

PD AAP-987

SECOND SEMI-ANNUAL REPORT

HONDURAS DEVELOPMENT ADMINISTRATION PROJECT

JANUARY-JUNE 1984

CONTRACT No. AID/522-0174-C-00-3016-00

# Clapp and Mayne, Inc.

# Consultants to Management

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September 6, 1984

Mr. James Corley  
Contracting Officer  
USAID  
USA Embassy  
Tegucigalpa, Honduras

Subject: Semi-Annual Report  
Contract No. AID/522-0174-C-00-3016-00

Dear Mr. Corley:

Enclosed please find the Semi-Annual Report on the Honduras Development Administration Project in accordance with clause 17 (a)(1) and (a) (2) of the General Provisions of the above mentioned contract.

The report consists of two (2) parts: a Status Report indicating the objective of each AIP, progress made, plans for next period and recommendations, when needed; and an Administrative Report covering expenditures and personnel employed under the contract.

The contract scope of work is made up of six principal activities on AIP'S with a total of sixteen (16) tasks. Of these sixteen tasks to date, we have finished four (4); we are working in seven (7) and five (5) are scheduled to be started during coming period.

As a matter of fact, during the period covered by this report some problems arose, as in any other administrative project, but as of this date they were practically overcome. Accordingly, the implementation schedule has been revised, copy of which is enclosed.

We can conclude that the Project would be developed within the time scheduled if the MOF accelerate its decision making process and gives full cooperation towards its achievement and final success.

Cordially yours,

Edibaldo Silva López  
President

Enclosures

ESL/mzm.

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STATUS REPORT

I. REVENUE COLLECTION ADMINISTRATION

The primary objective of this activity is to improve the GOH revenue administration by transferring collection of most revenues, if possible, to the Central Bank. Development of the activity requires an analysis of the functions of the 32 Government Collection Offices in order to advise the Ministry of Finance (MOF) which activities should be transferred to the Central Bank, which activities will have to remain in the MOF, which offices can be phased out and those that will remain to determine to where in the MOF they will respond, reorganize the offices and improve the procedures of those activities that will remain in the MOF. Another important matter to consider would be to determine what will be done with the employees assigned to those activities that will be transferred to the CB.

This activity has not been started yet as scheduled, due to the fact that it is directly related with the General Customs Directorate, to whom the 32 Collections Agencies report and they have serious control problems. We preferred, and so the AID and MOF Coordinators, to devote our efforts to other activities while these problems were solved and or the MOF could assure the success of this activity.

Recently, a new Customs Director was appointed and the matter was discussed with him. As a result of the meeting we were informed by MOF and AID to go on with this activity.

This activity is expected to start in the month of September, 1984, if our candidate for the position, Mr. Luis Rodríguez Cortés is approved by MOF and AID. Originally this activity contemplated 12 person months effort. Due to budgetary constraint AID reduced it to 8 person months with the understanding that we will do our very best to complete it in the reduced time, but that we will keep informed AID of the progress of the work and if needed will ask for some adjustment.

## II. TREASURY ADMINISTRATION

### A. Bank Accounts Reconciliation

The objective of this task is to improve the capacity of the General Treasury to assist the MOF in the formulation of financial policy, allowing the Treasurer to maintain a strict control over his bank account cash flows. The AIP proposed an automated system for the issuance of checks, bank account reconciliations and the preparation of daily cash reports.

This new system was designed and implemented on January 1, 1984. Some operational problems arose in its implementation but they were solved and presently the system is working normally. All governments checks are now being prepared by the computer. The Treasurer is able to ask the computer the number of checks that he can pay each day based on his cash availability and for the first time in many years he will be able to have bank account reconciliations. For this purpose the CB is providing him a tape of the checks paid day by day. The implementation of this new system required the installation in the Treasury Office of a Data Processing Unit with two CRTS connected to CENI'S main frames. The advisor responsible for the design and installation of this task and the training of the staff was Mrs. Hilda Nazario.

### B. Disbursing Officers System against a Special Bank Account.

The objective of this task is to consolidate in one account, approximately 300 bank accounts maintained in the Central Bank by the different special disbursing officers and administrators in the different GOH Ministries and government institutions. The system was designed including a new set of rules and regulation and the procedures to be followed by the special disbursing officers and administrators.

The system was approved by the MOF and a series of training sessions were offered in Tegucigalpa and San Pedro Sula to the special disbursing offices and administrators. During the month of June and July 1984 the new system was implemented in the MOF. We plan to resume the

training during the month of September, so that the rest of the agencies implement the system and by January 1985 everyone is under the new system.

The advisor responsible for the design and installation of this task and the training of the staff has been Mr. Andrés Medina Peña (Esq.).

C. Revision of the contractual relations between the Central Bank (CB) and the Ministry of Finance (MOF).

This task involves an analysis of all services rendered by the Central Bank to the MOF. It contemplates the preparation of an all inclusive contract to be negotiated between the two government institutions with the primary objective of rationalizing and regulating the different services.

Since this project was started, three new matters have come up requiring agreements between the CB and the MOF. These have been the preparation by the CB of a weekly tape with the information about the treasury checks paid during the week, the consolidation of the 300 disbursing offices banks account into one and the consideration by the CB of all central government bank accounts balances including the Trust Fund account before determining an overdraft on the Treasurer bank account for the purpose of charging interest. Also the matter of the rate of interest charged is being questioned and we suggested a reduction from the present 4% per annum that CB is charging now to MOF.

For the first two matters the contracts were drafted and signed by both the CB and the MOF. On the third one a draft of the contract was prepared and submitted to the MOF and sent to the CB for their consideration. The CB has indicated their resistance to include the Trust Fund account as part of the central government accounts to consider before declaring the existence of an overdraft.

Notwithstanding, the fact that the MOF designated the Vice-Minister of Finance and the Director of the Budget as negotiators with the CB, the negotiation on this third contract has been limited to the technical

level. The technical level reached a point of impasse in the negotiations that would have required the action of the negotiators.

The MOF later decided not to press the case and to wait until our expert in bank services conduct an overall analysis of all matters between the CB and the MOF that require review and requested us to bring the expert in July 1984. Our expert, Mr. Juan Labadie Eurite, is programmed to come to Honduras in July 1984.

With the delay in the negotiation of this third matter mentioned above, the MOF will continue paying 4% interest to the CB for the overdraft. With the fiscal situation that the GOH is now, that means that the MOF will be paying the CB about L. 4,000,000 in interest by end of this year if the matter is not resolved.

#### D. Bank Accounts Consolidation

This task contemplates the consolidation of all Central Government Bank Accounts under the control of the General Treasurer, in order to facilitate the administration of public funds, the determination of idle cash balances, the automation of payment procedures and this bank accounts reconciliations.

Our specialist has been working in this task and and have held many meetings with the MOF and CB staff. A draft of the proposed new system has been prepared and when finished next month it will be submitted for final consideration by the MOF and CB. The system should go into effect as soon as the MOF and the CB goes final approval to it and to the contract between CB and MOF that was prepared and submitted to MOF for its approval (see previous activity).

#### E. Idle Cash Investment

The objective of this task is to develop and apply a cash flow methodology to forecast the cash position of the Central Treasury and to

determine the type of financial instruments in which idle balances could safely be invested.

The initiation of this task is dependent on the development of the tasks related to the consolidation of bank accounts and the revision of the contractual relations between the CB and the MOF. If everything develops as expected we should be able to start this task on next period and have the system installed by January, 1985.

### III. INTEGRATED ACCOUNTING SYSTEM

Under this activity a computer based integrated accounting and reporting system will be developed, including the national property phase to fill information needs throughout the MOF, particularly, those of the Budget Directorate, the Office of the Treasurer, General Accounting Office and Public Credit Directorate. The system will provide consistent reporting, serving as a basis for most accounting entries and will eliminate manually performed accounting functions and the existing problem that the figures produced by Budget, Treasury, General Accounting, Public Credit and the CB never balance.

Basically this activity is subdivided in three tasks:

- 1) Procedure for the Integration of the Accounting
- 2) Procedure for the Control and Accounting of Public Debt
- 3) The Procedure for the Control and Accounting of National Property.

We are working simultaneously in the three tasks. All data was collected on all three tasks. At the end of this period we were in the process of analysing the data of the Integrated Accounting System and had started drafting the procedure. This will be completed of August 1984.

Our final recommendations and new system with respect to control and accounting of the national property were presented to the MOF. Basi-

cally the new concept involved the centralization in the MOF of the property accounting based on reports submitted by the different Ministries, which will maintain a decentralized control with the necessary detailed records for each public property. In this way, the MOF can maintain a perpetual inventory by agency, that can be audited, controlled and analyzed properly.

Once the Public Property systems is approved by the MOF, the new sets of rules and regulations prepared for the system will have to be submitted to the President of the Republic for his promulgation. If all goes as expected the new system will be installed and operating by January 1985.

The third task, the one related to Public Debt is 90% completed. A final report was prepared and submitted for review and discussion with the Public Credit Directorate staff. It comprise internal and external debt, records mechanization and the Trust Fund control for the payment of Public Debt. We have programmed to finish the system during the next period, hoping that it can be implemented for the coming fiscal year, January 1985.

#### IV. PUBLIC EMPLOYEE BONDING

The purpose of this activity is to establish a blanket position bond system for all COH employees; with the alternative of a trust fund as a self government insurance plan. This system among other things, will diminish government losses due to malfeasance by increasing real coverage, and will encourage greater delegation of responsibilities and authority, speeding up decision making and government programs execution.

As it is now, only very few government officials have a bond and in all cases they have to place it on their own account by buying a bond from an insurer or pledging some property as valuable. The Office of the Controller General is the office in the COH that requires and keep record of the bonded officials.

When we conducted the diagnostic survey (1982) of the basic functions of the MOF we recommended the establishment without delay of a public employee bonding system. At an earlier date this same consultant had examined, at the request of the MOF, the convenience of establishing such a system in the GOH. The recommendation at that time was the same as in 1982. In both occasions we also recommended that the system be established in the MOF because of its operational nature.

Our recommendation was approved by the MOF and the system was designed to operate from the MOF.

When the Controller was informed of the plans for the new system, he agreed with the system but did not accept the idea of establishing it in the MOF. He insisted that the law assigns that function to the Controller.

Since the MOF interest is that the system be established, they accepted the position of the Controller and we were instructed to make the necessary adjustments to the system and to design the final rules and regulations, review the organizative structure and budgetary needs of the office. Accordingly, our expert Mr. Gregorio del Valle will come in July 1984 to design the regulation and the corresponding procedures, expecting to start with the blanket position bond system in the fiscal year 1985.

#### V. TRANSPORTATION SERVICES

In a letter dated February 1, 1984, the MOF requested to delete this activity from the project and to use its funding for other more urgent activities.

#### VI. PROCUREMENT

The main purpose of this activity is to improve and accelerate the purchasing function throughout the Central Government of Honduras with the establishment of centralized controls and coupled with decentralized authority and responsibility. It contemplates the analysis of the Procurement law in force, the reorganization of the Procurement Office and the revision of regulations and procedures.

The proposed amendments to the Procurement law has not been considered yet by the MOF.

The analysis of the current organization of the Procurement Office with our recommendations was finished (except the General Supplies Fund) and submitted for approval to Mrs. Cristiana N. Figueroa and Mr. Julio César Castillo, MOF Project Coordinator and Procurement Director, respectively.

The draft of the regulation regarding the Agencies Purchasing Delegates was submitted to Mr. Castillo. From the beginning, he did not accept to delegate the purchases as stated in the Contract signed with the COH. Afterward he accepted the delegations with some amendments to the process of delegation, which are going to be considered as soon as possible.

We have not received any observation with respect to the Bidding and the Emergency Purchases Regulations.

The Regulation for the Receiving Agents is being developed by the consultant in charge.

The MOF has been very slow taking action in this activity. If we receive MOF full cooperation and support, it is expected that by next period the reorganization is approved and budgeted, and all the regulations can take effect in order to start the implementation of the new Purchasing System during 1985.

## VII. ELECTRONIC DATA PROCESSING

### A. Equipment Reconfiguration and Communications

The objective of this task is to provide for the maximum utilization of the existing equipment and for the planned expansion of the EDP services to absorb the manual processes to be mechanized as a result of this Development Administration Project, eliminating those peripherals with no utility for MOF.

This task was finished in the previous period and the reconfiguration is taking place on a planned schedule.

This task was conducted by Eng. Sergio Miranda and Eng. Alfonso Golderos under the direction of Eng. Awilda Blanco.

#### B. Educational Plan

The objective of this task is to conduct an evaluation of training needs of the EDP staff of the MOF and to design a training program to fill those needs and also to be used in the training of new staff.

The Educational Plan was designed during the previous semester. The first course was offered in November and December of 1983 and the program will continue as scheduled until June 1985. Most of the courses are designed to be conducted in Honduras, but a few or the most specialized ones will be offered in a third country.

This task was performed by Eng. Awilda Blanco with the assistance Eng. Alfonso Golderos and Eng. Julio Nigaglioni.

#### C. Integrated Accounting System

This task is to define and establish a common data base with all elements required for the Integrated Accounting System. The programming is of the responsibility of MOF personnel.

During this period the conceptualization of the Procedure for the Control and Accounting of Public Debt was finished, as well as the procedure related with the new centralized bank account for the GOH disbursing officers.

For next semester, our plans are to continue with the conceptualization of the different procedures that make up the Integrated Accounting System as a whole. The common data base will be established once all the systems are implemented.

#### D. National Property System

The project contemplated that a mechanized inventory control system will be designed and implemented at the "Contaduría General de la República" to record, control, account for and supervise the acquisition, transfers and disposition of all Public Property. This system will be based on the Procedures for the Control and Accounting of Public Property that are being prepared by our Fiscal Specialist, Ms. Carmen Vendrell. This task is scheduled to start on September with implementation at the beginning of next year.

#### E. Human Resources System

The objective of this task is to design a computerized information system in the Budget Directorate whereby all governments positions and employees classification salary history is accumulated to facilitate budgetary analysis, facilitate retirement accounting and control, and all other types of salary deductions like social security, income tax, etc.

An analysis of the development of this task as part of the first evaluation of the Project, demonstrated that it must be restructured to obtain the expected results. To those effects, a Financial Administration Specialist is now working on it. Once this Specialist complete his analysis and design the manual procedures with the inputs, outputs and internal controls, this will be handed to one of our Information System Analysts for the conceptualization of the automated system.

It is expected that the analysis and the draft of the manual procedures could be finished for next period in order to start this activity in the beginning of next fiscal year.

#### F. Evaluation of PADS

This task includes the evaluation of the staff, organization, functions and technical supervision of the different Automatic Processing Data Units (PADS). It also includes the preparation of standard guidelines for the documentation, the definition of program languages to be used and the preparation and organization of program and documentation libraries.

This task is scheduled for the month of September.

#### G. Purchasing System

This task contemplates the design and implementation of a mechanized system for purchases and inventory control centralized at the General Procurement Office and decentralized at the Ministries level based on the new regulations and procedures recommended under Activity VI, Procurement of this project.

This task will be started as soon as Activity VI is finished. This task is scheduled for next year.

CLAPP AND MAYNE, INC.

Honduras-Development Administration Project  
AID/522-0174-C-00-3016-00

Summary of Expenditures thru  
June 30, 1984

<u>Category</u>	<u>TOTAL EXPENDITURE</u>		
	<u>Budget Amount</u>	<u>To Date</u>	<u>This Month June 1984</u>
1. Salaries	\$ 366,262	\$ 186,534.44	\$ 10,451.85
2. Fringe Benefits	60,678	29,856.83	1,558.57
3. Overhead	192,123	97,376.07	5,404.69
4. Travel and Transportation	74,170	40,325.74	1,498.00
5. Allowances	227,566	140,019.82	9,244.04
6. Other Direct Costs	<u>5,140</u>	<u>12,310.62</u>	<u>1,050.13</u>
7. Total Estimated Costs	\$ 925,939	\$ 506,923.52	\$ 29,207.28
Fixed Fee	<u>74,076</u>	<u>41,553.88</u>	<u>2,336.58</u>
Grand Total	<u>\$1,000,015</u>	<u>\$ 547,477.40</u>	<u>\$ 31,543.86</u>