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AUDIT
OF HONDURAS RURAL WATER
AND SANITATION SYSTEMS
PROJECT NO. 522-0166

AUDIT REPORT NO. 1-522-86-12
APRIL 8, 1986

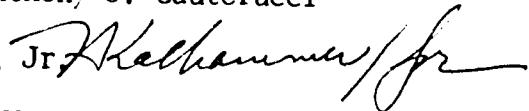
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April 8, 1986

MEMORANDUM FOR: USAID/Honduras' Director, Anthony J. Cauterucci
FROM : RIG/A/T, Coinage N. Gothard, Jr. 
SUBJECT : Audit of Honduras Rural Water and Sanitation Systems
Project No. 522-0166, Audit Report No. 1-522-86-12

This report presents the results of audit of the Honduras Rural Water and Sanitation Systems Project No. 522-0166. Specific objectives of this program results audit were to evaluate: program accomplishments against established targets; the organizations delegated responsibility to implement the project; internal control systems applicable to the project; administrative controls over the procurement, accountability and use of commodities and equipment; and, compliance with applicable laws and regulations.

Based on the revised seven-year life of the project, program accomplishments were 44.9 percent of established targets and 71 percent of the project implementation period had elapsed. The organizations delegated responsibility to implement the project had not coordinated their activities adequately, one of the reasons why they were ineffective. Internal and administrative controls over project resources were weak and needed to be improved; and local law and regulation were circumvented by one of the project executing units.

We found that USAID/Honduras understated established program targets. Also, 71 percent of the revised project implementation period had passed and 40.5 percent of the \$20.7 million in project funds had been disbursed. Moreover, some \$439,000 in AID-financed project commodities was determined to be unusable, or had been diverted to non-project use, or had been abandoned; and, there was no single implementation or decision-making responsibility within the project implementing unit. On fiscal matters, USAID/Honduras had not reconciled its records of outstanding cash advances and liquidation vouchers with Government records; the implementing unit/Ministry of Health had collected fees in an unauthorized fashion; and project benefits had been distributed unevenly. Finally, administrative controls over project vehicle use and over in-country travel were inadequate.

Please advise this office within thirty days of the action planned or taken to implement the recommendations in this report.

EXECUTIVE SUMMARY

On March 15, 1980, USAID/Honduras signed a Project Agreement for the Rural Water and Sanitation Project (522-0166) for a total estimated cost of \$18,195,000. The initial A.I.D. contribution consisted of a \$10 million loan and \$500,000 grant. As originally contemplated, the Ministry of Health was to provide \$3,778,000 in local currency equivalents and beneficiary communities were to provide the remainder of \$3,917,000 in the form of volunteer labor and local materials. By September 30, 1985 the A.I.D. loan had been increased to \$19,500,000 and the grant to \$1,200,000 in order to expand the Project outputs and increase the number of beneficiaries. The Project was to benefit approximately 247,000 of the 700,000 rural Hondurans living in the project area by providing access to safe water and sanitary waste disposal systems.

The Office of the Regional Inspector General for Audit/Tegucigalpa made a program results audit of activities carried out under the project. This interim audit covered the period from March 15, 1980 (project inception) through September 30, 1985. The purpose of our review was to determine whether or not the desired results -- in this case, the installation of water and toilet systems for the targeted rural poor -- were achieved. Specific audit objectives were to evaluate: program accomplishments against established targets; the efficiency and effectiveness of the organizations delegated responsibility to implement the project; internal control systems applicable to the project; administrative controls over the procurement, accountability and use of commodities and equipment; and compliance with applicable laws and regulations. We determined that program accomplishments were 44.9 percent of established targets and that 71 percent of the project implementation period had elapsed; the organizations delegated responsibility to implement the project had not coordinated their activities adequately, a major reason why they were ineffective; internal and administrative controls over project resources were weak; and, existing law and regulation were circumvented by one of the project executing units.

USAID/Honduras has acknowledged that this project has been implemented not without certain difficulties and that, especially in the areas of commodity and vehicle controls, both its own and the Government's project oversight require a certain amount of shoring up. At the same time, however, the Mission has pointed out that the project has made substantial strides in addressing the health and sanitation needs of many of the country's disadvantaged rural poor. They reported encouragement at the results of a recent study by the implementing unit. It disclosed that trained human project resources were now in place and that "institutionalization of [project benefits] at the community level" had been virtually ensured. Moreover, the USAID has asserted that as many as 60,000 persons have been provided water via hand pumps and wells supplied by the project; another 86,000 now enjoy piped water; and perhaps 300,000 persons now benefit from AID-financed latrines in the project area. While we could not verify all the accomplishments claimed by the Mission, we did wish to acknowledge that, in our own view, the project is conceptually sound and holds out the promise of significant multiple benefits to large numbers of truly needy rural Hondurans.

USAID/Honduras understated established program targets. We recommend that USAID/Honduras review, revise and formalize the targets for the project. One community had not found an effective method of destroying old pit latrines, and there were 10 villages in the target project area that had not been visited. We recommend that USAID/Honduras implement actions to educate village groups on effective pit latrine destruction, and promote the project in the 10 villages. Only 40.5 percent of the \$20.7 million in AID project funds had been disbursed; \$1,207,315 in AID project funds had been committed but never used. We recommend that USAID/Honduras make appropriate determinations and financial adjustments. The implementing unit's organizational structure was not adequate and we made a recommendation designed to centralize and strengthen the structure of the organization. There was a discrepancy of \$97,804 in cash advances in USAID/Honduras' records as compared to those of the Government. We recommend that USAID/Honduras reconcile its books with the Government and inform the Government on the status of processed liquidation vouchers.

An estimated \$75,675 in local currency equivalents had been collected in an authorization fashion from project beneficiaries by one of the project executing units. We recommend that USAID/Honduras recover the funds and determine the effect of such levy practices on the project.

At project warehouses we determined that \$409,509 in project commodities lay idle; about 10 percent of the pour-flush commodes (costing about \$10,200) had been damaged; \$9,826 in project commodities were diverted; two warehouses did not have an inventory system in place (one of these warehouses was not secure and did not have a warehouse manager); and, about 1,000 pieces of project PVC and metal piping costing about \$29,000 lay abandoned. We recommend that USAID/Honduras take appropriate corrective measures to sell or dispose of idle commodities, train warehouse personnel, recover the value of diverted commodities, obtain inventory cards, seal one of the warehouses, and recover the abandoned commodities. Finally, administrative controls over project vehicle use and over in-country travel were not satisfactory. We recommend that controls be instituted and implemented.

Office of the Inspector General

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AUDIT
OF HONDURAS RURAL WATER
AND SANITATION SYSTEMS
PROJECT NO. 522-0166

TABLE OF CONTENTS

	PAGE
PART I - INTRODUCTION	1
A. Background	1
B. Audit Objectives and Scope	2
PART II - RESULTS OF AUDIT	4
A. Findings and Recommendations	6
1. Targets Understated	6
2. Project Implementation Delayed	9
3. Procurement and Commodity Management Needed Improvement	13
4. PRASAR Organizational Structure Was Dysfunctional	18
5. Cash Advances And Liquidation Vouchers Not Reconciled	20
6. Unauthorized Fee Income from Pour-Flush Latrines	22
7. Project Benefits Distributed Unevenly	24
8. Vehicle And Travel Controls Still Need To Be Established	26
B. Compliance and Internal Controls	28
PART III - EXHIBITS AND APPENDICES	
Exhibits	
A. Elements of a Pit Latrine	
B. Pour-Flush Commode (Diagram)	
C. Target Groups Not Yet Reached by the Project	

D. Program Funds Available for Reprogramming
or Deobligation

E. USAID/Honduras' Response to Section 5,
Cash Advances and Liquidation Vouchers
Not Reconciled

Appendices

1. Report Distribution
2. List of Recommendations

AUDIT
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PROJECT NO. 522-0166

PART I - INTRODUCTION

A. Background

At the time of project inception in 1980, infant mortality in Honduras was estimated at 103 per 1,000 live births, and 80 percent of children under five years of age suffered from some degree of malnutrition. Gastric/intestinal illnesses were highly prevalent; some 24.4 percent of infant deaths were attributed to diarrhea. The general mortality rate at birth was 16.5 per 1,000 in rural areas as compared to nine per 1,000 in urban centers (1977 data). About 78 percent of the urban population had access to drinking water facilities and about 50 percent had access to some means of human waste disposal. Only 30.3 percent of the rural population had reasonable access to safe drinking water, and only 18.4 percent had access to basic waste disposal facilities. Studies made by a Guatemalan organization found a synergistic relationship between malnutrition and diarrhea. The findings suggested that an intervention such as improved water and sanitation facilities would result not only in reduced diarrhea incidence and infant mortality rates, but also improved nutrition among the under-five age group.

On March 15, 1980 USAID/Honduras executed the project agreement for the Rural Water and Sanitation Systems project. The total estimated cost of the project was \$18,195,000. AID's contribution consisted of a \$10 million loan and a \$500,000 grant to the Government of Honduras (GOH). The GOH was to provide \$3,778,000 in local currency equivalents and the targeted communities were to provide the remainder (\$3,917,000) in volunteer labor and local materials.

By September 30, 1985 the AID loan amount had been increased to \$19,500,000 and the grant to \$1,200,000; the total estimated cost of the project had risen from \$18,195,000 to \$28,395,000; and, its estimated completion date was extended four years to December 31, 1987 in order to expand the project outputs and increase the number of project beneficiaries.

The project goal was to improve the quality of life, and especially the health status, of poor rural Hondurans. The project purpose was to expand access to, and use of, safe water and human waste disposal systems. There were four major project activities covering two contiguous geographic regions. The activities were: (i) expansion of construction capabilities to permit self-help installation of about 180 gravity-flow aqueducts, excavation of 3,000 hand-dug wells to be furnished with hand pumps, rehabilitation of 800 wells and 50 piped water systems, and installation of about 18,000 pit latrines and 14,000 water sealed latrines; (ii) establishment of functioning water maintenance systems; (iii) development and implementation of education activities to promote community participation, improved health behavior related to

water and sanitation facility use, and systems maintenance; and (iv) training of promoters and field agents to improve implementation, supervision and overall project monitoring. The two contiguous geographic regions were: the three western departments of Copan, Lempira and Ocotepeque bordering Guatemala and El Salvador; and, the northwestern departments of Santa Barbara and Cortes. (See map at end of this section.)

According to the project paper, it was estimated that the project would benefit about 247,000 of the 700,000 rural Hondurans living in those five departments so that 55 (sic) percent of the population would have access to safe water and sanitary waste disposal facilities. The target population ranged in size from five-family clusters to communities of up to 2,000 inhabitants.

Three Honduran entities were delegated responsibility to implement the project. They were the National Water and Sewer Agency (SANAA), the Ministry of Health (MOH), and the Office of Health Education (OHE) under the MOH. The combination of these entities formed the project implementation unit known as PRASAR, a Spanish acronym for Rural Water and Sanitation Project. PRASAR/SANAA was principally responsible for the construction and maintenance of safe drinking water systems. PRASAR/MOH dealt chiefly with the installation of human waste disposal systems, and PRASAR/OHE provided advertising and training services.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa made a program results audit of activities carried out by PRASAR and funded by USAID/Honduras and the GOH under Project No. 522-0166. This interim audit covered the period from March 15, 1980 (project inception) through September 30, 1985. Field visits were made during the period September 4, 1985 through January 24, 1986.

The purpose of our review was to determine whether or not the desired results, in this case the installation of water and toilet systems for the targeted rural poor, were achieved. Specific audit objectives were to evaluate:

- program accomplishments against established targets;
- the organizations delegated responsibility to implement the project;
- internal control systems applicable to the project;
- administrative controls over the procurement, accountability and use of commodities and equipment; and
- compliance with applicable laws and regulations

To accomplish the audit objectives we reviewed records and documents of USAID/Honduras, PRASAR/SANAA, PRASAR/MOH, PRASAR/OHE, and the GOH Ministry of Finance. We tested warehouse operations at regional

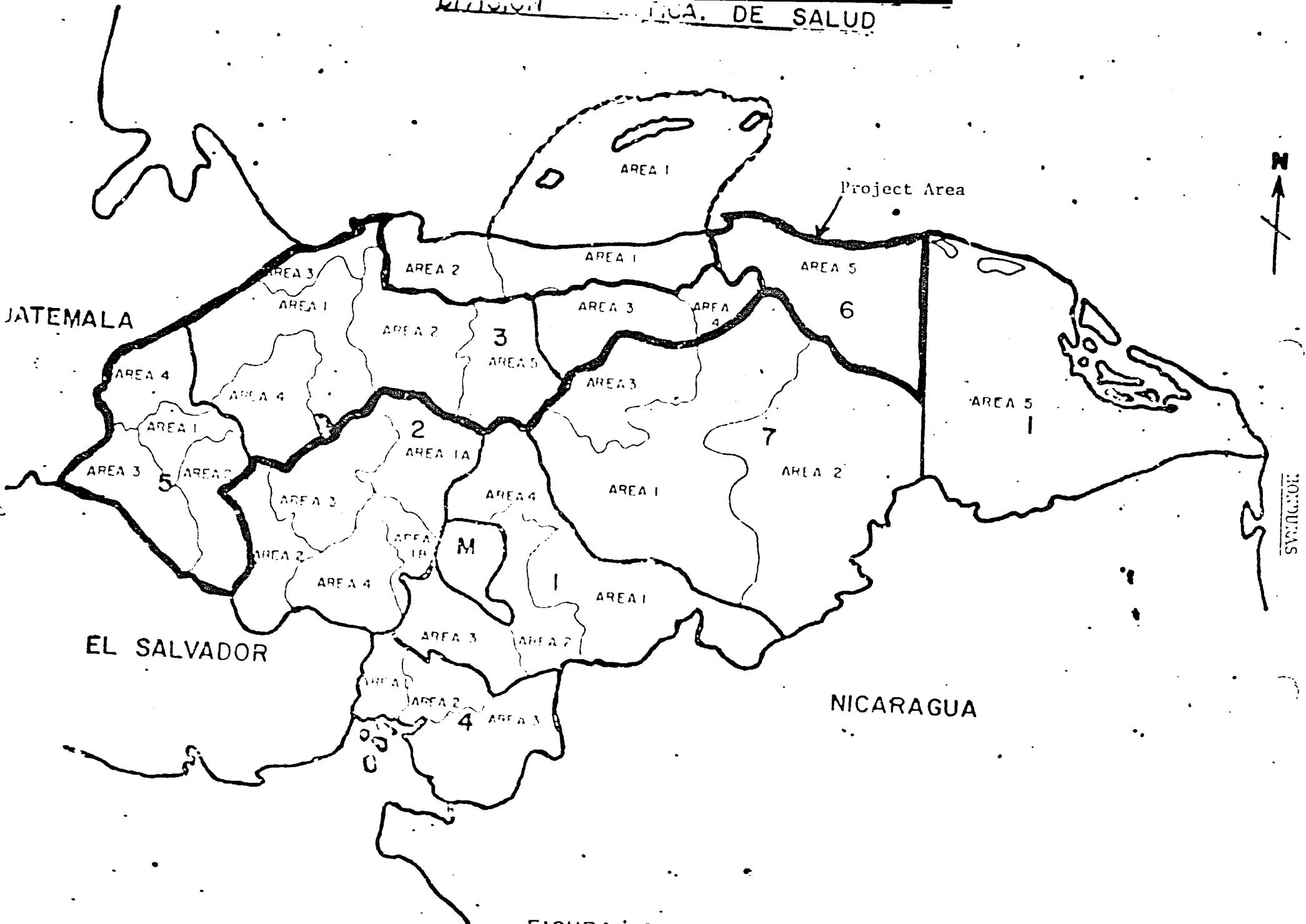


FIGURA N°I-5

AUDIT OF HONDURAS RURAL WATER
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PROJECT NO. 522-0166

PART II - RESULTS OF AUDIT

The duration of the Honduras Rural Water and Sanitation Systems Project No. 522-0166 was originally planned to extend from March 15, 1980 to September 30, 1983. However, on August 15, 1983 USAID/Honduras and the GOH agreed to extend the project assistance completion date (PACD) to December 31, 1987 in order to expand the project outputs and increase the number of project beneficiaries. Based on the revised seven-year life of the project, program accomplishments were 44.9 percent of established targets and 71 percent of the project implementation period had elapsed. The organizations delegated responsibility to implement the project had not coordinated their activities adequately, one of the reasons why they were ineffective. Internal and administrative controls over project resources were weak and needed to be improved; and, local law and regulation were circumvented by one of the project executing units.

In response, USAID/Honduras stated that in spite of difficulties encountered, the project had made significant progress. Water had been provided to the target group, latrines had been installed, the education campaign in health had produced notable results, and training of health promoters had laid the foundation for institutionalizing project outputs at the community level. Further, a January 1984 study of the project disclosed that of 525 families interviewed, 95 percent had latrines and 70 percent were clean, and that 77 percent used some type of covered water storage. In addition, about 1,000 schools had received educational information on basic family hygiene and health.

We agreed that the project has benefited that portion of the target group that received water and latrine systems. Previously, they had practiced only the more rudimentary forms of water retrieval and human waste disposal. However, we found that USAID/Honduras had used a modified set of targets in its semiannual reporting of project accomplishments to AID/Washington. Except for one category, the modified targets were lower than those originally established with the GOH. Also, the installation of a latrine system did not necessarily mean that an additional family was being reached; some families received more than one system while others were not served at all. Moreover, the three project executing units operated separately and without a central decision-maker.

On the fiscal side, 40.5 percent of project funds were disbursed although 71 percent of the revised implementation period had elapsed; \$1,207,315 earmarked for disbursement under the project lay idle; there was a \$97,804 cash advance discrepancy between USAID/Honduras and GOH records; and, the PRASAR/MOH executing unit had collected an estimated \$75,675 in local currency fees from project beneficiaries without formal GOH authorization or AID approval.

At project warehouses we determined that AID-furnished commodities valued at \$409,589 lay idle, \$15,626 in project materials had been diverted; two of three warehouses did not have adequate inventory systems; an estimated 1,000 pieces of PVC and metal piping costing about \$29,000 lay abandoned; and, 10 percent of the pour-flush latrines purchased under the project were estimated to have been damaged during shipping and storage. Finally, administrative controls over project vehicle use and in-country travel were unsatisfactory.

A. Findings and Recommendations

1. Targets Understated

USAID/Honduras understated established program targets because the planned inputs and expected outputs of participating private voluntary organizations (PVOs) were disregarded in periodic reporting of project targets and accomplishments. Moreover, some families received more than one waste disposal system. Indicators of project accomplishments are dependent upon the integrity of statistics or other supporting information. As of September 30, 1985, 71 percent of the project implementation period had passed. A comparison of accomplishments to targets used by USAID/Honduras for reporting purposes resulted in a 66.4 percentage-of-completion factor (weighted average). However, based on established targets, the project was 44.9 percent complete. As a result, the project was more seriously behind schedule than documented in reports to top managers at USAID/Honduras and AID/Washington. USAID/Honduras needs to confirm with the GOH the established targets and accomplishments for the project.

Recommendation No. 1

We recommend that USAID/Honduras review, revise and formalize with the Government of Honduras program targets under the Honduras Rural Water and Sanitation Project No. 522-0166.

Discussion

The six major subcomponents or outputs of the project were: aqueducts, water seal latrines, pit latrines, wells, windmills and sewer systems. The revised project targets were established in Project Amending Agreement No. 1, dated July 30, 1983, and included in the Government of Honduras' five-year plan.

USAID/Honduras used a modified set of targets in its semiannual reporting of project accomplishments. For all but one category (sewer systems), the modified targets were less than those formally established. We used the targets established in the project agreement, as amended, and as established in the GOH's five-year plan. Based on those targets, accomplishments were as follows:

- 130 aqueducts were targeted for construction and 256 (59.5 percent) completed. Also, 150 existing aqueduct improvements were targeted and 63 (42 percent) completed. However, USAID/Honduras' semiannual reporting showed a target of 355 aqueducts, including existing aqueduct improvements -- a difference of 225 aqueducts;
- 10,000 water-seal latrines were targeted and 24,024 (30 percent) completed. USAID/Honduras' semiannual reporting showed a target of 19,000 -- a difference of 31,000 latrines;
- 12,000 pit latrines were targeted and 21,552 (98 percent) completed. USAID/Honduras' semiannual reporting showed a target of 19,800 pit latrines;

- 2,000 wells were targeted and 1,079 (54 percent) completed. USAID/Honduras' semiannual reporting showed a target of 1,600 wells -- a difference of 400 wells;
- 50 windmills were targeted and four (8 percent) completed. USAID/Honduras' semiannual reporting showed a target of 10 windmills -- a difference of 40 windmills;
- six rural sewer systems were targeted and four (67 percent) completed. USAID/Honduras' semiannual reporting also showed a target of six sewer systems.

AID regulations require documentation of modifications critical to project success, such as project objectives, outputs, purpose and goals. There was no evidence that USAID/Honduras had reduced the project output targets to those reflected in its semiannual reporting through a project amendment, implementation letter, or by other formal means. Consequently, the project was more seriously behind schedule than had been reported.

Based on statistics, some 21,500 simple latrines and 24,000 pour-flush latrines were installed under PRASAR/MOH auspices. PRASAR/MOH promoters distributed the disposal systems to targeted family groups and recorded statistics on systems installations. A project assumption was that each disposal system installation represented an additional project beneficiary. But, four-flush latrines distributed by PRASAR/MOH were not necessarily installed and in use because promoters delivered them to targeted communities in batches where they lay pending acceptance by family units. For example, we observed crated pour-flush latrines stored in various residences located in the villages of La Brea, San Rafael and Quetzailica. Nevertheless, the promoters recorded these deliveries as installations and reported such to their regional offices. We visited two of the three regional offices and determined that regional supervisors had not been to the field to spot-check their promoters' work or to verify the accuracy of statistics. The unavailability of travel and per diem funds at the regional level was an inhibiting factor.

Increased monitoring and review is needed to ensure that the 247,000 targeted inhabitants of Honduras are benefited as planned.

Management Comments

USAID/Honduras expressed reservations about the accuracy and significance of our draft audit report statements regarding double counting of statistics maintained by the GOH. They said that project officials advised that statistics being reported were one latrine for each family. On batch deliveries of latrines, USAID/Honduras believed that the problem, if one existed, could be solved by supervisors more closely reviewing and verifying promoter statistics. USAID/Honduras concluded that in the long run the method of counting would not distort statistical data since batch deliveries were ultimately installed.

Office of Inspector General Comments

In view of USAID/Honduras' acceptance of the GOH statistical gathering procedures, we have deleted a portion of Recommendation No. 1 requesting USAID/Honduras to have PRASAR/MOH verify its statistics on latrine installation.

2. Project Implementation Delayed

As of September 30, 1985 71 percent of the revised project implementation period had passed and 40.5 percent of the \$20.7 million in project funds had been disbursed by USAID/Honduras to the GOH. Causes for slow disbursement of project funds were a cumbersome clearance and approval procedure within the GOH resulting in delays in requests for reimbursement from USAID/Honduras, inadequate management of counterpart funds by the GOH, and less than timely GOH contracting procedures for project promoters. Inherent in AID project planning and design is the timely and effective utilization of public monies. On this basis, disbursements for the \$20.7 million project were scheduled within a seven-year period. But after five years, \$8.4 million had been used. At the current rate of disbursement, no more than \$3.4 million of the remaining \$12.4 million of project funds will be expended. The project was originally scheduled to last three years. A primary cause for the project's extension was the slow expenditure of funds by the GOH. One cannot reasonably expect the GOH to revamp its cumbersome procedures and accelerate expenditures during the 27 months remaining under the project. Moreover, experience has demonstrated that the design that required this project to be executed over the traditional span (first three then seven years) was inappropriate. A longer project life was necessary in the case of this "people-centered" activity, and implementation rates needed to be appropriately adjusted to the actual administrative and financial capacities of the GOH rather than those arbitrarily established. Finally, we identified \$1,207,315 in project funds on USAID/Honduras Controller records that were committed but unused, and needed to be reviewed for reprogramming or deobligation. These funds should have been identified during quarterly Controller reviews with responsible project personnel.

Recommendation No. 2

We recommend that USAID/Honduras:

- a) determine what can reasonably be accomplished during the remaining life of Project No. 522-0166, and make appropriate financial adjustments; and,
- b) review for reprogramming or deobligation \$1,207,315 in committed but unused project funds recorded on USAID/Honduras Controller's books.

Discussion

A combination of bottlenecks prevented timely disbursement of project funds. There were three basic sources of funding: an AID grant (\$1.2 million), an AID loan (\$19.5 million), and the GOH counterpart contribution and community inputs (about \$7.7 million in local currency equivalents). Since 1983, the Government's counterpart had been financed by local currencies generated in association with the AID Economic Support Fund (ESF) transfers. Disbursement was slow under both the loan and counterpart portions of the project.

Loan Funds - The flow of loan funds was to be initiated by an advance of funds from USAID/Honduras to the Ministry of Finance, the GOH representative for the project. The funds were consigned to the General Directorate of Public Credit (under the Ministry of Finance). The directorate maintained a separate bank account with the Central Bank of Honduras, and established rotating funds of \$25,000 in local currency equivalents to be used by the PRASAR/MOH, and \$100,000 in local currency equivalents for PRASAR/SANAA. The PRASAR entities were to be able to draw from the rotating funds for project expenditures. The Ministry was to replenish the rotating funds, and in turn, was to be reimbursed by USAID/Honduras on the basis of requests for advances and the submission of liquidation vouchers.

Officials at the Ministry of Finance told us that there was a continuing lack of available funds to finance project expenditures due to insufficient and untimely advances by USAID/Honduras to the Ministry. We determined that there was only one instance in which a USAID/Honduras advance had not reached the Ministry until the following month -- the advance based on cash needs for September 1985 reached the Ministry on October 4, 1985.

Generally, Ministry requests for advances were made on a quarterly basis while the USAID/Honduras Controller issued advances monthly. We concluded that the Ministry termed these advances "insufficient" due to the monthly installment nature of USAID/Honduras' payments.

More importantly, the clearance and approval procedure within the GOH tied up AID funding. The Ministry of Finance was reluctant to release funding until advance justification and expenditure support were received from the PRASAR executing units. But the PRASAR executing units relied on their parent agencies, SANAA and the MOH, for administrative support. We were advised by the PRASAR/MOH Director that ten to twelve different offices were involved in the clearance and approval procedure. To sum up, during what amounted to a five-month processing and turn-around period, the project's rotating funds were drained to pay prior expenditures. Consequently, while the project executing units waited for reimbursement project implementation faltered.

Counterpart Funds - GOH-provided counterpart was to cover in-country labor, per diem, fuel and maintenance costs incurred under the project. The project suffered from a lack of counterpart funds between 1980 and 1983 due chiefly to the economic crisis that Honduras experienced during 1981. To assist in alleviating the shortage, AID ESF transfers had caused the generation of adequate counterpart funds since 1983.

Although ESF-generated counterpart was available after 1983, we verified that the same conditions existed on the project that were prevalent prior to 1983. Project promoters and other project personnel were not receiving their salary, per diem or travel funds in order to promote and implement the project. This was especially critical for project promoters, who were the "sellers" of the project and the link between the project and its target population. About half the 190 project promoters worked under contract. The GOH required that new contracts be drawn up

annually. Also, we were told that only the President of the Republic of Honduras was authorized to sign contracts. Consequently, while waiting for the contracts to be authorized during the first part of each year, no funds were made available for the promoters to carry out their work. The process of contract authorization averaged at least three months causing a corresponding hiatus in activities.

In the field, we also heard of complaints about the lack of funds with which to implement the project. To illustrate, several promoters told us they had not received per diem for services performed during four months. Another promoter said he had not received salary for three months due to a promotion that required the authorization of a new contract. This promoter was actually penalized due to a promotion because he lost salary for a three-month period waiting for a new contract.

The negative consequences to the project were demoralized personnel, resignations, loss of time and increased costs to train new personnel, all resulting in field activity delays. Evidence of these conditions was supported by the fact that the PRASAR/SANAA unit reported in an internal memorandum, dated August 19, 1985, that it had been able to carry out only about 2.7 months of project implementation during that year.

Unused Project Funds - USAID/Honduras Controller records included \$1,207,315 of committed, but undisbursed and idle project funds. Some of those unused monies dated back to the April 15, 1981 when Project Implementation Letter (PIL) No. 18 was issued. These funds should have been reviewed for reprogramming or deobligation during quarterly USAID/Honduras Controller reviews with responsible project personnel. During the two-week period ended January 17, 1986, we reviewed the status of these funds with the AID project coordinator, PRASAR/SANAA and USAID/Honduras Controller personnel and determined that the funds were idle because some amounts were no longer needed, others were obligated twice, and yet others were never actually committed.

- Of \$227,879 earmarked for Construction Hardware Nacoco (Control No. #-40102), \$220,848 lay idle because payment had been made under another obligation.
- A total of \$370,049 earmarked for improvement of existing aqueducts (Control No. E400050) was unused because payment had also been made under another obligation.
- Separate earmarks of \$197,949 and \$62,680 had been made for project training costs in 1984 (Control Nos. E-401004 and E-401026, respectively). But \$20,219 and \$197,509 of those respective amounts were no longer needed and lay idle (total \$217,728).

Exhibit D summarizes the 38 items or expenditure categories totaling \$1,207,315 that needed to be reviewed for reprogramming or deobligation.

Management Comments

In response to our preliminary finding statements, USAID/Honduras noted that disbursements for this project increased notably during the fourth quarter of fiscal year 1985 and the first quarter of fiscal year 1986. They said that some \$2.8 million was disbursed during this span and, with a major procurement due in a few months, project funds would be nearly fully disbursed at project expiration. In response to the draft audit report USAID/Honduras demonstrated that because of large recent outlays, \$10.6 million had now been disbursed, and major procurement actions requiring large disbursements were scheduled for fiscal year 1986 portending complete use of project funds.

USAID/Honduras took immediate corrective actions during the audit to make the \$1,207,315 of audit-identified idle funds available for other uses under the project.

Office of Inspector General Comments

Although USAID/Honduras has demonstrated that the rate of project disbursements is increasing, there are now 21 months remaining to expend \$10.1 million -- the balance of funds in the project. Moreover, the cumbersome clearance and approval procedures of the GOH continues to affect timely expenditure of project funds. This cannot be ignored, nor can the sporadic history of project disbursements to date:

1980:	\$	5,012
1981:	\$	3,288,370
1982:	\$	902,221
1983:	\$	688,470
1984:	\$	2,174,040
1985:	\$	3,102,503

Therefore, we have retained part a) of Recommendation No. 2.

Prompt and effective actions taken by USAID/Honduras to free the \$1,207,315 of idle funds satisfies the requirements of part b) of Recommendation No. 2. Therefore Recommendation No. 2 b) is closed as of the date of this report.

3. Procurement and Commodity Management Needed Improvement

Almost \$439,000 in AID financed project equipment was determined to be unusable, or had been diverted to non-project use, or had been abandoned. The El Progreso regional warehouse managed by PRASAR/SANAA had on stock 86 types of materials and equipment valued at \$409,589 in local currency equivalents that lay idle or were unusable due to a lack of planning in commodity purchasing. Also, we estimated a 10 percent damage factor for the porcelain pour-flush commodes in storage (about \$10,200). Another \$9,826 in local currency equivalents of project materials had been diverted for use in off-project activities. The Santa Rosa regional warehouse managed by PRASAR/MOH was operating without a system of inventory cards because GOH auditors confiscated the cards in July 1985, and the warehouse manager had never received unit prices for the commodities and equipment on hand. The Santa Barbara area warehouse also managed by PRASAR/MOH was in general disarray, security was lax, there was no system of inventory control, and no warehouse employee. Finally, at least 1,000 pieces of PVC and metal piping costing about \$29,000 had been abandoned on the roadside property of a resident of El Ocote since July, 1985. A basic criterion of procurement planning is to determine whether equipment and commodities are appropriate for a project. Also, a warehouse should have an adequate system of internal control and security to prevent diversion and unauthorized use of materials. The idle and unused commodities located at the El Progreso regional warehouse should be sold or disposed of in a manner beneficial to the project, and the value of diverted commodities needs to be recovered from the borrowing organizations. PRASAR/MOH needs to return the inventory cards to the Santa Rosa regional warehouse along with unit price information for project commodities. The Santa Barbara area warehouse should be sealed until adequate security and internal controls are implemented, and abandoned project commodities need to be recovered.

Recommendation No. 3

We recommend that USAID/Honduras take measures to:

- a) utilize or negotiate an equivalent exchange for materials and equipment valued at \$409,589 in local currency equivalents that lay idle or were unusable at the PRASAR/SANAA El Progreso regional warehouse;
- b) have PRASAR/OHE train PRASAR warehouse personnel in proper storage practices;
- c) recover \$9,826 in local currency equivalents in diverted project commodities;
- d) obtain the return of certain inventory cards and information on unit prices for project commodities confiscated by local auditors at the Santa Rosa regional warehouse;

- e) have PRASAR/MOH seal the Santa Barbara area warehouse until adequate security and internal controls are implemented; and
- f) have PRASAR/SANAA recover the estimated 1,000 pieces of PVC and metal piping that were abandoned in July 1985 in El Ocote, Honduras.

Discussion

There were three regional warehouses and six area warehouses established under the project to furnish the targeted project areas with the commodities needed to implement the project. Regional warehouses were located at El Progreso, Santa Rosa and La Ceiba. Area warehouses were located at Santa Barbara, Cortes, Gracias, Tela, Tocoa and Trujillo. We reviewed the operations at the El Progreso and Santa Rosa regional warehouses, and at the Santa Barbara area warehouse.

El Progreso Regional Warehouse - The warehouse consisted of one enclosed 30 by 60 foot building, two open 30 by 90 foot tin roofed sheds, and an administrative building. In June 1985 commodities and equipment from other warehouses were transferred to El Progreso resulting in overstockage. To illustrate, more than half the enclosed building was taken up by pour-flush latrines awaiting installation. Some steel and PVC piping and rebar lay exposed in the yard area.

The system of inventory control was generally adequate. A cardex procedure was in place and a PRASAR/SANAA auditor from Tegucigalpa made periodic spot checks and corresponding inventory adjustments. However, the auditor felt that on-site accounting personnel were needed in order to more closely monitor the inventory.

The El Progreso warehouse had in stock 86 different types of commodities valued at \$409,489 in local currency equivalents that had been there for some time. Principal among these were metal and PVC piping for water systems in excess of three inches in diameter. We were told that the piping and other equipment and commodities were not appropriate for the project and could not be used in a rural situation because they were designed for more sophisticated urban water systems. For example:

- There were on hand 7,344 pieces of six-inch by 20 foot PVC piping at a cost of \$162,413 in local currency equivalents. None had been used. In fact, the supply had increased due to transfers from other warehouses. USAID/Honduras stated that the piping was necessary for 21 planned sewer systems. The number of planned sewer systems had been reduced from 21 to six, however.
- Thirty-two, eight-inch metal shut-off valves, valued each at \$370 in local currency equivalents, were on hand in August 1984. Only three had moved and 29, valued at \$10,720 in local currency equivalents, lay idle. These valves were too large for use on rural aqueduct systems. (See Figure 1.) USAID/Honduras said that the valves were for the planned sewer systems (rather than for aqueduct systems).

- 4,980 pieces of rebar, three-quarter inches by 30 feet, were in inventory in August 1984. Only 448 pieces had been used leaving 4,532 pieces valued at \$55,336 in local currency equivalents idle and unused.
- 2,992 four-inch, 45 degree metal elbows, valued at \$36,128 in local currency equivalents, had not moved since August 1985 and 1,146 four-inch 90 degree elbows, valued at \$13,534 in local currency equivalents, likewise lay unused.

Furthermore, commodities valued at \$9,826 in local currency equivalents had been lent to other organizations for unauthorized activities:

- 20 pieces of four-inch piping with a value of \$2,255 in local currency equivalents had been lent to CARE on May 26, 1983. The loan was still outstanding.
- 300 units of plastic cement with a value of \$909 in local currency equivalents had been lent to CARE on May 3, 1983. This loan was also outstanding.
- The Jefatura Tecnica unit of SANAA, not associated with the project, borrowed pipe valued at \$157 in local currency equivalents on January 28 1985 and construction materials valued at \$6,504 in local currency equivalents on April 24, 1985. The loans were outstanding.
- An Inter-American Development Bank financed activity obtained 200 pieces of metal pipe valued at \$5,800 on November 29, 1985. We witnessed the loading of this pipe at the El Progreso warehouse on December 5, 1985. However, USAID/Honduras later furnished justification for this loan, although they had not been consulted or approved it before the materials loans occurred.

Also, an estimated 3,000 pour-flush commodes were stacked 10 commodes high by about 20 feet wide and 40 feet deep. These commodes were made of porcelain. Our observations led us to estimate 10 percent damage had occurred chiefly at the bottom levels, because the commodes were not stored on pallets or otherwise protected.

Santa Rosa Regional Warehouse - This warehouse was located on hospital grounds within 10-foot-high fencing and a secure entrance. The enclosed warehouse was about 25 by 40 feet. Most project commodities had been transferred to El Progreso except for pour-flush latrines. Other quantities of rebar and pipe lay in an adjacent stockyard. There were six nonfunctioning project motorcycles in the warehouse.

The warehouse manager advised us that auditors from the MOH had confiscated his inventory cards in July 1985 and had not returned them. He said that he had never received unit prices, and thus did not know the value or quantity of commodities transferred to the El Progreso regional warehouse or on-hand. In Tegucigalpa, the PRASAR/MOH Director told us

that the inventory cards had been brought in to prepare new ones for the warehouse manager's use. Our inspection of the inventory cards made available in his office disclosed they were indeed the confiscated set. We observed unexplained postings through October 1985 that were not made by the regional warehouse manager.

Santa Barbara Area Warehouse - This area warehouse was located within a hospital compound. The few commodities stored there suggested that the warehouse was functioning only as a temporary depot. For example, there were 249 pour-flush latrines, 54 pump parts, 55 bags of cement and two non-functioning project motorcycles in storage. Other small quantities of project materials, such as rebar, lay scattered throughout the storage area. We were advised that most project commodities were transferred to the El Progreso regional warehouse during May and June 1985. However, the project employees there (promoters) could not furnish us information on the quantity and value of materials received in Santa Barbara or transferred to El Progreso. There was no warehouse manager, no system of inventory control, and no accounting responsibility. The key to the warehouse was available to any of the promoters or drivers upon request. On December 16, 1985 we alerted USAID/Honduras to these conditions and advised that the warehouse be sealed until basic internal controls were installed by PRASAR/MOH.

Abandoned Pipe - On December 12, 1985 we observed at least 1,000 pieces of PVC and metal piping costing about \$29,000 that lay abandoned in El Ocote, Honduras. (See Figure 2). These project commodities were located on the property of a village resident. The resident advised us that in July 1985 a PRASAR/SANAA project vehicle had broken down and workers had unloaded the commodities there. No one had since returned for the pipe.

In contrast, in the village of Agua Caliente we found eight families who had done preliminary work but not received project materials for latrines. Another family had not received PVC piping for water because commodity needs had been underestimated by PRASAR/SANAA. The commodities had been promised to the residents by a PRASAR/SANAA official during October 1985 and again on December 2, 1985. According to a village leader in Quebracho -- a 40-family community -- community members had to buy additional PVC piping and connecting valves to extend their water systems from the front to the rear of their homes. He said that each family in need of the extension paid up to \$10.50 in local currency equivalents for the additional materials. Thus, while loans of project commodities were being made by PRASAR/SANAA for unauthorized activities, and while project commodities lay abandoned, certain among the targeted rural poor went lacking the materials for which they were eligible.

Management Comments

USAID/Honduras suggested that the sale or disposal of materials and equipment, as recommended in the draft audit report, would not be appropriate because the GOH had no proper legal means of publicly auctioning the commodities. They said that when a final determination is made on what is or is not useful to the project, USAID/Honduras would

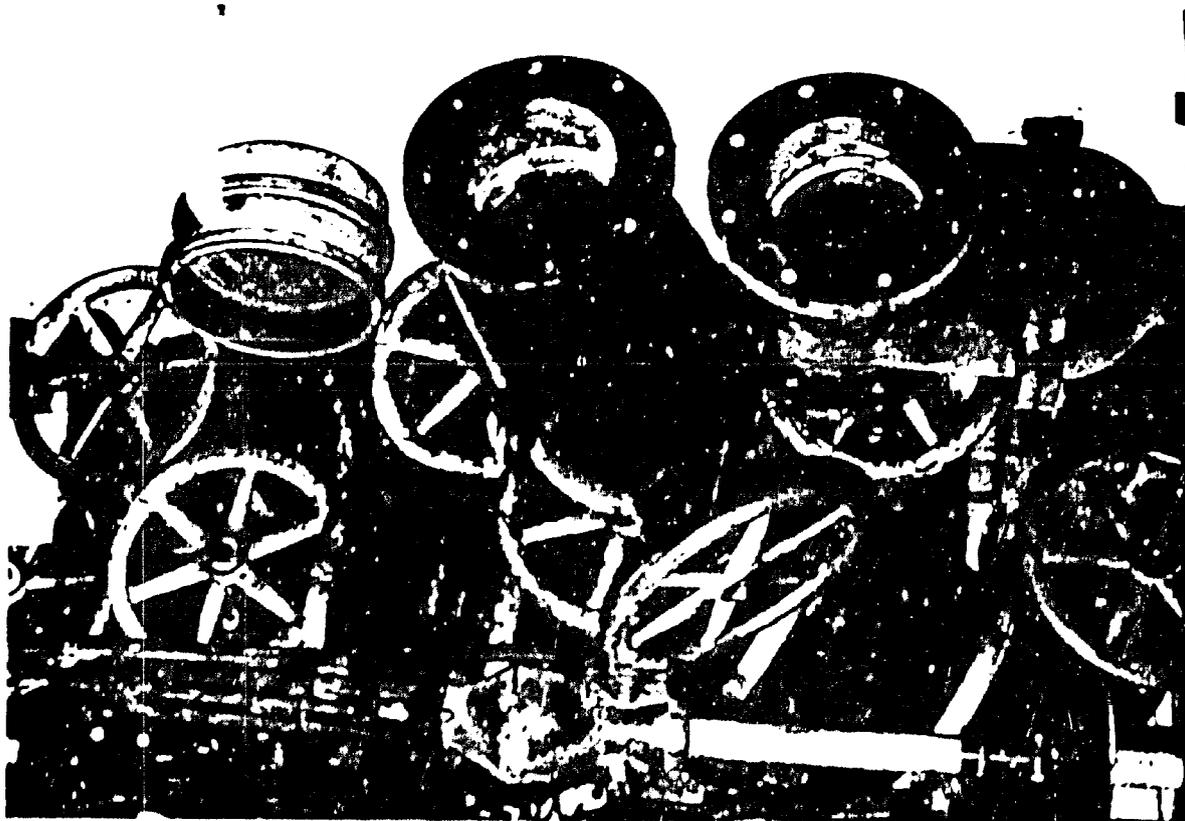
negotiate an equivalent exchange for other materials with other entities of the GOH. USAID/Honduras took immediate action to correct the conditions at the Santa Barbara area warehouse, and initiated actions to resolve the other parts of Recommendation No. 3.

Office of Inspector General Comments

We have modified part a) of Recommendation No. 3. Further management actions are needed for parts b), c), d) and f) of the Recommendation. With respect to part c), USAID/Honduras did not address the outstanding loans made to CARE and SANAA. Finally, the prompt and effective actions of USAID/Honduras were sufficient to correct the situation at the Santa Barbara area warehouse. Therefore, part e) of Recommendation No. 3 is closed as of the date of this report.

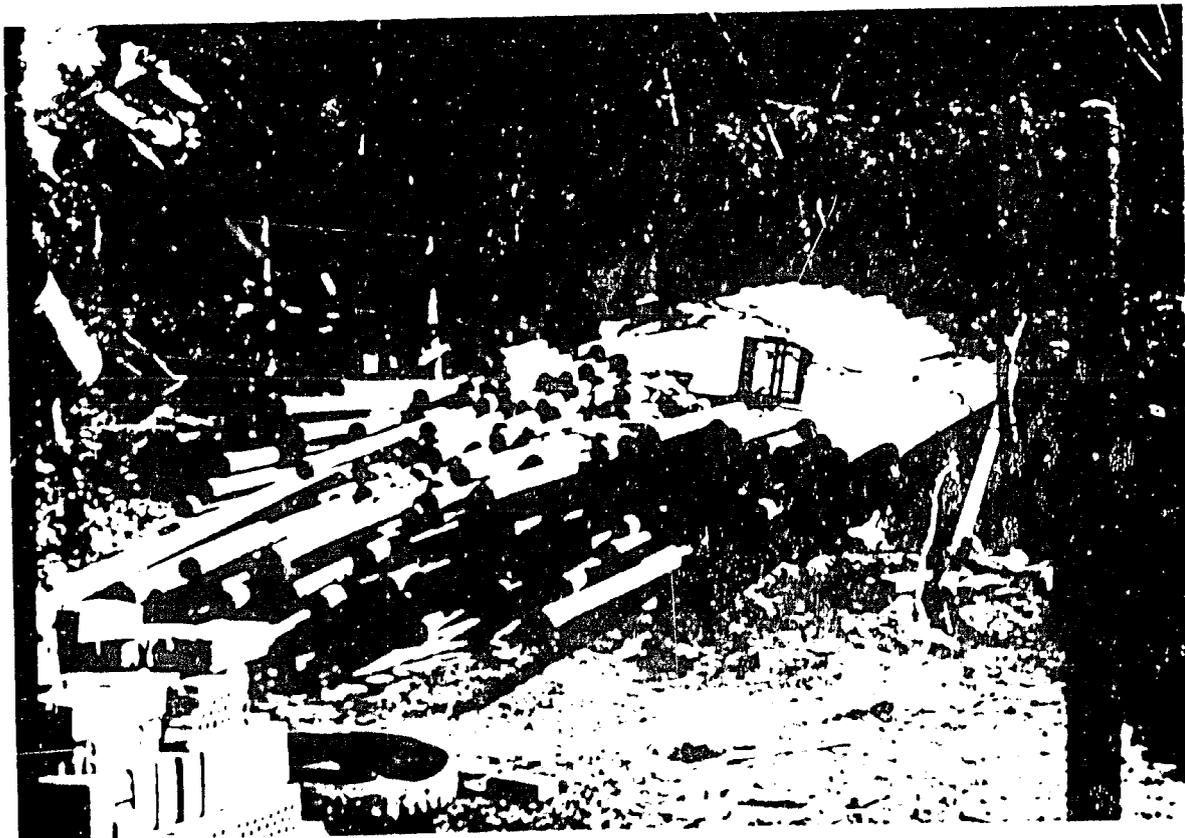
El Progreso Regional Warehouse

29 of 32 eight-inch shut-off valves costing \$10,720 in local currency equivalents have not moved because they were inappropriate for the project and can be better used for sophisticated urban water systems.



El Ocote, Honduras

An Estimated 1,000 units of PVC and metal waterpipe lay abandoned in the front and rear yards of a Honduran resident since July, 1985.



4. PRASAR Organizational Structure Was Dysfunctional

There was no single implementation or decision-making responsibility within the project sponsor (PRASAR) organization, in addition to which the GOH's Ministry of Finance held the project purse strings. The organizational structure was planned as set forth in the AID project paper. The formation of a project committee was to make coordination of the three project elements easy and effective. But the committee never materialized as such because each project sponsor for the most part worked independently. Consequently, by the original 1983 project completion date, the project was only just getting underway, resulting in a four-year extension to December 31, 1987. Nevertheless, we estimate that at the current implementation and expenditure rate, almost half the project's resources will not be used before that date. A responsible local official is needed for this project to monitor and coordinate the efforts of the three project elements, to identify and correct project implementation problems, to deal directly with the GOH's Ministry of Finance regarding availability of project funding, and to act as spokesperson for the project. Moreover, we believe that a representative of the GOH Ministry of Finance should be a member of the existing project committee.

Recommendation No. 4

We recommend that USAID/Honduras obtain from the Government of Honduras either:

- a) the appointment of a PRASAR committee chairperson with authority and responsibilities over the activities of PRASAR/SANAA, PRASAR/MOH and PRASAR/OHE on Project No. 522-0166; or,
- b) joint agreement on formalization of a plan to improve the monitoring and coordination of the Honduras Rural Water and Sanitation Systems Project No. 522-0166.

Discussion

The implementation of the three elements of the project was the responsibility of the respective executing agencies, that is, PRASAR/SANAA for water supply systems, PRASAR/MOH for human waste disposal systems, and PRASA/OHE for health education and training. Each of the three executing entities designated a project director who had authority to make decisions concerning the disposition of project resources as they pertained to his particular area of responsibility. Each relied on his respective parent institution for administrative and technical support.

The three project directors participated on an equal basis along with the AID project coordinator on a project committee that was formed to make periodic reviews of project progress, implementation problems, and to participate on project evaluations. The AID project coordinator, a personal services contractor, served in an advisory capacity and reported

to the USAID/Honduras Office of Engineering. The record was replete with numerous committee meetings where factors inhibiting effective project implementation were "discussed," but there was little evidence of the adoption of corrective measures to clear away implementation or disbursement bottlenecks.

Moreover, each element worked independently in the field. To illustrate, the PRASAR/MOH promoters were the critical link with the targeted communities for the purpose of selling the project. But since they were MOH employees, their activities were restricted to the promotion of human waste disposal systems and associated education and information activities. A PRASAR/MOH promoter told us he was unable to place an order for needed parts for the water system in the village of Quebracho because that was a PRASAR/SANAA concern. In this case, timely and effective relief to targeted village recipients could have been accomplished with a simple telephone call.

An evaluation prepared for USAID/Honduras (Diagnosis and Recommendations for Rural Water and Sanitation Systems in Honduras) in January 1983 noted that PRASAR/MOH was not advised when PRASAR/SANAA engineers were going to make field studies for community water supply systems. Hence, promotion efforts and community organization (carried out by PRASAR/MOH promoters) had not taken place when the PRASAR/SANAA study groups arrived. As a result, the community was not prepared to help with the field work. This lack of communication and coordination between the executing agencies for the project was quite evident during our review.

Consequently, the PRASAR organizational structure, originally designed to facilitate coordination of project activities by the three project sponsors, was not functioning as planned.

On the financial side, the three project directors did not have direct access to two project revolving funds established by the Ministry of Finance. They were hampered by the administrative procedures of their parent organizations -- SANAA and the MOH -- in processing cash advance requests and expenditure vouchers. At the time these documents left the PRASAR offices, unit directors lost control over the fiscal cycle. Dependence upon first, the parent organization, and second, on the Ministry of Finance, for fiscal management had a negative effect on the timely and effective receipt and use of project funds. As mentioned earlier in this report, a three-month document cycle within the GOH was not uncommon.

Management Comments

USAID/Honduras stated that discussions on the draft audit recommendation were currently being held with PRASAR/SANAA officials. They requested that we modify the recommendation so that all its options would remain open.

Office of Inspector General Comments

We have modified Recommendation No. 4 in general accordance with the USAID/Honduras' request.

5. Cash Advances and Liquidation Vouchers Not Reconciled

USAID/Honduras had not reconciled its records of outstanding cash advances and liquidation vouchers with GOH records. A basic requirement of good cash management is the monitoring of the cash management needs and use records of recipients. As of September 30, 1985 there was a discrepancy of \$97,804 in project cash advances between USAID/Honduras and GOH project records. Moreover the GOH had reported 14 liquidation vouchers totaling \$503,442 in local currency equivalents which, according to its records, remained unprocessed. Those vouchers were brought to the USAID/Honduras Controller's attention during the audit. Although there was evidence that 11 of the 14 liquidation vouchers had been processed, certified for payment, and posted prior to September 30, 1985 and one subsequent to that date, the USAID/Honduras Controller could not furnish copies of transmittal letters or other evidence to the effect the GOH had been advised that its liquidation vouchers had been processed. Continuing discrepancies in cash advances and in expenditures contained in liquidation vouchers prevent effective cash management of project funds.

Recommendation No. 5

We recommend that USAID/Honduras:

- a) reconcile its records with the GOH Ministry of Finance and Public Credit regarding the audited \$97,804 discrepancy in cash advances; and,
- b) notify the Government of Honduras as to the status of project expenditures documented on liquidation vouchers already submitted.

Discussion

We calculated that the Controller's balance of outstanding cash advances at September 30, 1985, was \$248,801. This figure was determined by adjusting the Controller's balance for: cash advances made subsequent to September 30, 1985 outstanding liquidation vouchers and expenditures that were not yet submitted for reimbursement by the GOH. The GOH reported outstanding cash available in its bank account and sub-advanced to the rotating funds of SANAA and the Ministry of Health of \$150,997 on September 30, 1985. The unreconciled difference was \$97,804. Moreover, as of September 30, 1985 the GOH reported 14 previously submitted liquidation vouchers totaling \$503,442 in local currency equivalents which, according to its records, had not been processed by USAID/Honduras. Eleven of those vouchers were more than three months old and one dated to 1983. In a memorandum dated November 8, 1985, we requested that USAID/Honduras take action to determine whether or not the vouchers were outstanding and the causes for any delays in processing those vouchers. In a response dated December 11, 1985, we were informed and subsequently verified that 12 of the vouchers had been fully processed and the remaining two were scheduled for processing.

However, the USAID/Honduras Controller could not provide copies of transmittal letters or other documentation to the effect that the GOH had been notified the vouchers were processed. To sum up, there was no evidence that USAID/Honduras had informed the GOH; therefore, the GOH had no basis for adjusting its records.

Management Comments

USAID/Honduras did not agree with the criterion that we used regarding cash management requirements. In order to avoid any misinterpretation, we have appended as Exhibit E USAID/Honduras' response to this section.

Office of Inspector General Comments

USAID/Honduras had initiated steps to reconcile the \$97,804 discrepancy, and had reduced the difference between its and GOH balances to about \$17,000. We have retained Recommendation No. 5 until management actions have been completed.

6. Unauthorized Fee Income from Pour-Flush Latrines

Beginning in May 1984, PRASAR/MOH began to collect from the targeted rural poor \$5.00 in local currency equivalents for each pour-flush latrine installed. The PRASAR/MOH Director told us the collections were authorized by an internal document issued by the Ministry of Health. However, the loan agreement (Section B.4) stated that project assistance would be free from taxation or fees imposed under laws in effect in the territory of the Borrower (GOH). The project loan agreement (Section B.3) also specified that the community contribution to the project would take the form of volunteer labor and local raw materials. Moreover, in a memorandum dated August 23, 1985, the AID project officer informed the PRASAR/MOH Director that, if the "proposed" collections were approved by AID, the proceeds were to be returned to the project. But at the time of the AID project officer's August 1985 notification, PRASAR/MOH had been charging the fees and depositing them in the GOH general fund for 15 months. We verified that the PRASAR/MOH Region 5 office alone collected \$15,800 in local currency equivalents for the period May 7, 1984 through January 22, 1985. Officials at Region 5 informed us that PRASAR/MOH headquarters received and had collection records for the three project regions. PRASAR/MOH promised but did not furnish to us requested information on total receipts for the three regions. Based on available statistics regarding installations of pour-flush latrines since May 1984, we estimated that fees amounting to \$75,675 in local currency equivalents were collected and deposited in the GOH general fund. Recovery for the project is in order. Also, a determination should be made whether charging such a fee is really desirable or if it acts as a deterrent to project progress.

Recommendation No. 6

We recommend that USAID/Honduras:

- a) recover for the project an estimated \$75,675 in local currency equivalents representing the probable amount of fees collected by PRASAR/MOH for the installation of pour-flush latrines since May, 1984; and
- b) determine whether charging such fees acts as a deterrent to project progress and if the GOH should continue this practice.

Discussion

We reviewed the authorities under which PRASAR/MOH implemented the latrine levy and determined that there was no support for the described actions. In Honduras, policy changes must be supported by a Supreme Decree, signed by the President of the Republic, and published in the official gazette. Language for a such regulation had been drafted, reviewed by Ministry of Health auditors, and returned to PRASAR/MOH for modification and subsequent submission to the Ministry of Health. The draft had not been submitted to AID for review and approval. Therefore, we consider PRASAR/MOH actions in charging fees to have been premature and unauthorized.

In response to our preliminary findings USAID/Honduras reiterated AID policy that encourages user fees as a means of defraying the drain on a host country's budget, and suggested that the recommendation be modified to suggest the parties coordinate to determine the disposition of collections.

We believe that recovery is in order since the fees were, and continue to be, contrary to the USAID/Honduras project officer's original instructions and were not supported by local law or regulation. We further believe that more study is in order to determine the advisability of charging such a fee in view of the scant income of most project beneficiaries in rural Honduras.

Management Comments

USAID/Honduras pointed out that the collection of a nominal fee for installation of pour-flush latrines was a planned activity in accordance with Project Amendatory Agreement 1, Annex I, page 7 which indicated that "the sale of water seal latrines can capitalize the maintenance fund". While in agreement that the proceeds should be used for the project, USAID/Honduras questioned how we determined the estimated \$75,675 of collections, and requested that we delete the recommendation.

Office of Inspector General Comments

The cited Amendatory Agreement, representing "planned" activity was not supported by authorization(s) to "implement" the collections. As explained previously in the Discussion section, PRASAR/MOH has made collections since May 1984 without the authorization of either the GOH or AID. Moreover, PRASAR/MOH did not make its collection records available to us. Therefore, we used the statistics verified at the PRASAR/MOH Region 5 office (\$15,800); determined the number of pour-flush latrines installed by Regions 3 and 6 from May 1984 to September 1985 -- based on GOH statistics; and multiplied the number of installations by ten Honduran lempiras (\$5.00 in local currency equivalents). We believe that a refund to the project is warranted and have retained the recommendation accordingly.

7. Project Benefits Distributed Unevenly

While some families benefited more than once, the residents of ten villages located at the western extreme of the project area had not been visited at all by local project sponsor representatives. Moreover, in La Brea, Honduras, lack of proper training led to the creation of health hazards when simple latrines became full and could not be leveled. When this happened, the same family was often provided an up-graded pour-flush version. Steps need to be taken to correct these dysfunctional aspects of project implementation.

Recommendation No. 7

We recommend that USAID/Honduras:

- a) have PRASAR/MOH, through selective site visits, identify and PRASAR/OHE educate targeted village groups on effective destruction of pit latrines after their useful life; and,
- b) have PRASAR/MOH and PRASAR/SANAA promote human waste disposal systems and water systems, respectively, at ten of the villages included in the target group but not yet served.

Discussion

The residents of La Brea, Honduras had not found an effective method of destroying old pit latrines after the installation of pour-flush latrines. We visited this community twice (September 1985 and again in December 1985) and observed no improvement. For example, in September, 1985 the head of the village association (patronato) told us that he could not destroy his old project-sponsored concrete commode and platform in order seal the pit. In December, 1985 he said that he planned to seal the commode with a concrete top. The simple latrine was open, foul, insect-ridden and a danger to children at play. With the installation of his pour-flush latrine, he had two waste disposal systems. Education, including the provision of appropriate project-financed tools, is in order for the citizens of La Brea.

While PRASAR/MOH promoters made frequent field visits to villages such as La Brea, and duplicated statistics on latrine installations per family unit, there were 10 villages in the target project area that had not been approached. These villages were located in the far-west sector of project activities near the Guatemala border.

Figures 3 and 4 illustrate conditions found in La Brea, Honduras. Exhibit C contains a listing of the 10 villages with residents who make up part of the target group who have not yet received project benefits.

Management Comments

USAID/Honduras did not agree with the general thrust of our finding. They said that PRASAR officials advised that a few dry pit latrines were replaced with pour-flush latrines, and that the replaced latrines were constructed prior to the project.

Office of Inspector General Comments

Our site visits and discussions with project employees and beneficiaries lead us to conclude that both the finding and recommendation are valid and warranted.

La Brea, Honduras

In the foreground (left and bottom) PVC pipe leads from pour-flush to reception pit, while in the background (center) a simple latrine with an expired useful life attracts insects, creating a health hazard.



La Brea, Honduras

Abandoned simple latrine lay unattended in area where children play. The field promoter said that this particular latrine was not part of the AID-financed project, but part of the Honduras five-year plan.

Nonetheless, simple latrine construction is identical for both efforts.

The community of La Brea needs education and appropriate tools to level and seal simple latrines subsequent to their useful life.



8. Vehicle And Travel Controls Still Need To Be Established

Administrative controls over project vehicle use and over in-country travel were inadequate. PRASAR/SANAA had not disseminated instructions to the field regarding minimum documentation needed to support vehicle use. PRASAR/MOH had not developed instructions on vehicle use, and had not developed a vehicle use log or similar format. Moreover, the PRASAR/MOH promoters planned their in-country travel independently, and prepared and reported their travel results to PRASAR/MOH headquarters without evidence of review and supervision at the regional level. More than \$1/2 million in AID funds went to purchase vehicles and motorcycles for use on the project. In order to determine whether or not project vehicles were used for project purposes, recording information on points of departure and arrival, and the reasons for the trip, would have constituted minimum requirements. For in-country travel, information on times of departure and arrival, sites visited, purpose of visits, and evidence of traveler and supervisory certification were also needed. PRASAR/SANAA and PRASAR/MOH had not implemented, or had not developed, these basic administrative controls. Consequently, it was questionable whether or not vehicles were used for project purposes or if all in-country travel was limited to project business.

Recommendation No. 8

We recommend that USAID/Honduras have:

- a) PRASAR/SANAA disseminate instructions to its field offices regarding documentation needed on the use of project vehicles;
- b) PRASAR/MOH develop and disseminate instructions on use of project vehicles; and
- c) PRASAR/MOH install basic controls over in-country travel.

Discussion

There were 46 vehicles and 120 motorcycles costing \$587,124 procured for the project with AID-funds. PRASAR/SANAA procured all of the project vehicles and motorcycles and distributed them among the three executing units.

PRASAR/SANAA - Headquarters officials furnished us with a form that contained date, name of driver, vehicle identification, place and hour of departure, destination and hour of arrival, beginning and ending odometer readings, number of kilometers, name and signature of traveler, and more. They said that the form was used by all PRASAR/SANAA units. However, we were unable to corroborate this in the field. For example, at El Progreso the PRASAR/SANAA manager told us that he was unfamiliar with the form. Instead, we found a system of invoices and monthly reporting forms to account for gasoline purchases. Our test of the invoices and monthly reporting forms disclosed that in cases where the forms were available, there were no supporting invoices and vice versa.

Also, travelers and drivers failed to certify the reporting forms and omitted information on cost per gallon, odometer readings and places visited. To sum up, implementation of the existing system was inadequate.

PRASAR-MOH - Headquarters officials were not able to furnish us with a form on vehicle use. The PRASAR/MOH Director told us that there was none in existence. Some 113 AID-financed motorcycles were allocated to PRASAR/MOH promoters for use in the field. There was no accountability for their use.

In-Country Travel - Supervision was lacking over in-country travel and for scheduling and justifying the in-country travel of the PRASAR/MOH promoters. In two of the regional offices we verified that promoters prepared their monthly schedule on villages to be visited; promoters documented on a weekly basis the villages visited; and, promoters prepared their monthly accomplishments reports for PRASAR/MOH headquarters. In some cases signature blocks for supervisory review and approval were noted on the various forms and reports prepared by the promoters. However, about 90 percent of the forms and reports that we reviewed did not contain supervisory certification evidencing review and approval. As a result, it was questionable whether or not all in-country travel was limited to project business.

The absence of these controls relates to deficiencies cited in other areas; for example, with inaccurate information feedback which distorted program accomplishment reporting. These needed administrative controls were either not established or not implemented by the responsible project executing units. Part of the USAID/Honduras monitoring effort needs to be directed toward the establishment and implementation of basic administrative controls over project vehicle use and over in-country travel.

Management Comments

USAID/Honduras had initiated actions to resolve the finding and recommendations, and was awaiting the receipt of documented procedures from the project executing units for Mission review and approval.

Office of Inspector General Comments

We have retained Recommendation No. 8 until management actions have been completed.

B. Compliance and Internal Controls

Compliance

There were five compliance exceptions:

- USAID/Honduras did not compare accomplishments to formally established targets for the project (Finding 1).
- The GOH did not comply with standards established in the project agreement requiring the timely disbursement of counterpart funds (Finding 2).
- About \$29,000 in project commodities were not used in accordance with the project agreement and lay abandoned (Finding 3).
- \$9,826 in project commodities were loaned in violation of the project agreement (Finding 3).
- Unauthorized collections were made for the provision of pour-flush latrines (Finding 6).

Other than the conditions cited, tested items were in compliance with applicable laws and regulations, and nothing came to our attention that caused us to believe that untested items were not in compliance.

Internal Controls

The audit disclosed six internal control exceptions:

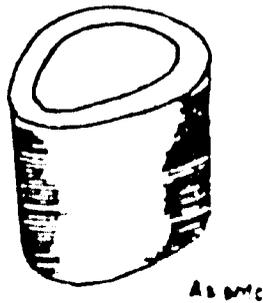
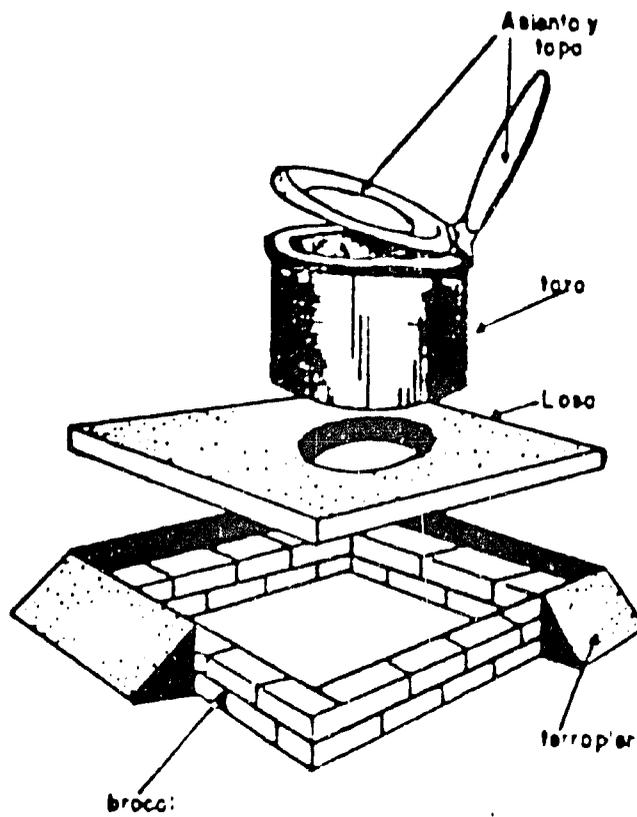
- GOH controls were weak over the accumulation of statistics used to support program accomplishments (Finding 1).
- \$1,207,315 in project funds were committed but unused. The idle funds should have been identified and reviewed for reprogramming or deobligation based on AID policy during quarterly Controller and project officer reviews (Finding 2).
- Existing controls did not prevent diversion of \$9,826 in project materials (Finding 3).
- Warehouse controls did not comply with minimum standards at two of three warehouses visited (Finding 3).
- PRASAR did not have implementation and fiscal controls over project resources due to its organizational structure (Finding 4).
- Controls over project vehicle use and over in-country travel were not adequate (Finding 8).

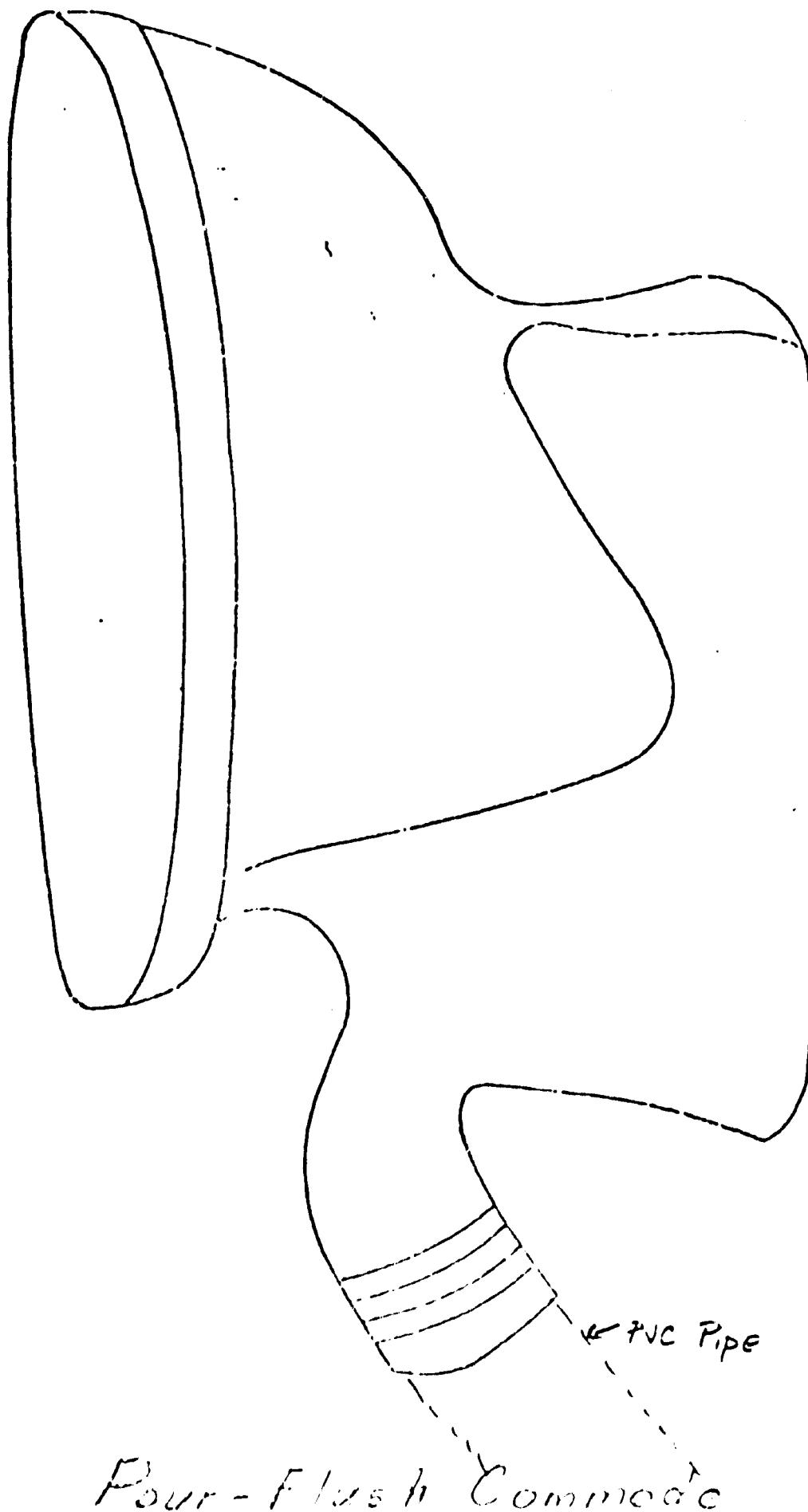
AUDIT
OF HONDURAS RURAL WATER
AND SANITATION SYSTEMS
PROJECT NO. 522-0166

PART III - EXHIBITS AND APPENDICES

ELEMENTS OF A PIT LATRINE

ELEMENTOS DE UNA LETRINA





AUDIT
OF HONDURAS RURAL WATER
AND SANITATION SYSTEMS
PROJECT NO. 522-0166

Target Groups Not Yet Reached by the Project

There were 10 villages located to the far west of the Copan Ruins near the Guatemala border where the project had not been promoted. These villages needed to be visited by PRASAR representatives in order to ensure that all members of the targeted group have an opportunity to receive project benefits. The villages were:

CORRALITO	OSTUMAN
SALITRON	CHONCO
CORDOVEILLO	SAN ANTONIO TEPEXCOS
EL SALTO	NISPERO
HACIENDA GRANDE	RINCON DEL BUEY

A PRASAR/MOH promoter advised us that these were small villages with 15 to 20 families. Using 15 families and six individuals per family, probably 900 potential project beneficiaries reside in these villages.

HONDURAS RURAL WATER AND SANITATION SYSTEMS
PROJECT NO. 522-0166
PROGRAM FUNDS AVAILABLE FOR REPROGRAMMING
OR DEOBLIGATION

CONTROL ITEM CONTROL	EARNARI DESCRIPTION	ORIGINAL EARMARKED AMOUNT	AMOUNTS		TOTAL
			NOT NEEDED	NEVER COMMITTED	
E-200083	LOCAL SHELF PROCUREMENT	\$22,520	\$11,060		\$11,060
E-401012	CONST. HARDWARE MAGDOO	227,879	220,848		220,848
E400-050	IMPROVEMENT OF EXIST ACCUD.	370,049		370,049	370,049
E-300525	CONST. MATERIAL	50,000		50,000	50,000
E-300449	BAGS OF CEMENT	158,400	180		180
E-300511	PURCHASE OF TREPDS	22,300	22,300		22,300
E-301000	THREE VEHICLES	48,000		48,000	48,000
E-301300	VEHICLES	50,000		50,000	50,000
E-301301	MOLDS	15,000	2,400		2,400
E-500275	IND. SUPPLY COMP.	127,205	23,727		23,727
E-301264	13 WATER SEAL LATRINES	90,000	8,620		8,620
E-400325	CONST. MATERIAL	547,566		23,298	23,298
E-401404	MICRO COMPUTER	15,000		321	321
E-300959	VITA CONTRACT	30,000	4,767		4,767
E-301606	E MADRID CONTRACT	73,000	10,140		10,140
E-200068	MATERIAL & EQUIPMENT	10,295	402		402
E-201127	VIDEO SHORT STORIES	33,250	1,267		1,267
E-20070	PAMPHLETS FLIP CHARTS	32,300	678		678
E-400266	RADIO PROGRAM STA. ROSA	7,000	396		396
E-300512	300 TAPES FOR BROADCAST	1,000	491		491
E-400286	M. CUBAS ON JOB TRAINING	6,150	505		505
E-200150	IN TRAINING SERVICE	10,630	7,001		7,001
E-200298	O. DIAZ TRAINING	2,300	1,627		1,627
E-200101	COURSE PURIFICATION	1,635	1,555		1,555
E-200102	SANAA'S TRIP	13,300	735		735
E-300212	JORGE TREVINO CONTRACT	46,979	2,650		2,650
E-300631	4 PROMOTER ING. COURSE	33,200	22,926		22,926
E-301206	SHORT COURSES COLOMBIA-ECUADOR	4,720	4,720		4,720
E-301251	SHORT COURSES AND OPER. VISIT	17,020	9,689		9,689
E-301251	2 ING. COURSE FOR SANAA	2,545	1,391		1,391
E-301306	KEROSENE FOR CANTERAS	8,000		8,000	8,000
E-301303	HEALTH PROMOTERS COURSE	30,000	959		959
E-301485	GIOVANI ESPINAL COURSE	12,409	1,637		1,637
E-301754	OSCAR CRUZ TRAVEL COST	695	422		422
E-400774	ING. AND PER DIEM 1984 BUDGET	40,000	31,206		31,206
E-400775	PRINTING AND PUBLICITY	93,000	45,620		45,620
E-401004	ING. EXP. 1984 BUDGET	62,680	20,219		20,219
E-401026	ING. EXP. 1984 BUDGET	197,945	197,509		197,509
TOTAL		\$2,513,960	\$657,647	\$544,668	\$1,207,315

AUDIT
OF HONDURAS RURAL WATER
AND SANITATION SYSTEMS
PROJECT NO. 522-0166

TEXT OF USAID/HONDURAS' RESPONSE TO FINDING NO. 5

"5. Cash Advances and Liquidation Vouchers not Reconciled

"The second sentence of the first paragraph on page 32* indicates that a basic requirement of good cash management is the monitoring of the cash management needs and use records of recipients. We believe our responsibility is more properly to monitor cash management practices of recipients to ensure that excess balances of cash are not held and to have the entity to regularly report on the use of funds. Your last sentence in the same paragraph that continuing discrepancies in cash advances and in expenditures contained in liquidation vouchers prevent effective cash management of project funds is a very sweeping and in this case, slightly off the mark statement. This sentence taken in the context of your previous statements of untimely advances to the GOH strikes us as an inappropriate criticism. We do not believe the case has been made that the USAID has not practiced effective cash management in this project. Effective cash management is an art not a science and we believe that the vulnerability assessments and internal control reviews that we perform on our implementing agencies coupled with the regular reporting we receive is sufficient. We are not staffed nor in the current budget crisis would we expect to get additional staffing to perform these periodic reconciliations with the 100 plus entities with which we deal. However, the cash advance account is reconciled with implementing entities when there is a known problem or when the Project is closing.

"Regarding the reconciling of cash advances between the Office of the Controller and Directorate of Public Credit, efforts were made by the Directorate of Public Credit to reconcile their outstanding balance to the Mission balance. At this time there appears to be a difference of about \$17,000 between the two balances. We are providing the Directorate of Public Credit additional documentation that should assist them to reconcile their records with the Office of the Controller.

"We believe that the report should note that two counterpart funds have recently been authorized and that we anticipate an improvement in the cash flow of counterpart funds to the project. Because of the revolving funds out of ESF local currency, the Mission is no longer planning to make cash advances to the Project."

* Page 20 of this report.

LIST OF RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	6
We recommend that USAID/Honduras review, revise and formalize with the Government of Honduras program targets under the Honduras Rural Water and Sanitation Project No. 522-0166.	
<u>Recommendation No. 2</u>	9
We recommend that USAID/Honduras:	
a) determine what can reasonably be accomplished during the remaining life of Project No. 522-0166, and make appropriate financial adjustments; and,	
b) review for reprogramming or deobligation \$1,207,315 in committed but unused project funds recorded on USAID/Honduras Controller's books.	
<u>Recommendation No. 3</u>	13
We recommend that USAID/Honduras take measures to:	
a) utilize or negotiate an equivalent exchange for materials and equipment valued at \$409,589 in local currency equivalents that lay idle or were unusable at the PRASAR/SANAA El Progreso regional warehouse;	
b) have PRASAR/OHE train PRASAR warehouse personnel in proper storage practices;	
c) recover \$9,826 in local currency equivalents in diverted project commodities;	
d) obtain the return of certain inventory cards and information on unit prices for project commodities confiscated by local auditors at the Santa Rosa regional warehouse;	
e) have PRASAR/MOH seal the Santa Barbara area warehouse until adequate security and internal controls are implemented; and	
f) have PRASAR/SANAA recover the estimated 1,000 pieces of PVC and metal piping that were abandoned in July 1985 in El Ocote, Honduras.	

3/2

Recommendation No. 4

Page
18

We recommend that USAID/Honduras obtain from the Government of Honduras either:

- a) the appointment of a PRASAR committee chairperson with authority and responsibilities over the activities of PRASAR/SANAA, PRASAR/MOH and PRASAR/OHE on Project No. 522-0166; or,
- b) joint agreement on formalization of a plan to improve the monitoring and coordination of the Honduras Rural Water and Sanitation Systems Project No. 522-0166.

Recommendation No. 5

20

We recommend that USAID/Honduras:

- a) reconcile its records with the GOH Ministry of Finance and Public Credit regarding the audited \$97,804 discrepancy in cash advances; and,
- b) notify the Government of Honduras as to the status of project expenditures documented on liquidation vouchers already submitted.

Recommendation No. 6

22

We recommend that USAID/Honduras:

- a) recover for the project an estimated \$75,675 in local currency equivalents representing the probable amount of fees collected by PRASAR/MOH for the installation of pour-flush latrines since May, 1984; and
- b) determine whether charging such fees acts as a deterrent to project progress and if the GOH should continue this practice.

Recommendation No. 7

24

We recommend that USAID/Honduras:

- a) have PRASAR/MOH, through selective site visits, identify and PRASAR/OHE educate targeted village groups on effective destruction of pit latrines after their useful life; and,
- b) have PRASAR/MOH and PRASAR/SANAA promote human waste disposal systems and water systems, respectively, at ten of the villages included in the target group but not yet served.

2/2

Page

Recommendation No. 8

26

We recommend that USAID/Honduras have:

- a) PRASAR/SANAA disseminate instructions to its field offices regarding documentation needed on the use of project vehicles;
- b) PRASAR/MOH develop and disseminate instructions on use of project vehicles; and
- c) PRASAR/MOH install basic controls over in-country travel.

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