity</u>	<u>Amount in \$000</u>		
	<u>Budgeted</u>	<u>Disbursed</u>	<u>Balance</u>
Transmission, Distribution & Secondary Lines and Related Substation	\$9,635	\$4,353	\$5,282
Internal Wiring Fund	215	-0-	215
Training Program, Consultants & Training Equipment	100	-0-	100
Evaluation	50	-0-	50
	<u>\$10,000</u>	<u>\$4,353</u>	<u>\$5,647</u>

Scope of Audit

The audit covered the period from inception of the project on April 4, 1978, to September 30, 1981. The purpose of the review was to evaluate USAID/Honduras and the GOH's effectiveness and efficiency in carrying out the project's objectives, assure that AID funds were used for project purposes and determine whether AID regulations were being complied with. Our efforts were directed towards identifying problem areas in the planning, implementation and monitoring of this project and to determine what USAID/Honduras had been doing to solve the problems noted.

The review was made in accordance with generally accepted auditing standards applicable to foreign assistance programs. We included such tests of the accounting records and such other auditing procedures as we deemed necessary in the circumstances. We reviewed files and records maintained by USAID/Honduras and the GOH. We discussed project progress and problems with appropriate officials, we visited selected construction sites to see how construction compared with reported progress, and we talked with appropriate contractor officials. The results of our audit were discussed with USAID/Honduras and its comments were considered in the preparation of this report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

An Overall Assessment of Program Goals and Accomplishments

The Aguan Valley Rural Electrification Project is in its fourth year of implementation. Although considerable delays were incurred during the first year of implementation due to bidding and contracting problems, no further delays have occurred and it is expected that implementation of the project will continue to be satisfactory and in accordance with the current construction plan. However, it will be necessary to extend the original termination dates in order to achieve the project goals and objectives. A summary of the implementation status of the major components as of September 30, 1981 was:

- A contract valued at \$5.6 million to construct approximately 180 kilometers of transmission lines was awarded to Richards & Associates, Inc. Construction was completed in April 1981. However, a problem has arisen wherein the coating of the towers does not meet contract specifications;
- A contract valued at \$2.3 million to construct five substations was awarded to Centroamericana de Electrificación de Nicaragua S.A. (CELNICSA) in January 1981. Construction of the substations was initiated in February 1981. Their construction was expected to be completed by April 1982;
- A contract valued at \$2.2 million was awarded to Koontz Wagner Electric Co., Inc. in May 1981 for the construction of the distribution and secondary lines. With the exception of meters and service drop cables, all equipment and materials has been ordered;
- Plans to construct two centrally located buildings to provide for storage, maintenance offices, and training facilities have been eliminated. In lieu thereof, ENEE rented a warehouse in Tocoa and made arrangements to rent a second house in Olanchito;
- No efforts has been made by ENEE to establish an Internal Wiring Fund as required by the loan agreement;
- Training materials have been ordered. Courses were scheduled to begin in February 1982; and
- No definite plans have been made to develop an evaluation framework to measure the effects of the project and the quality of life of the residents of the area affected by the project. Plans will be definitized when the project is nearer to completion.

Although satisfactory progress has been made towards achieving project goals and objectives, we found several areas where changes should be made to improve the efficiency and effectiveness of project implementation. These areas are discussed in the remaining sections of this report.

Transmission Line

A coating problem, which could contribute to corrosion, on some transmission towers that are within six kilometers of the sea coast was found over one year ago. An estimated \$1.7 million was withheld from the contractor to ensure correction. Although the contractor has now accepted responsibility for the problem, no settlement had been negotiated nor had an agreement been reached for the contractor to return to Honduras to do the required work. To meet project completion schedules and prevent further corrosion of the towers, it is essential that the damaged towers be painted as soon as possible.

The first component of the project called for the installation of about 200 kilometers of 138 KV. transmission line in the project area. On April 24, 1979, ENEE entered into a fixed price contract for the amount of \$5,573,778 with Richards and Associates to construct the transmission line. Although construction was completed in April 1981, final payment had not been made to the contractor at the time of our review because of a problem wherein the coating of some of the towers did not meet contract specifications. Accordingly, ENEE withheld approximately \$1.7 million owed to Richards and Associates which constituted the fourth and final payment. Of the \$1.7 million, \$1.4 million are loan funds. The remaining amount (\$300,000) represent counterpart funds according to Richards and Associates.

The problem with the coating of the towers was discovered in August 1980. The first lab results were received in September 1980, and proved inconclusive. It was decided that further samples and lab tests would be necessary. The first preliminary report on the additional tests was dated March 11, 1981. Subsequent preliminary reports were dated May 20, 1981 and June 6, 1981. The final report was dated June 22, 1981.

The test results showed that the weight of the zinc coating for angles, plates, bolts and nuts did not meet specification requirements for lines within six kilometers of the sea coast. The report estimated that the life of the galvanization will be approximately 20 percent shorter than the expected life of a line with the specified galvanizing. Since the life of the line is approximately 50 years without correction it would reduce the line's life to about 40 years.

The report recommended: (a) that the contractor be required to paint all towers of the section of the line within 6 kilometers from the coast; (b) the type and specifications of paint to be used; and (c) that the contractor complete the painting before energization of the line at 138 KV (the painting could be done with the line energized at 34.5 KV provided adequate safety precautions were taken).

At the time of our review, over a year had passed since the problem first surfaced. Still, the problem had not been resolved. Our review of the correspondence files indicated that there had been considerable disagreement between Richards and Associates, Inc. and Harzda Engineering Co. (the engineering firm responsible for the overall supervision of the project) relating to the nature and extent of the problem. To what extent this has had an effect in not reaching a timely settlement is difficult to determine, however, in our opinion this must have had some impact upon the situation.

In addition, we noted during our review of USAID/Honduras project files and discussions with Mission officials that they were aware of the problem but had taken a somewhat passive approach in helping to resolve it. We found no indication that the Mission had intervened or had exerted any pressure to resolve the matter. During the exit conference, Mission officials indicated that they really didn't see what more could be done than was already being done in terms of ENEE withholding the contractor's final payment until the matter is resolved.

Subsequent to our audit in Honduras, we contacted both Richards and Associates and Harzda Engineering Co. to obtain an updated status of the situation. We were told by Richards and Associates that initially when the problem was brought to its attention, it did not think it was at fault and therefore was not concerned about ENEE withholding its final payment since it could seek damages for withholding the payment if it was proven that the towers met contract specifications. When it was later proven through additional lab tests that the towers within six kilometers of the coast did not meet contract specifications, Richards and Associates submitted a cost proposal for painting the towers. Harzda Engineering Co. rejected the cost proposal and insisted that further checks and lab tests be done on the rest of the transmission line beyond the sea coast. We were told that ENEE was unwilling to negotiate a settlement with Richards and Associates until it received a final report from Harzda Engineering Co. on the extent of damages and the cost of painting the towers. Richards and Associates in the mean time, was seeking litigation against the Mexican supplier of the tower frames although it was not optimistic about a settlement.

In contacting Harzda Engineering Co., we were told that ENEE had just approved the final payment to Richards and Associates except for \$180,000 which was withheld until the towers are painted or a cash settlement is made with Richards and Associates. We were further informed by Harzda that it will cost an estimated \$130,000 to paint the towers. Harzda also reported that Richards and Associates would probably want to negotiate a cash settlement with ENEE since Richards had already left the country and had no office space, equipment, or materials in the country.

To further complicate matters, we were told by Harzda Engineering Co. that because of the rainy season, it will probably be February 1982 before the towers can be painted. Harzda estimated that it would take approximately 3 months to complete the task and confirmed that the transmission line cannot be fully energized until after the towers are painted.

The transmission line is scheduled to be fully energized upon completion of the sub-stations in April or May 1982. As a result, further delays in resolving the painting of towers could delay the energizing of the transmission line.

In response to a draft of this report, USAID/Honduras advised us that ENEE was in the process of approving an amendment to the contract which specifies that all work (including the treatment of the towers) will be completed by June 30, 1982. A representative of Richards and Associates verbally agreed to the conditions and time frame of the amendment in January 1982. The Mission will provide the Inspector General's office a copy of the amendment after it is executed.

Recommendation No. 1

USAID/Honduras should obtain from ENEE an executed amendment to the contract with Richards and Associates, Inc. that provides for appropriate painting of towers within a reasonable time frame.

Internal Wiring Fund

The eventual goal of this program is to supply electricity to about 25,000 recipients. It was for this purpose that a special revolving Internal Wiring Fund in the amount of \$350,000 was to be established. The value of the fund was later increased to \$540,000. Plans called for ENEE to provide loans for interior house wiring, to promote system acceptance and to enable those who were unable to afford the initial costs an opportunity to obtain electricity. Our review disclosed that ENEE was reluctant, and therefore had made no effort to establish this fund. Moreover, in view of current cost estimates for internal wiring, sufficient funds would not be available to reach the desired number of consumers.

In accordance with the Project Paper, ENEE was to loan money to consumers for 12 to 24 months at 7 percent interest and the loan payments would be added to the monthly electric bill. The average cost for interior wiring was estimated to be \$20. It was planned that approximately one-third of the consumers would be connected one year before the remaining two-thirds. Thus, at that time it was assumed that \$350,000 would provide adequate funding assuming a flow of repayments into the Fund and the likelihood that not all consumers would require financing. No connection fee was to be charged.

At the time of our review, discussions with various ENEE officials disclosed that nothing had been done in terms of planning and establishing the fund. ENEE was not really enthusiastic about having the fund. It felt that everyone would want a loan whether they could afford to pay or not. Furthermore, ENEE felt that many people would be delinquent in repaying the loans, thus creating additional administrative problems in managing the fund. In addition, no documentation could be provided by ENEE indicating that it was actively pursuing the establishment of the fund. It indicated that at this point, it was still at the informal talk stage of planning the fund.

The Mission was aware of the situation but had been unable to get ENEE to take action on this matter. During the course of our audit, the Mission raised this issue in meetings with ENEE. No constructive response was provided by ENEE in terms of a proposed plan of action. To complicate this matter, it was estimated at the time of our review that it would cost an average of \$90 per consumer for interior wiring; this represents an increase of over 350 percent from an average of \$20 that was originally estimated.

Without the Internal Wiring Fund or some other mechanism to facilitate the wiring of beneficiary households, we do not believe that the 25,000 hook-ups anticipated in the loan agreement will be achieved. Furthermore, in view of the Mission's current estimate of \$90 per house for internal

wiring, the current estimate of \$540,000 for this component would not be adequate. As a result, it will be necessary to reprogram funds or obtain other financing in order to achieve the objectives of this component of the project.

In its comments, USAID/Honduras advised us that after 6 months of continuous effort, ENEE, in a letter of December 24, 1981, proposed an outline of the general procedures to establish and operate the Internal Wiring Fund. ENEE also promised to provide the Mission a complete and operative plan for the fund by mid-February 1982. The Mission reported that it believed the activity would be successfully completed.

Recommendation No. 2

USAID/Honduras should obtain from ENEE a firm plan to establish, appropriately finance, and operate the Internal Wiring Fund to facilitate the wiring of beneficiary households and to promote acceptance of the electrical system.

Project Activity Completion Date

The project cannot be completed within the original scheduled time frame. Due to major procurement problems at the beginning of the project, it was delayed approximately one year. Although no significant delays have subsequently been incurred and the project was progressing satisfactory, it will be necessary to extend the Project Activity Completion Date (PACD).

According to a Project Evaluation Summary (PES) report dated May 5, 1981, the initial delay was caused primarily by rejection of bid documents for procurement of equipment (Bid E-200) and for construction of transmission lines (Bid E-300).

The PES report stated, in part:

"The Bid opening (E-200) was originally scheduled for May 15, 1978 and subsequently postponed to June 16, 1978. ENEE completed the bid analysis in August 1978. Because of the unresponsiveness and unreasonable high prices, ENEE declared this bid void on November 27, 1978. The revision of the bid documents and rebidding process took an additional six months to May 15, 1979, when the bids were opened for the second time. The total process, from the original bid opening date to the second bid opening, took about a year. In addition, it should be added that four months were spent in the analysis by ENEE and approval of the bids by A.I.D. Finally, the contracts with General Electric and Westinghouse were signed in September and November 1979, after a delay of eighteen months in a bid process that normally should have only taken from six to eight months."

"In regard to Bid E-300 (Construction of Transmission Line) some delays were associated with the preparation of the bid documents, a complaint that one of the firms bidding was not in compliance with a

requirement for registration with the College of Engineers, causing excessive delay in the issuance of a letter of commitment."

"The excessive amount of time spent on this first portion of the project (Bid E-200 and E-300) was due in part to a lack of familiarity on the part of the GOH executing agency of the A.I.D. procurement regulations and contracting requirements."

According to the latest PERT chart, as updated in October 1981, the PACD is June 11, 1983 instead of April 4, 1982 as contemplated in the loan agreement. Furthermore, our review of the current status of the project as discussed in the Overall Assessment section of this report indicates, that subsequent to the procurement problems encountered during the first year of the project, no further delays have occurred. It appears that implementation of the project will continue to be satisfactory and in accordance with the revised implementation plan.

Accordingly, an extension of the PACD will be required. During the exit conference, the Mission Director requested that we not make a formal recommendation to extend the PACD at this time. It was his view that the Mission should be given maximum latitude to consider and grant incremental extensions of approximately six months each to expedite the possible completion of the project prior to June 11, 1983. We agree with this rationale and, thus, are not making a formal recommendation. However, the project should be closely monitored and appropriate extensions made.

ENEE Accounting Controls Over AID Disbursed Funds

ENEE accounting records did not accurately reflect the amount of AID funds disbursed as of July 31, 1981. ENEE's balance sheet showed loan funds disbursed in the amount of \$1,478,839. AID/Washington Statement of Disbursement Applied Under Loan Agreement as of July 31, 1981 showed total disbursements of \$4,352,683. The difference resulted because the Mission had not notified ENEE of all disbursements made under the Bank Letters of Commitment.

Under the ENEE accounting system, disbursements were recorded upon receipt of the Statement of Disbursements from AID/Washington via USAID/Honduras. The last statement received and recorded by ENEE was as of January 31, 1980. As of July 31, 1981, 20 disbursements had been made which totaled \$4,352,683, including bank service charges applied against Bank Letters of Commitment. ENEE had received notification of only 2 disbursements totaling \$1,478,839.

ENEE officials stated that no periodic reconciliation of loan funds disbursed had been made with USAID/Honduras records. Furthermore, we were informed that no advice of payment had been received from the bank indicating amounts paid to suppliers and contractors, and the amount of bank charges collected by the bank.

In addition, we noted that ENEE maintains no control of disbursements through Bank Letters of Commitment. As a result, we noted one instance where a Letter of Commitment with the Bank of America expired on August 1, 1981,

and had not been extended even though the funds had not been totally disbursed at that date. When we brought this to ENEE's attention, a request was made by ENEE to extend the terminal date of the Letter of Commitment.

Under another Letter of Commitment (No. 522-T-033-02) with the Bank of America, we noted a balance of \$5,680. We were informed by USAID/Honduras officials that all payments had been made to the suppliers involved and no further disbursements were anticipated.

Without an adequate accounting system for control of disbursements, ENEE cannot manage the project effectively. This was evident by the fact that ENEE did not know what had been disbursed nor what was available for possible reprogramming.

The Mission advised us in response to a draft of this report that all advices of disbursements received were provided to ENEE on October 31, 1981, and that future advices of disbursement would be provided to appropriate officials when received. The Mission also advised us that ENEE was notified to contact appropriate banks in Honduras and formally request copies of each advice of payment under letters of credit.

The actions taken should provide ENEE with the information necessary to update its records on the assumption that all banks with letters of credit under this project have branches in Honduras. However, we believe that some procedure needs to be established to provide for ENEE's records to be periodically reconciled with AID's records to ensure the ENEE is aware of all disbursements.

Recommendation No. 3

USAID/Honduras should establish procedures and controls to ensure that all advices of disbursements are provided in a timely manner; and that ENEE's records are periodically reconciled with AID's records.

USAID/Honduras advised us that it cabled AID/Washington in January 1982 to determine the current status of Letter of Commitment No. 522-T-033-02. After the current status is determined and a request has been received from ENEE, the Mission will request that the Letter of Commitment be reduced and the remaining funds reprogrammed. After we receive notification that the value of the Letter of Commitment has been reduced, we will close our recommendation.

Recommendation No. 4

USAID/Honduras should ensure that ENEE reprogram remaining funds under Letter of Commitment No. 522-T-033-02.

Inventory Records and Controls Over Project Materials

ENEE was not maintaining adequate inventory records and controls over project materials. As a result, we found it impossible to reconcile the inventory of project materials being stored at the San Pedro Sula warehouse.

In order to test the adequacy of inventory records and controls over project materials stored at the San Pedro Sula warehouse, we took a physical inventory of 10 of the 27 line items which ENEE inventory records indicated were being stored in the warehouse. We found discrepancies in 6 of the 10 line items inventoried. Four items were over and 2 were short. The results of our inventory for those items with discrepancies were as follows:

<u>Item</u>	<u>Quantity on Inventory Records</u>	<u>Physical Inventory</u>
Cross Beam Spikes (7" x 5/8")	3,000	1,804
Retention Anchors	1,299	2,937
Anchor Rods	1,300	5,000
Guardacabos	1,896	1,600
Bolts (5/8" x 18")	900	901
Bolts (5/8" x 22")	600	606

In addition, we noted that of the 27 line items, the invoices did not agree with the warehouse inventory records in seven cases. The discrepancies ranged from a quantity of 1 to 269. No explanation was given by the ENEE employee in charge of the warehouse for any of the above discrepancies.

During our physical inspection of the San Pedro Sula warehouse, we also noted other project materials, such as; conductors, insulators and transformers being stored in the warehouse which were not recorded on warehouse inventory records. We were told by the ENEE employee in charge of the warehouse that materials are not recorded in inventory until a copy of the invoice is received.

At the time of our visit, a team of ENEE internal auditors were taking a physical inventory of the San Pedro Sula warehouse. We were informed by ENEE officials that they were aware of the problems at the warehouse and that was the reason the physical inventory was being taken by the internal auditors. They indicated that they plan to make a decision soon on what can be done to improve inventory controls at the warehouse.

During the exit conference, we were told that the materials being stored at the San Pedro Sula warehouse were going to be turned over to the construction contractor within a couple of weeks. At that time, it will be the contractor's responsibility to ensure that he receives all the materials needed for the construction of distribution and secondary lines. We were further informed that at that time, no future need will be required of the San Pedro Sula warehouse facility for the Aguan Valley Rural Electrification Project.

Subsequent to our audit, we were told by Harzda Engineering Co. that it had recently visited the San Pedro Sula warehouse facility and had found much the same situation as we noted during our visit. Using the bid documents as a basis for what should have been at the warehouse, attempts were made to locate some of the major items, such as, transformers, but the items could not be located. They were told by the ENEE warehouse personnel that many project items had been diverted and used elsewhere in the national

electric system. In addition, we were informed that spools of electrical wiring had been damaged in handling and/or improper storage. We were advised that some wooden spools were rotting. As a result, Harzda personnel did not know whether the wiring could be unrolled because of the damage to the wooden spools. If the wire cannot be unrolled, we were advised that the contractor would not be able to use it.

The Mission advised us that a full inventory of all project materials was taken by ENEE in January 1982. A report of the materials turned over to the contractor was also included in the inventory report. After the report is received by the Mission, it will be provided to the Inspector General's office. The Mission also advised us that ENEE had appointed a general warehouseman for the project and this should improve the records and controls over project materials.

After we receive and review the inventory report, we will consider closing the recommendation.

Recommendation No. 5

- USAID/Honduras should obtain, review and spot check data in the ENEE inventory report to ensure itself that all materials needed for the project are accounted for and turned over to the construction contractor in usable condition.

Financial Plan

The financial plan under which the project was being implemented was outdated and did not accurately reflect the anticipated funding requirements necessary to complete the project. Although the projected total cost of the project will probably not increase, the financial plan should be updated to reprogram project funds from one component or activity to another.

When the loan agreement was signed in April 1978, the total project cost was estimated at \$14.7 million. Of this amount, AID was to contribute \$10.0 million and the GOH \$4.7 million. However, because of problems and delays related to procurement of project materials and services, the total cost of the project had escalated to \$20.1 million. A revised financial plan was approved on February 14, 1980, reflecting the increase, ENEE is committed to financing the project cost overruns. Based upon a cash flow analysis performed by USAID/Honduras, additional funding required to complete the project will be available.

At the time of our audit, the financial plan had not been updated, the total estimated cost of the project remained at \$20.1 million; however, significant deviations within project components existed. A comparison of the financial plan with estimated costs as of October 1981 by project component showed:

	February 1980 (\$000)			October 1981 (\$000)		
	AID Funds	ENEE Funds	Total	AID Funds	ENEE Funds	Total
Transmission Lines	4,925	648	5,573	4,932	975	5,907
Substations	2,590	1,050	3,640	1,963	1,319	3,282
Distribution System	2,120	2,950	5,070	2,738	3,061	5,799
Engrng. & Admin.	-0-	2,160	2,160	-0-	2,544	2,544
Storage, Maintenance, Office & Trng. Facilities	-0-	300	300	-0-	92	92
Internal Wiring Fund	215	325	540	215	325	540
Training Program	100	-0-	100	102	45	147
Evaluation	50	-0-	50	50	-0-	50
Contingencies	---0-	2,685	2,685	-0-	1,757	1,757
Totals	<u>\$10,000</u>	<u>\$10,118</u>	<u>\$20,118</u>	<u>\$10,000</u>	<u>\$10,118</u>	<u>\$20,118</u>

The current estimates were provided by ENEE. In order to verify the validity of these estimates we analyzed total commitments under the project as of September 30, 1981. The results of that analysis were as follows:

	(\$000)		
	AID	ENEE	Total
Transmission Lines	\$4,932	\$975	\$5,907
Substations	1,963	1,319	3,282
Distribution System	2,384	2,325	4,709
Engineering & Admin.	-0-	2,544	2,544
Totals	<u>\$9,279</u>	<u>\$7,163</u>	<u>\$16,442</u>

We were informed by USAID/Honduras officials that all commitments have been made to complete the transmission line, substation and distribution system with the exception of one bid request outstanding at this time to complete the distribution system. This bid was for meters, service drop cables and miscellaneous supplies. We were told that these purchases, yet to be ordered, will total approximately \$750,000 to \$800,000 with approximately \$350,000 being funded with AID funds. Storage and training facilities which were being rented in lieu of construction were now estimated to cost approximately \$60,000 over a three-year period. The training program was estimated to cost about \$24,000 in AID funds with ENEE providing instruction and

classrooms. No determination had been made as to the cost of the Internal Wiring Fund and the Evaluation required under the loan agreement.

Based upon our analysis of ENEE projected costs to complete the project and USAID's current estimates to complete those components of the project which have not been started or were in the early stages of implementation, it appeared that USAID/Honduras and ENEE should revise the financial plan. In view of current commitments and revised project cost estimates, it will be necessary to reprogram funds from one component to another.

USAID/Honduras advised us that it has received a revised financial plan which it was reviewing. The Mission expect that AID would approved a revised financial plan for the project no later than February 15, 1982. We will consider closing our recommendation when advised that a revised financial plan has been approved.

Recommendation No. 6

USAID/Honduras should, in consultation with ENEE, revise the current financial plan to complete the project.

Monitoring

Overall USAID/Honduras monitoring of the project had been good. However, USAID/Honduras was not receiving periodic progress reports from ENEE.

Implementation Letter No. 1 required ENEE to provide USAID/Honduras with periodic progress reports on all project activities but leaves the formats, scopes, and timing of these reports to be addressed in a future Project Implementation Letter. USAID/Honduras never issued a subsequent Implementation Letter addressing these items.

A review of the project files showed that USAID/Honduras was not receiving progress reports. Furthermore, USAID/Honduras was unable to provide us copies upon request. Our review at ENEE showed that it was preparing detailed monthly progress reports. During the course of our audit, the USAID/Honduras Project Engineer informally requested from ENEE and received past monthly progress reports.

Our review of the project files, trip reports and discussions with USAID/Honduras officials indicated that they were very much on top of the project. However, in not receiving progress reports, USAID/Honduras was not utilizing a valuable tool in staying abreast of the project.

USAID/Honduras advised us that Implementation Letter No. 20 issued on October 28, 1981, requested ENEE to submit monthly progress reports by the 15th day of the next month. USAID/Honduras also advised us that ENEE was submitting the progress reports in a timely manner.

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Honduras should obtain from ENEE an executed amendment to the contract with Richards and Associates, Inc. that provides for appropriate painting of towers within a reasonable time frame. (Page 6)

Recommendation No. 2

USAID/Honduras should obtain from ENEE a firm plan to establish, appropriately finance, and operate the Internal Wiring Fund to facilitate the wiring of beneficiary households and to promote acceptance of the electrical system. (Page 7)

Recommendation No. 3

USAID/Honduras should establish procedures and controls to ensure that all advices of disbursements are provided in a timely manner; and that ENEE's records are periodically reconciled with AID's records. (Page 9)

Recommendation No. 4

USAID/Honduras should ensure that ENEE reprogram remaining funds under Letter of Commitment No. 522-T-033-02. (Page 9)

Recommendation No. 5

USAID/Honduras should obtain, review and spot check data in the ENEE inventory report to ensure itself that all materials needed for the project are accounted for and turned over to the construction contractor in usable condition. (Page 11)

Recommendation No. 6

USAID/Honduras should, in consultation with ENEE, revise the current financial plan to complete the project.

LIST OF REPORT RECIPIENTS

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