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AUDIT OF
USAID/HONDURAS' MANAGEMENT SYSTEM
FOR FLAGGING TROUBLED PROJECTS

Audit Report No. 1-522-87-38
September 29, 1987

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September 29, 1987

MEMORANDUM

TO: D/USAID/Honduras, John A. Sanbrailo

FROM. RIG/A/T, Coinage N. Gothard, Jr.

SUBJECT: Audit of USAID/Honduras' Management System for Flagging Troubled Projects

This report presents the results of audit of USAID/Honduras' Management System for Flagging Troubled Projects. A program results audit was made to determine if the Mission detected and resolved critical project implementation problems effectively and in a timely manner; used objectively verifiable indicators to guage project progress and to flag troubled projects; used its deobligation/reobligation authority appropriately, and assessed and documented alternatives to extending project assistance completion dates.

The audit showed that USAID/Honduras had adequate systems in place to identify troubled projects and was making greater use of objectively verifiable indicators to measure project implementation progress. However, the audit showed that the Mission did not (1) always respond to critical project implementation problems in an effective or timely manner, (2) give early or adequate consideration to the use of AID's deobligation/reobligation authority, or (3) document alternatives to extending project assistance completion dates in action memos to the Mission Director. Specifically, the audit showed that USAID/Honduras was less effective in resolving critical project implementation problems in a timely manner because existing management systems did not adequately track, report or force resolution of critical implementation problems, and because heavy workload responsibilities limited the time staff could devote to addressing problems. In addition, the Mission was not adequately reporting on critical implementation problems in semiannual project status reports to the Latin America and Caribbean Bureau, nor was the Mission using this reporting system to identify projects with deobligation potential. The Mission had not used its deobligation/reobligation authority even though this management option appeared warranted in several cases. Instead, the audit showed that the Mission preferred extending projects in order to use remaining project funds. These decisions, however, were often made without adequately documenting the benefits of alternative strategies.

The report recommends ,,that the Mission establish a formal management system for reporting, tracking and timely settlement of problems; assess the effect of the Mission's large portfolio of activities on the staff's ability to effectively perform their assigned responsibilities; and issue guidelines for enhancing the usefulness of semiannual project status reports, including requiring that these reports identify deobligation potential. In additon, the report recommends that the Mission suspend a planned $1.8 million procurement under the Rural Water and Sanitation Project until a careful analysis of alternatives and the implementing agency's capability to use and maintain the equipment is made. Finally, the report recommends that the Mission establish guidelines requiring that action memos to the Mission Director concerning the use of remaining project funds fully disclose the advantages and disadvantages of all options and not just the extension of the project assistance completion date.

In its written response to the draft report, the Mission stated that the report did not present a balanced view of its project implementation performance since the audit report did not discuss the many cases in which the Mission rapidly identified and thoroughly analyzed implementation problems and effectively got troubled projects moving. The Mission strongly disagreed with the audit implications that the Mission's project portfolio has not been well managed. This, they said, was plainly not the case as recognized by numerous independent Mission assessments and evaluations. They believed they had in place sound project monitoring system and procedures that have produced good implementation. This was evidenced by high levels of project expenditures which often surpassed new obligations and by the very positive developmental impact that the USAID program is having in Honduras. The Mission added that, on numerous occasions, AID/Washington has recognized the Mission's good implementation performance and the excellent monitoring systems. Nevertheless, the Mission recognized that improvements can always be made even in the best of systems and took actions to comply with the report's recommendations. Based on the actions already taken by the Mission, three of the report's four recommendations have been closed. In addition, many of the Mission's suggested wording changes were incorporated into the final report. The Mission's written comments have been appended to the report as Appendix 1 without attachments.

We appreciate the cooperation and courtesy extended to our staff during the audit. Please advise us within 30 days of any additional information related to action planned or taken to implement the remaining recommendation.

EXECUTIVE SUMMARY

AID's development assistance program in Honduras has grown significantly in recent years as a result of increased United States Government interest in Central America. As a result of this increased attention, USAID/Honduras now has one of the largest AID programs in the world. As of December 31, 1986, the Mission had a project portfolio of 48 active projects representing total authorized funding of nearly $700 million, of which approximately $471 million had been disbursed. In addition to these traditional projects, the Mission had certain oversight responsibilities for hundreds of other project-related and support activities. To manage this large program, the Mission had 32 United States and 32 Honduran direct hire employees and approximately 120 personal services contractors and other staff.

As part of a worldwide audit, the Office of the Inspector General for Audit/Tegucigalpa, Honduras conducted a program results audit of USAID/Honduras' management systems for detecting and solving critical project implementation problems. Specifically, the audit objectives were to determine if the Mission detected and resolved critical project implementation problems effectively and in a timely manner; used objectively verifiable indicators to gauge project progress and to flag troubled projects; used its deobligation/reobligation authority appropriately; and assessed and documented alternatives to extending project assistance completion dates. USAID/Honduras had adequate systems in place to identify troubled projects and was making greater use of objectively verifiable indicators to measure project implementation progress. However, the audit showed that the Mission did not (1) always respond to critical project implementation problems in an effective or timely manner, (2) give early or adequate consideration to the use of AID's deobligation/reobligation authority, or (3) document alternatives to extending project assistance completion dates in action memos to the Mission Director.

The Mission had a wide-range of management systems in place to facilitate project implementation and to bring to senior management's attention issues related to the solution of identified problems. These systems and the Mission's collaborative style helped ensure the timely identification of critical project implementation problems. As a result of these practices, the Mission was already aware of most of the project implementation problems selected for analysis during the audit. In addition, the Mission has become more effective in gauging project accomplishments and in detecting faltering projects because of its use of objectively verifiable indicators in project papers and an emphasis on management by objectives.

This report contains four findings. The audit showed that USAID/Honduras was less effective in resolving critical project implementation problems in a timely manner because existing management systems did not adequately track, report or force resolution of critical implementation problems,

and because heavy workload responsibilities limited the time staff could devote to addressing problems. In addition, the Mission was not adequately reporting on critical implementation problems in semiannual project status reports to the Latin America and Caribbean Bureau nor was the Mission using this reporting system to identify projects with deobligation potential. The Mission had not used its deobligation/reobligation authority even though this management option appeared warranted in several cases. Instead, the audit showed that the Mission preferred extending projects in order to use remaining project funds. These decisions, however, were often made without adequately documenting the benefits of alternative strategies.

USAID/Honduras had not always resolved critical project implementation problems in a timely and effective manner. AID Handbook guidance requires that Missions monitor project implementation to ensure, among other things, that critical project implementation problems are identified, reported and resolved. These actions are necessary to ensure the effective and efficient use of project resources and the achievement of project and sector objectives. Two primary factors impeding effective and timely problem resolution were the absence of a formal tracking and reporting system to force critical problem resolution and a portfolio of many discrete activities causing overly heavy Mission staff workloads. As a result of lingering problems, certain project outputs and costs, as well as progress toward achieving the Mission's overall sector objectives, have been adversely affected. The report recommends that the Mission formalize its system for tracking, reporting and settling critical project problems and assess the effect of the Mission's large portfolio of activities on the staff's ability to effectively perform their assigned responsibilities. The Mission felt its existing management system was adequate, if not fully documented and suggested changing the recommendation to require review of the system and staffing. The Inspector General's Office maintained that a formalized system would ensure maximum benefits.

USAID/Honduras' semiannual project reports did not adequately portray the status of project implementation, were not useful as a mechanism for tracking or resolving critical problems, and did not include information on deobligation potential. AID Handbook and Bureau guidance provide the general framework for the preparation of periodic project implementation status reports. These sources require that project problems be reported. In addition, AID Handbook 3 requires that Missions identify and deobligate project funds that are not needed. Report information was not always meaningful or accurate because those individuals responsible for its preparation - project officers and coordinators - had not been provided adequate guidance or feedback. As a result, the reports' usefulness to management was diminished. This report recommends that the Mission issue guidelines for enhancing the semiannual project status reports' usefulness, including requiring that these reports identify deobligation potential. The Mission reiterated the usefulnes of the semiannual reports but also issued a memorandum on report content and a Mission Order requiring identification of deobligation potential. The recommendation is therefore closed.

USAID/Honduras had not used its deobligation/reobligation authority to reprogram unneeded funds from ongoing projects for higher priority purposes, even when this action appeared to be the most appropriate option. Instead of using the authority, the Mission generally extended the project assistance completion date in order to use excess funds within the project. AID policy requires that, upon determination that funds authorized and obligated for a project's life exceed the amount actually required, the excess amount be deobligated. However, because of certain legal constraints, limited incentives and lack of guidance on identifying and reporting deobligation potential, the Mission has not used its authority. These factors have resulted in projects frequently being extended for the purpose of using available project funds. The audit showed that $1.8 million should be considered for deobligation and reobligation to higher priority activities within Honduras and/or Latin America. The report recommends that the Mission issue a Mission order emphasizing the importance and appropriate use of the deobligation/reobligation authority and suspend a planned $1.8 million procurement and deobligate these funds unless the procurement decision can be adequately supported. While the Mission felt that deobligation was a last resort, it issued a Mission order to ensure full understanding of the deobligation process. In addition, the procurement has been deferred to a new project. The recommendation is therefore closed.

AID Handbook guidance requires that Mission management assess alternative strategies to extending project assistance completion dates. These alternative strategies could involve changes in planned activities, reprogramming of funds or other actions. Mission management had not developed and documented alternative actions to extending the project assistance completion date. A lack of Mission guidance and enforcement has allowed this situation to arise. Mission management extended project assistance completion dates without a full assessment of the projects' current status and/or advantages and disadvantages of alternative solutions. As a result, projects had been extended many years beyond their original completion date without assurances that these extensions were the most cost-effective solution. The report recommends that the Mission establish guidelines requiring that action memos to the Mission Director concerning the use of remaining project funds fully disclose the advantages and disadvantages of all options and not just the extension of the project assistance completion date. The Mission responded that alternatives were thoroughly considered in meetings although discussions had not been fully documented. It issued an information memorandum to ensure that future action memoranda contain essential information. The recommendation is closed.

Office of the Inspector General

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PART I - INTRODUCTION

A. Background

AID's development assistance program in Honduras has grown significantly in recent years as a result of increased United States Government interest in Central America. Significant increases in Mission funding began in 1982 when Honduras started receiving Economic Support Funds and have continued as a result of recommendations in the 1984 Report of the National Bipartisan Commission on Central America (the "Kissinger Commission").

As a result of this increased attention, USAID/Honduras now has one of the largest AID programs in the world. As of December 31, 1986, the Mission had a project portfolio of 48 active projects representing total authorized funding of nearly $700 million, of which approximately $471 million had been disbursed. (See Exhibit No. 1 for details of the Mission's project portfolio.) In addition to these traditional projects, the Mission had certain oversight responsibilities for hundreds of other project-related and support activities. These included AID housing guaranty projects in Honduras, AID project support activities financed with project development and support funds, and activities supported with local funds generated by Economic Support Funds (ESF) and Public-Law 480 (Food for Peace) assistance programs. To manage this large program, the Mission had 32 United States and 32 Honduran direct hire employees and approximately 120 personal services contractors and other staff.

B. Audit Objectives and Scope

As part of a worldwide audit, the Office of the Inspector General for Audit/Tegucigalpa, Honduras conducted a program results audit of USAID/Honduras' management systems for detecting and solving critical project implementation problems. Specifically, the audit objectives were to determine if the Mission:

- detected and resolved critical project implementation problems effectively and in a timely manner,
- used objectively verifiable indicators 1/ to gauge project progress and to flag troubled projects,
- used its deobligation/reobligation authority appropriately, and
- assessed and documented alternatives to extending project assistance completion dates.

1/ Project progress indicators are generally stated in the logical framework section of a project paper. Indicators or benchmarks are used to measure progress in achieving project goals, purposes, inputs, outputs, etc.

To accomplish these objectives, we reviewed 11 active projects, the earliest of which was authorized on March 30, 1980, to assess the Mission's systems for identifying and resolving critical implementation problems and to assess the accuracy and usefulness of project information presented to higher management. As of December 31, 1986, these 11 projects represented $149 million, or 61 percent of the Mission's total project portfolio obligations (excluding the Mission's 2 economic support fund transfer projects), of which $92 million had been disbursed. In addition, nearly $60 million in local currency support generated under AID's ESF and PL-480 programs were made available to these projects. (See Exhibit No. 2, for details on projects reviewed.)

For each of these projects we gathered and analyzed key project documents, reviewed and scheduled key data reported in quarterly and semiannual project status reports, and interviewed each project's responsible manager and other Mission and GOH officials involved with project implementation. Six of the 11 selected projects had been audited previously by the Regional Inspector General's Office. Those audit reports were used to identify project implementation problems and their supporting workpapers were examined and used to supplement current audit work.

Standard interview questionnaires were also used to solicit information from project officers and office heads on, among other things, the systems used to identify and solve project implementation problems, the use of deobligation/reobligation authority, the use of staff ratings to influence project management performance, and the usefulness of semiannual project status reports. In addition, four other recently approved projects were reviewed and the project officers interviewed for the purpose of assessing the use of objectively verifiable indicators. In total, 43 USAID/Honduras, GOH and private sector officials were contacted.

The review of internal controls and compliance was limited to the findings reported. The audit was performed in Tegucigalpa, Honduras during the period February 2, 1987 to June 12, 1987 and was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

USAID/Honduras had adequate systems in place to identify troubled projects and was making greater use of objectively verifiable indicators to measure project implementation progress. However, the audit showed that the Mission did not (1) always respond to critical project implementation problems in an effective or timely manner, (2) give early or adequate consideration to the use of AID's deobligation/reobligation authority, or (3) document alternatives to extending project assistance completion dates in action memos to the Mission Director.

The Mission had a wide-range of management systems in place to facilitate project implementation and to bring to senior management's attention issues related to the solution of identified problems. These systems and the Mission's collaborative style helped ensure the timely identification of critical project implementation problems. As a result of these practices, the Mission was already aware of most of the project implementation problems selected for analysis during the audit. In addition, the Mission has become more effective in gauging project accomplishments and in detecting faltering projects because of its use of objectively verifiable indicators in project papers and its emphasis on management by objectives.

This report contains four findings. The audit showed that USAID/Honduras could do more to resolve critical project implementation problems in a timely manner because existing management systems did not adequately track, report or force resolution of critical implementation problems, and because heavy workload responsibilities limited the time staff could devote to addressing problems. In addition, the Mission was not adequately reporting on critical implementation problems in semiannual project status reports to the Latin America and Caribbean Bureau, nor was the Mission using this reporting system to identify projects with deobligation potential. The Mission had not used its deobligation/reobligation authority even though this management option appeared warranted in several cases. Instead, the audit showed that the Mission preferred extending projects in order to use remaining project funds. These decisions, however, were often made without adequately documenting the benefits of alternative strategies.

The report recommends that the Mission establish a formal management system for reporting, tracking and timely settlement of problems; assess the effect of the Mission's large portfolio of activities on the staff's ability to effectively perform their assigned responsibilities; and issue guidelines for enhancing the usefulness of semiannual project status reports, including requiring that these reports identify deobligation potential. In addition, the report recommends that the Mission suspend a planned $1.8 million procurement under the Rural Water and Sanitation Project until a careful analysis of alternatives and the implementing agency's capability to use and maintain the equipment is made. Finally,

the report recommends that the Mission establish guidelines requiring that action memos to the Mission Director concerning the use of remaining project funds fully disclose the advantages and disadvantages of all options and not just the extension of the project assistance completion date.

A. Findings and Recommendations

1. USAID/Honduras Management Can Do Better In Solving Critical Implementation Problems

USAID/Honduras had not always resolved critical project implementation problems in a timely and effective manner. AID Handbook guidance requires that Missions monitor project implementation to ensure, among other things, that critical project implementation problems are identified, reported and resolved. These actions are necessary to ensure the effective and efficient use of project resources and the achievement of project and sector objectives. Two primary factors impeding effective and timely problem resolution were the absence of a formal tracking and reporting system to force critical problem resolution and a portfolio of many discrete activities causing overly heavy Mission staff workloads. As a result of lingering problems, certain project outputs and costs, as well as progress toward achieving the Mission's overall sector objectives, had been adversely affected.

Recommendation No. 1

We recommend that USAID/Honduras:

(a) formalize its management system for resolving critical implementation problems to include specific assignment of responsibility for tracking, reporting and timely settlement of problems and

(b) assess and report to AID/Washington the effect that the Mission's expanded activities have had on the Mission staff's ability to effectively perform their assigned responsibilities.

Discussion

AID projects are designed to address specific developmental needs as identified in the Mission's Country Development Strategy Statement and action plans. Both AID and the host government have invested substantial time and resources in project design, development and implementation. Over the years these projects have contributed significantly to improving the overall economic and social conditions of Honduras. Given their developmental importance and investment costs, however, it is critical that project implementation be closely monitored to ensure that project implementation problems be quickly identified and resolved to minimize their adverse effects.

The audit showed that critical project implementation problems were not always resolved in a timely and effective manner. Many of the problems reviewed had existed for several years before they were either

temporarily or permanently resolved. In some instances, the problem's root causes were never addressed. For example, the Mission spent four years longer than planned to procure a special computer to support Natural Resources Management and Land Titling project activities; over four years trying to resolve Government of Honduras (GOH) management weakness and AID and GOH procurement problems on the Rural Water and Sanitation project; over three years trying to resolve construction and maintenance deficiencies on the Rural Trails and Access Roads project; several years trying to resolve funding reimbursement problems under the Rural Primary Education and Small Farmer Titling projects; and over one year trying to resolve GOH counterpart and personnel contracting problems on the Rural Roads II project. (See Exhibit 3 for selected project implementation problem details.)

AID Handbook guidance places first level project monitoring responsibility on project officers. Among other things, project officers are responsible for identifying and responding to project implementation problems. Problems which the Project Officer cannot resolve in a timely or effective manner need to be reported to higher management levels for consideration and appropriate action in order to minimize their adverse effects. AID Handbook 3, Chapter 11 also points out that when project problems are identified, "it is . . . not enough to 'observe and record' such problems. Rather, efforts must be made to assist in the resolution of such problems whenever possible, i.e., to accept an additional measure of support or implementation responsibility."

The audit showed that there were two primary factors impeding the Mission's effective and timely problem resolution. These were the absence of a formal tracking and reporting system to force critical problem resolution and a portfolio of many discrete activities causing overly heavy Mission staff workloads.

<u>The Mission could be more effective in tracking, reporting and resolving critical project implementation problems</u> - Project implementation problems are seldom identical and are often very difficult to resolve. The audit showed that critical problems, for the most part, had been identified by the Mission through one of many monitoring mechanisms such as project site visits, counterpart meetings, evaluation reports, and other methods, and that actions had been taken to solve them. However, the audit also showed that once identified, it was difficult to determine exactly what actions were taken by the Mission in response to the problem. In most cases the selected critical problems lingered for several years. During this period it was obvious that corrective actions were initiated but it was not always clear what specific actions were taken or what their results had been. The lack of this information stems from the fact that the Mission did not have a formal critical problem management tracking and reporting system to focus attention on problems and to record the actions taken to correct them.

The Mission encouraged a collaborative approach to resolving problems. In most instances, the project officer would work with counterpart staff in defining the problem and potential corrective actions. Problems which were not resolved at this level were generally reported to higher management levels. The Mission has several formal mechanisms by which

problems are elevated to higher management. These included periodic technical office staff meetings, biweekly priority meetings, quarterly project implementation planning meetings, and the semiannual project review and reporting process. In addition to the formal mechanisms, the audit showed that Mission management encouraged an open-door policy, which resulted in problems being discussed among staff formally and informally at all levels. Project officers and technical office chiefs stated that they had no reservations about discussing implementation problems with the Mission Director or his deputy.

In this regard, it also should be noted that USAID/Honduras was assigned a new Mission Director in late 1986. Under his leadership, additional emphasis has been placed on project implementation and new management systems have been initiated to facilitate the implementation process. For example, Annual Project Implementation Plan (APIP) requirements were established. An APIP document is required for each Mission project. This document identifies the major project events scheduled for the upcoming year and assigns Mission responsibility for their accomplishments. It is a contractual system between the project's technical office and Mission support offices. Planning meetings are held quarterly among the involved staff to update the APIP and to discuss progress and possible problems. Another activity recently established by the Mission Director was periodic meetings with those government ministries involved with AID projects. The purpose of these meetings is to discuss project progress and problems in order to facilitate project implementation. In addition, some Mission officials stated that the Mission Director was more personally involved than his predecessor with project implementation. The Regional Housing and Urban Development Office (RHUDO) Director stated, for example, that the Mission Director had required special biweekly reports from her office on the status of problems experienced with one of the housing guaranty projects. The RHUDO Director said that this high level interest in the project encouraged all involved parties to work harder at resolving project problems and differences. These recent actions will undoubtedly contribute to the Mission's ability to better solve critical implementation problems. However, it is too early to assess the effect these independent activities will have on improving the Mission's overall record of solving critical problems.

The number of Mission management systems and forums available to report and discuss project implementation problems demonstrates the Mission's commitment to project implementation. However, the audit showed that, even with these various mechanisms, implementation problems lingered for many years. One reason for this was the absence of a formalized, systematic approach to managing critical implementation problems. There was no documentation trail linking critical problem identification with corrective actions. Therefore, one could not readily assess what actions were taken or what their results had been. In addition, one could not determine what options, if any, were considered and when they were considered. Management's ability to effectively manage critical problems was hindered by not tracking and recording actions taken and by not establishing deadlines for identifying and selecting corrective

management options. The Mission's existing systems were not specifically designed to track, report or force critical problem resolution, although they could certainly contribute to achieving these objectives.

The audit showed that, of the Mission's existing systems, the biweekly priority meetings might be the appropriate forum to monitor and to focus attention on critical problems because of the frequency of these meetings and because of top management's participation. The priority meeting's scope could be expanded from one of mainly monitoring compliance with project requirements to managing critical problems. Once a critical problem was identified, its resolution progress could be tracked and reported biweekly until it was either resolved or until alternative corrective actions were taken. Such a system would force resolution or require that alternative actions be taken in an established time frame.

Heavy Mission staff workload responsibilities limited staff's time to manage critical implementation problems. - The Mission's management responsibilities have increased substantially since 1980 as a result of increased United States Government interest in Central America. For example, the number of traditional projects (bilateral and other projects with project agreements) in the Mission's portfolio increased by 45 percent from 33 in 1980 to 48 in 1986. During the same period, annual project obligations increased 147 percent from $45 million to $111 million. In addition, the Mission's responsibility for other project-related and support activities have also increased dramatically during this period.

This increased activity has strained the Mission's ability to effectively manage and closely monitor projects. During this same period, there had been only minor increases in the number of United States and Honduran direct hire staff. In 1980 there were 62 direct hires (29 U.S. and 33 Honduran) and 4 Participating Agency Service Agreement (PASA) and Internal Development Intern (IDI) staff on-board, compared to 64 direct hires (32 U.S. and 32 Honduran) and 8 PASA and IDI staff on-board in 1986. Of the United States direct hires, only about 20 were directly involved in managing projects. What had changed dramatically was the number of temporary staff - personal services contractors (PSC)- which the Mission has had to rely on to implement its program. In 1980 the Mission reported 12 United States and Honduran PSCs compared to 111 in 1986. These additional resources had helped carry the Mission's workload; however, United States direct-hire staff was still responsible for their supervision, which required substantial time.

The audit did not attempt to assess the qualifications of PSC staff. However, some PSC staff were not as experienced or trained in AID project implementation procedures as were direct-hire staff. The significance of these limitations was not fully known; however, Mission officials agreed that heavy reliance on less trained and experienced staff could be a contributing factor in not resolving critical project implementation problems in an effective or timely manner.

The audit showed that the Mission's heavy workload had affected the Mission's ability to closely monitor projects. Project officers stated that their responsibilities had increased in recent years and that this increase had caused them to have less time for project monitoring and responding to implementation problems. The increased workload had also affected other related project monitoring activities. For example, the Mission planned fewer project-specific evaluations in lieu of broader scope evaluations and was not reviewing or reporting on all Mission projects during the semiannual project review process. AID's Latin America and Caribbean Bureau's 1985 decision to change project status reporting requirement from quarterly to semiannually had been requested and supported by USAID/Honduras because of the Mission's heavy workload.

USAID/Honduras and AID/Washington were both concerned that the Mission's increased level of activity was hindering its management abilities. As a result, the Mission initiated a project portfolio consolidation effort in 1985, designed to streamline and better focus the Mission's portfolio. The Mission stated it intended to reduce the size of the portfolio through consolidation and by allowing projects to expire without extending their project assistance completion dates. In addition, the Mission planned to limit the number of new project starts, establish a moratorium on operational program grants, and to exercise its deobligation/reobligation authority more often. These actions appear warranted given the magnitude of the Mission's activities and limited direct hire-staff. However, even these actions may not be sufficient, or in time, to ensure maximum benefits from existing and planned projects.

In summary, the audit found that effective resolution of critical project implementation problems was hindered by the lack of a formal tracking, reporting and resolution mechanism and adequate staff for the workload.

As a result of not solving project implementation problems in a timely and effective manner, project assistance completion dates had to be extended, outputs were less than planned, budgets had to be revised, and project and overall Mission sector objectives were not fully achieved.

Project delays, caused by lingering critical implementation problems, contributed to lengthening the time needed to complete planned project activities and to delays in project benefits reaching the projects' intended target groups. All but 4 of the 11 projects reviewed had an extended project assistance completion date. The four unextended projects were less than three years old, but all were behind in meeting their project objectives. The other 7 projects' completion dates were extended by a total of nearly 25 years. Of course, not all the additional time can be directly related to lingering implementation problems; other factors, such as expanded project activities also had an impact. Nevertheless, project officials agreed that lingering project implementation problems were definite causes for extending project assistance completion dates. Lingering implementation problems have adversely affected the amount and quality of project outputs. For example, about 500 fewer water wells were constructed under the Rural Water and Sanitation project, even though the project had been

extended over 4 years; 400 fewer classrooms were renovated and a less comprehensive maintenance system was developed under the Rural Primary Education project, even though the project had been extended nearly 2 years; about 260 fewer workers were certified under the Council for Human Resources Development project; substantially less credit was provided to exporters under the Export Development and Services project; 12 fewer warehouses were completed under the Health Sector I project, even though the project had been extended by nearly 4 years; and fewer land titles were registered under the Small Farmer Titling project.

In addition, the quality of work performed under Rural Trails and Access Roads, Natural Resources Management, and Small Farmer Titling projects was adversely affected by inadequate materials, equipment and other support as a result of long-unresolved implementation problems.

The lost purchasing power of project funds resulted in additional funds being immediately or subsequently committed to project activities. For example, $4.7 million was added to the Rural Primary Education Project to implement originally planned and certain minor added activities. Even with the additional funds, the project achieved less than originally planned. The failure to achieve planned results under some of the projects, because of lingering problems, resulted in AID adding resources to follow-on projects to compensate for earlier deficiencies. For example, additional resources were added to the Rural Roads II project to provide for maintenance on roads built under the previous Rural Trails and Access Roads project because the earlier project failed to provide these services as planned. Similarly, school maintenance activities were added to the recently approved Primary Education Efficiency Project to compensate for inadequate maintenance under the earlier Rural Primary Education project.

The impact of lingering project problems is clearly evident on implementation as manifested in longer-than-planned projects, reduced outputs and revised budgets. Not so obvious, however, is the impact on project and sector objectives. The bottom-line of lingering problems is that the intended project target groups are short-changed and limited progress is made toward reaching overall sector objectives. USAID/Honduras, the GOH and future Honduran generations cannot afford to have the value of scarce development assistance resources erode because of lingering project implementation problems. Given the developmental needs that exist in Honduras and scarce development assistance funds, the Mission needs to apply a more systematic approach to these critical problems if they expect to make significant improvements in the economic and social conditions of Honduras in the foreseeable future.

Mission Comments

Mission officials stated at the exit conference that primary responsibility for resolving project implementation problems rested with the GOH and its implementing agencies. They recognized the need to monitor problem resolution activities, but did not feel it was the

Mission's role or responsibility to force resolution. Furthermore, Mission officials stated that their existing systems were adequate to track, report and respond to critical implementation problems and that to formalize such a system would unnecessarily create an administrative burden for the Mission. In addition, Mission officials stated that the use of PSCs to supplement a core United States and Honduran direct hire staff was common at AID Missions and that the Mission's current staffing level was established by a LAC Bureau staffing study conducted on Central American Missions in the Spring of 1984. Mission officials stated that AID/Washington was fully aware of the size of the Mission's staff and project portfolio and therefore saw no need to assess and report the effect that the Mission's activities had had on the Mission staff's ability to effectively perform their assigned responsibilities.

In their formal response to the draft report, the Mission reiterated their disagreement with the report conclusion that there was a need for a formalized management system for resolving critical implementation problems. However, they acknowledge that actions taken to resolve critical problems had not been documented as well as they could have been. The Mission suggested several wording changes to the discussion and suggested that the recomendation be changed to require the Mission to review its staffing and current management system for reporting, tracking and resolving implementation problems to determine whether any changes or modifications may be needed.

Office of the Inspector General Comments

USAID/Honduras and the GOH both have a vested interest in indentifying and resolving implementation problems in a timely and effective manner. As stewards of United States' economic and developmental assistant funds it is incumbent upon the Mission to ensure that these limited funds are used effectively and efficiently. The GOH can also ill afford to have the power of loan and grant funds erode as a result of lingering problems. Both USAID/Honduras and the GOH are expected and required to manage their joint programs in such a manner as to maximize the benefits from their limited resources. Formalizing a system to track, report and settle critical project implementation problems would better ensure that maximum benefits are achieved from budgeted funds. In addition, the audit showed that it was difficult for the Mission to effectively manage its large portfolio of activities, and that a current staffing assessment was needed to determine what size program the present staff level could effectively manage. Many of the Mission's suggested wording changes were incorporated into the final report. A formal review by the Mission of its current management system for reporting, tracking and resolving implementation problems to determine whether any changes or modifications may be needed appears unwarranted as it would most likely only duplicate the audit effort. The audit showed that while the Mission had adequate mechanisms in place to detect problems, it had no effective system for keeping the problem in the forefront until it was resolved. Without a formal reporting and tracking system which identifies critical problems and requires frequent reporting on their resolution status, the probability is that they will continue longer than necessary and adversely impact on accomplishing project goals and objectives.

A formal critical problem tracking and reporting system will enhance the Mission's capability to resolve problems in a more efficient and timely manner. These benefits certainly outweigh any negative administrative factors associated with its implementation. The Mission's concern about the administrative burden is unfounded. The audit never suggested that every implementation problem would be subject to such a process, but only those considered by the Mission as serious enough that, if not resolved in a timely manner, they could adversely affect achieving planned objectives and goals within the authorized life of the project.

Part (a) of the recommendation was modified to provide the Mission more flexibility in establishing a system for resolving implementation problems.

2. Management Needs to Enhance the Usefulness of Project Status Reports

USAID/Honduras' semiannual project reports did not adequately portray the status of project implementation, were not useful as a mechanism for tracking or resolving critical problems, and did not include information on deobligation potential. AID Handbook and Bureau guidance provide the general framework for the preparation of periodic project implementation status reports. These sources require that project problems be reported. In addition, AID Handbook 3 requires that Missions identify and deobligate project funds that are not needed. Report information was not always meaningful or accurate because those individuals responsible for its preparation - project officers and coordinators - had not been provided adequate guidance or feedback. As a result, the reports' usefulness to management was diminished.

Recommendation No. 2

We recommend that USAID/Honduras issue a Mission Order or equivalent document covering the semiannual reporting process which includes guidelines for enhancing report usefulness. These guidelines should establish the criteria for report preparation and review to better guarantee full disclosure of critical project implementation problems, accuracy of data, and identification of deobligation potential.

Discussion

The semiannual project review report is considered the primary mechanism for reporting the status of project implementation to Mission and AID/Washington management. USAID/Honduras' management indicated that semiannual reports and meetings were an important management tool. It was considered valuable to project officers because it periodically forced them to carefully assess and report on the status of their projects. This reporting requirement was considered a good incentive for project officers to aggressively perform their project implementation duties to avoid the possible disapproval of Mission management during the review process. Mission management also considered the review process valuable as it provided them with the opportunity to review project status and to discuss progress and problems in more detail.

Not all of USAID/Honduras' projects are reported or reviewed during the semiannual review process. Because of resource and time constraints, the Mission generally limits the semiannual review process to major dollar-funded projects known to have implementation problems and/or to high visibility projects. For example, only 12 of the 26 project status reports included in the semiannual report ending September 30, 1986 were reviewed by the Mission Director. These 12 projects represented a total authorized amount of $146 million or 41 percent of the Mission's total authorized amount, excluding ESF cash transfers. The remaining 14 projects and summary of operational program grants submitted to AID/Washington were reviewed and their status classified by other management staff. However, in their written response to the audit report, the Mission stated that assessments made by management staff were always reviewed by the Mission Director. Of the 11 projects selected for

audit review, all were reported in the September 30, 1986 semiannual report, but only 6 had been reviewed with the Mission Director. However, a review of 90 of 138 project status reports submitted for these projects revealed that the reports, for the most part, did not adequately portray the status of project implementation and were not useful for tracking or resolving critical problems. Furthermore, these reports were not used to keep management abreast of deobligation potential or, until recently, GOH counterpart contributions.

Specifically, the audit found that critical project implementation problems were generally not discussed in enough detail to provide management with an adequate basis to make decisions. With some exceptions, the reports did not discuss the seriousness of the problems nor identify the potential impact of not resolving the problems in an effective and timely manner. There was no linkage or continuity among subsequent reports covering the same project which would enable readers to understand what actions had been taken, their results and what actions were planned. Notwithstanding, a few examples of good implementation problem discussions were also found. For example, problems experienced on the Small Farmer Titling Project were fully presented in the semiannual reports.

The lack of adequate information on project implementation problems resulted in 6 of the 11 projects being classified, at various reporting intervals, as projects without major implementation problems when in fact the projects were experiencing major problems. 1/ As result, less management attention was focused on these projects and on resolving their implementation problems. Examples of these situations follow.

- Since March 1985, the Rural Trails and Access Roads Project had been classified as an "A" project, even though a February 1985 Regional Inspector General Audit report disclosed serious implementation problems. The unavailability of uniform construction standards and the lack of maintenance contributed to the premature deterioration of the roads built under this project. Although, maintenance problems have persisted, they have never been fully discussed in the semiannual reports.

- Since September 1985, the Strategic Planning and Technical Support project had been classified as an "A" project and has not been reviewed by the Mission Director. By December 31, 1986, only 15 percent of the project's $4 million obligation had been committed. The project officer and office chief both stated that this project had serious implementation problems during the last two reporting periods and could not explain why it had been classified as an "A" project.

1/ Since March 1985, AID has used the following standard classifications to represent the Mission Director's assessment of the project's status. "A" - No major implementation problems, "B" - Corrected previous problems and back on track, and "C" - Major problems which require management attention.

The Rural Water and Sanitation Project was classified as an "A" project during the March and September 1985 reporting periods. Serious implementation problems were known to the Mission at that time; however, it wasn't until a March 1986 Regional Inspector General audit report disclosed these problems that the project was subsequently classified as a "C" project.

In addition to not providing adequate information on critical project implementation problems, the Mission had not taken full advantage of the reports to provide management with other important project implementation information. Specifically, the reports did not identify opportunities to reprogram or deobligate excess funds and, until recently, did not identify counterpart contribution compliance. Beginning with the semiannual report of March 1987, Latin America and Caribbean AID Missions were required by the Bureau to report actual counterpart contributions in the semiannual project status reports 1/. Before this time, USAID/Honduras had not been required to report in the semiannual reports actual counterpart contributions, although such information would have alerted Mission management to potential project problem areas. A review of the semiannual reports covering the period October 1986 through March 1987 showed that the Mission had complied with this new requirement.

The Mission had not been required, and therefore had not used, the semiannual reports to identify deobligation potential. Very little project financial data was provided which would enable Mission and AID/Washington management to identify potential funding excesses. The financial summary information provided is useful in assessing the overall project financial status, but is not sufficient to pinpoint those project components which have the potential for funding excesses or shortages.

It may be helpful to show, for example, actual versus planned expenditures to date by project component. This information would at least help management identify those specific project components which may have the potential for excess funds so that early consideration can be given to their use, including the possibility of deobligating/reobligating the excesses to higher priority activities.

Other report deficiencies were also noted. For example, errors in project amounts and dates were identified and a substantial amount of information was merely repeated from previous reports. (See Exhibit 4 for more details on semiannual report deficiencies.)

1/ This new reporting requirement was established as a result of counterpart contribution monitoring and control problems reported in Regional Inspector General Audit Report No. 1-500-87-07, dated November 26, 1986.

AID/Washington has occassionally commended USAID/Honduras on various aspects of its semiannual reports. However, reporting deficiencies were also noted. For example, its January 1986 approval of USAID/Honduras' September 1985 semiannual portfolio review stated that the Mission had not included any information on the status of the Export Development and Services Project's third component (Financial Services), even though $10 million in Development assistance funds and $24 million in local currency equivalent had been budgeted for this purpose. During a June 1985 review, AID/Washinton noted that the Mission had not clarified what actions, if any, it had taken to resolve procurement and construction problems on the Rural Primary Education Project, even though the Mission had been requested twice to submit additional details.

AID guidance (AID Handbook 3, Chapter 11, Section 11F) requires that project officers prepare and submit periodic project implementation status reports through Mission management to AID/Washington. Among other things, these reports are supposed to describe implementation problems impeding progress and actions planned and taken concerning the activity. AID/Washington has provided additional guidance for field offices on the preparation and submission of project status reports. According to Mission officials, the last such guidance was provided in August 1985. At that time, the reporting frequency requirement was changed from quarterly to semiannually, and a report outline identifying the major discussion headings was also provided. AID policy also requires that unrequired project obligations be identified and be deobligated.

The project status reports were not always useful or accurate because project officers had not been provided adequate guidance or feedback on the reports' purpose or preparation. Mission officials were not really aware for what purposes AID/Washington actually reviewed the reports. Furthermore, the semiannual review and reporting process had not been covered by a Mission order as had other management monitoring systems such as evaluations, site visit reports, and annual project implementation plans. The differences in presentation of project implementation problems appeared to be directly related to project officer preferences, while the exclusion of information on deobligation potential was because such information had not been required by either AID/Washington or the Mission.

As a result of inadequate preparation guidance, the usefulness of the reports was diminished. The depth of project implementation coverage in the status reports varied significantly and other useful information was not included. Therefore, the reports do not provide management with the information needed to fully understand the scope or ramifications of implementation problems nor the array of potential solutions. These reporting deficiencies contributed to implementation problems persisting longer than necessary, causing the inefficient use of limited project resources.

Management Comments

In its written response to the draft report, the Mission emphasized that the semiannual report was a useful management tool. The Mission suggested that the discussion in the audit report on semiannual reports be clarified in certain areas. In response to the draft report, the Mission Director issued an information memorandum to the staff which provides guidance on semiannual report content. In addition, the Mission issued a Mission Order on the deobligation/reobligation authority which requires that project officers identify deobligation potential in the semiannual review report.

Office of the Inspector General Comments

The text was clarified where appropriate based on the Mission's written comments. The Mission has provided adequate evidence that it has satisfactorily implemented the recommendation. Accordingly, the recommendation is closed with the issuance of the final report.

3. Management Should Identify and Deobligate/Reobligate Excess Project Funds Earlier

USAID/Honduras had not used its deobligation/reobligation authority to reprogram unneeded funds from ongoing projects for higher priority purposes, even when this action appeared to be the most appropriate option. Instead of using the authority, the Mission generally extended the project assistance completion date in order to use excess funds within the project. AID policy requires that, upon determination that funds authorized and obligated for a project's life exceed the amount actually required, the excess amount be deobligated. However, because of certain legal constraints, limited incentives and lack of guidance on identifying and reporting deobligation potential, the Mission had not used its authority. These factors resulted in projects frequently being extended for the purpose of using available project funds. The audit disclosed one instance in which $1.8 million should be considered for deobligation and reobligation to higher priority activities within Honduras and/or Latin America.

Recommendation No. 3

We recommend that USAID/Honduras:

(a) issue a Mission order emphasizing the importance of deobligation/reobligation authority, describing the factors and procedures that should be considered and followed in using it and requiring that deobligation potential be identified in the semiannual project status reports; and

(b) immediately suspend the planned procurement under the Rural Water and Sanitation Project, until it provides evidence that the procurement decision was based on a careful analysis of alternatives and that the implementing agency can effectively maintain and use the proposed equipment in the absence of AID financial assistance. Without such evidence, we recommend that the planned procurement funding of $1.8 million be deobligated with the other excess funds being considered for deobligation by the Mission under this project.

Discussion

USAID/Honduras had not used its deobligation/reobligation authority on ongoing projects even though this management option has been suggested to the Mission by AID/Washington and the Regional Inspector General's (RIG) Office on various occasions. For example, of the 11 projects reviewed, AID/Washington recommended that deobligation be considered on the Small Farmer Land Titling, Rural Water and Sanitation and Health Sector I projects. RIG had also suggested this action in prior reports on the Rural Water and Sanitation and the Export Development and Services projects. In January 1987, USAID/Honduras reported preliminary 1987 deobligation/reobligation information to AID/Washington. The Mission identified four projects with deobligation potential. Two of the projects had already ended and the other two were within one year of

their project assistance completion date. A total of $3.6 million was identified in these four projects, of which $3 million was identified in the Rural Water and Sanitation Project. Not included, however, was $1.8 million excess Rural Water and Sanitation project funds which the Mission earmarked for equipment procurement during the project's remaining year. The audit showed that this $1.8 million should also be deobligated.

This project was authorized in 1980 for the purpose of improving the health of rural Hondurans through the construction of water supply and waste disposal systems. AID obligated $20.2 million to support project implementation, of which $6.6 million in AID project funds was still uncommitted as of December 31, 1986.

A special evaluation of the Rural Water and Sanitation project was conducted by a USAID/Ecuador engineer. The February 1987 evaluation report recommended that existing project funds be used to purchase equipment which would assist PRASAR/SANAA (the Rural Water and Sanitation Project implementing unit of the Honduran Water and Sewer Authority) in completing current project activities and with implementing planned activities under the proposed Health Sector II project. The report did not discuss alternatives to this procurement, such as greater reliance on the private sector, nor PRASAR/SANAA's capabilities to maintain or effectively use the equipment. None of the equipment was planned under the original project design. The Mission was aware that Government of Honduras agencies, in general, have experienced vehicle maintenance problems and that this project's implementing agency was no exception. Without AID support, it is questionable whether or not PRASAR/SANAA would have been able to adequately maintain the equipment it already had. For this reason, the Rural Water and Sanitation Project provided maintenance support funds as well as funds for gasoline to operate existing equipment. The equipment recently approved for procurement will depend upon maintenance support under the proposed Health Sector II project, if and when it is implemented.

In addition, the estimated quantities of equipment to be acquired were partially based on staff who would not be funded until the Health Sector II project has been approved and its covenants and conditions precedent met. As of June 1987, a project identification document had been approved by AID/Washington, but no project paper had yet been developed. It is uncertain if the project would be approved and funds disbursed by the time the equipment arrived in-country. This could result in substantial amounts of equipment being underutilized and/or not adequately maintained.

Mission officials could not provide documented evidence that procurement alternatives were seriously considered and that PRASAR/SANAA's capability to maintain and use the equipment without AID support funds was assessed. They could not adequately justify why these critical studies were not performed, other than the fact that the Mission's enthusiasm to assist PRASAR/SANAA may have overshadowed prudent management practices. However, it also appeared that the procurement was partially motivated by the substantial amount of remaining project funds which would be forfeit if not used by the December 1987 project assistance completion date.

AID's policy has been to obligate funds for project requirements which could be implemented within reasonable time periods. This is consistent with AID's financial responsibility for the proper oversight and use of AID resources. The policy requires that, upon determination that funds authorized and obligated for a project's life exceed the amount actually required, the excess amount be deobligated by the Mission. Since fiscal year 1983, Congress has given AID the authority to deobligate unrequired project funds and to reobligate them to higher priority activities.

Furthermore, AID regulations hold Missions responsible for ensuring the effective use of project funds. These regulations and prudent management principles dictate that procurement actions be adequately supported and based on cost-effectiveness analyses of alternatives, and on the intended recipient's capabilities to maintain and use the equipment.

One reason the Mission had not used the deobligation/reobligation authority is because of its belief that development projects often encounter problems and that sufficient time must be allowed to correct these problems before implementing such actions. However, certain legal limitations on deobligation/reobligation authority have also discouraged its use. Most disturbing to the Mission is that (1) deobligated funds must be reobligated in the same appropriation account (2) deobligated funds may be lost to other countries, and (3) substantial time and effort are required to prepare documents justifying the deobligating decision.

In addition to these disincentives, there appeared to be very little pressure or competing demands on Mission funds. Mission officials stated that, because of the Central American initiative, Honduras has not had much difficulty in funding its planned activities. This enviable position has resulted in few, if any, fully developed activities not being funded. However, without unfunded demands, there is little incentive for the Mission to seriously consider deobligation as a management option. It should also be noted that USAID/Honduras had not terminated or suspended any of its projects during the last four years.

The Mission has done little to disseminate to its staff the benefits and usefulness of the deobligation authority or established clear guidance on its use, even though it is often touted as one of the Agency's most valuable management tools. The Mission had not issued a Mission order explaining the importance of this authority or the underlying factors and procedures that should be considered, nor required that deobligation potential be highlighted in the semiannual project status report.

As a result, project assistance completion dates are frequently extended or additional procurement is carried out for the purpose of using available project funds. In the case of the Rural Water and Sanitation Project, AID had no assurance that the equipment would be effectively used and maintained because no studies to support the equipment procurement were done. Therefore, the potential exists that $1.8 million worth of equipment could be underutilized and or poorly maintained, resulting in the very inefficient use of scarce development assistance funds.

Management Comments

Mission officials considered the deobligation/reobligation authority a tool of last resort. Officials stated that it was important to keep project momentum going and found that it was often better to extend project assistance completion dates than to take other actions. Mission officials acknowledge, however, that there may be some lack of understanding within the Mission's staff as to how the deobligation/reobligation process works. As a result, the Mission issued a Mission Order in accordance with the recommendation.

Furthermore, although the Mission believes that the basis for the original proposed procurement was sound, it has determined that there was not sufficient time to effect the procurement prior to the current project assistance completion date and concluded that the procurement could be deferred to the new Health Sector II Project. As a result, the Mission cancelled the proposed $1.8 million procurement and planned to seek AID/Washington's approval to extend the project completion date on the current project.

Office of the Inspector General Comments

The audit showed that USAID/Honduras had little incentive to deobligate excess project funds. The Mission's modus operandi has been to extend project assistance completion dates in order to use as much of project obligations as possible without seriously considering the benefits of other opportunities in Honduras and/or Latin America. However, in the light of today's federal budget constraints, the Mission has a responsibility to ensure that project obligations are required and are being used to fund the most cost effective solutions to developmental requirements. Without the assurances of adequate studies to support funding actions, the Mission has no evidence that in fact its proposed solutions are cost-effective. Earlier recognition and reporting of excess project funds in semiannual reports would help the Mission and AID/Washington better manage scarce development assistance funds. This observation was also recently made by AID/Washington. A January 1987 cable to Missions in Latin America stated that it is desirable and indicative of good management that deobligation/reobligation opportunities be identified through Mission reviews rather than by AID/Washington reviews of Mission portfolios.

Several wording changes were made in the discussion based on the Mission's written comments. The Mission has provided adequate evidence that it has satisfactorily implemented the recommendation. Accordingly, the recommendation is closed with the issuance of the final report.

4. Management Should Develop and Document Alternative Strategies to Extending Project Assistance Completion Dates

AID Handbook guidance requires that Mission management assess alternative strategies to extending project assistance completion dates. These alternative strategies could involve changes in planned activities, reprogramming of funds or other actions. Mission management had not developed and documented alternative actions to extending project assistance completion dates. A lack of Mission guidance and enforcement has allowed this situation to arise. Mission management extended project assistance completion dates without a full assessment of the projects' current status and/or advantages and disadvantages of alternative solutions. As a result, projects had been extended many years beyond their original completion date without assurances that these extensions were the most cost-effective solution.

Recommendation No. 4

We recommend that USAID/Honduras issue a Mission Order or equivalent document requiring that memoranda on project modifications to the Mission Director include essential project information such as funds remaining, rate of expenditures and a discussion of the advantages and disadvantages of alternatives to extending the completion date.

Discussion

AID Handbook 3, Chapter 13, describes the importance of the project assistance completion date (PACD). Extension of the PACD is considered a substantive project modification and therefore requires an assessment by Mission management of alternative solutions to ensure the most cost-effective action is selected. Handbook 3 also states that justifications for extensions should be made in each case to determine the cause for delays so that steps can be taken to make further extensions unnecessary.

The Mission Director did not always have sufficient information on alternative actions to PACD extensions nor documentation on reasons why prior actions were unsuccessful or what other actions were previously considered. The lack of this information resulted in 7 of the 11 projects reviewed being extended, of which 5 had each been prolonged by at least 46 months beyond the original targeted completion date.

The Mission Director granted 17 project assistance completion date extensions in 7 of the 11 projects reviewed. Ot the 17 extensions, 7 were supported by action memoranda to the Mission Director. Action memos supporting the remaining 10 extensions could not be located in the project files. The Mission later indicated that two were covered by ammendments or supplements and three took place before 1986. The seven available memoranda included, among other data, a discussion of the project's status, progress to date, and problems and delays in project implementation, and recommended that the Mission Director grant an extension of the PACD in order to complete project activities. However,

very little financial information showing amounts obligated, committed, expended or unearmarked was presented for consideration before a decision was made to extend the PACD. Extended projects are identified in Exhibit 2.

Additionally, the action memoranda did not include full discussions of project status or of alternatives to extending the PACD. A review of these memos showed that the information was presented in such a manner that the only option seemingly available was to extend the PACD. Consideration of other alternatives, such as reducing project activities and reprogramming funds were not discussed. There was only one action memo that discussed an alternative to extending the project; however, it was considered unacceptable by both AID and the Government of Honduras.

Some projects were extended three times or more (Health Sector I, Council for Human Resources Development and Rural Primary Education). These multiple extensions raise further questions about the adequacy of information provided to the Mission Director. There was no documentation available that showed where project management had considered any actions other than extending the project's life. Also, in some instances project officers had not provided any action memoranda to the Mission Director for consideration. In these cases, consideration was apparently based on undocumented informal discussions as to what actions or alternatives were most appropriate for the completion of project activities.

The amount of funds often involved with project extension decisions demonstrates the importance of documenting and fully considering project status information and alternative strategies. For example, about $2 million remained undisbursed in the Natural Resources Management project when its PACD was extended the second time from July 1987 to May 1989; $5.9 million remained undisbursed in the Rural Primary Education Project when its PACD was extended the third time from April 1986 to September 1986; and $6.8 million remained undisbursed in the Small Farmer Land Titling Project when its PACD was extended from August 1987 to August 1989.

The sporadic use and inadequate development of action memos occurred because the Mission had not emphasized their importance to Mission management and to the decision-making process. The Mission had not established a requirement that proposed project extensions be discussed in action memos to the Mission Director and that these memoranda also fully disclose the status of the project and the advantages and disadvantages of alternative strategies.

The lack of adequate guidance resulted in Mission management extending project completion dates without a systematic assessment of alternatives for completing project activities. Projects had been extended many years beyond their original completion date without adequate assurances that these extensions were the most cost-effective solution.

Management Comments

Mission officials stated that consideration of project options was an on-going process within the Mission. As long as there was communication

within the Mission on project status and options, they maintained, there was no need for formal documentation. Mission officials did not place emphasis on requiring that action memos to the Mission Director present alternative strategies to extending PACDs that had already been reviewed and rejected by Mission management and project officers. In effect, Mission officials believed that adequate systems were in place to ensure that management was in fact aware of all options. However, the Mission Director issued an information memorandum to the Mission staff which will better ensure that future action memoranda will contain a section summarizing the various alternatives considered and include essential project information concerning funds remaining and anticipated rate of expenditures.

Office of the Inspector General Comments

The audit showed that better documented information in action memos was necessary to ensure that the Mission Director make informed project and funding decisions and to establish a record for future use. These action memoranda should include, at a minimum, project financial information about funds available for the life of the project, expenditures and a development of alternatives to extending PACD's. The Mission has provided adequate evidence that it has satisfactorily implemented the recommendation. Accordingly, the recommendation is closed with the issuance of the final report.

B. Compliance and Internal Controls

1. Compliance

The audit disclosed three compliance exceptions. First, USAID/Honduras had not identified and deobligated excess project funds as required by AID Handbook 3 (Finding No. 3). Second, extensions of project assistance completion dates were made without adequate assessment of the current project status or alternative solutions as required by AID Handbook 3 (Finding No. 4). Third, USAID/Honduras had not obtained a waiver as required by AID Handbook 3 to exclude counterpart contributions on the FOPRIDEH project (see following section).

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

2. Internal Controls

The audit disclosed internal control weaknesses in the following areas.

USAID/Honduras had not established an adequate system to track, report and settle critical project implementation problems in a timely and effective manner (Finding No. 1).

In addition, the Mission had not established guidelines to enhance the usefulness of semiannual project status reports. As a result, these reports were not useful in alerting management to critical project implementation problems and other important issues (Finding No. 2).

With the above exceptions, no other control weaknesses came to our attention.

C. Other Pertinent Matters

Four other issues were identified during the audit. First, during the audit it was found that a technical assistance contractor had not fully provided the services that were agreed to under the Council for Human Resources Development project. The issue was brought to the attention of the Mission by the audit team during the audit. The Mission took immediate action to correct the deficiency by obtaining written assurances from the contractor to provide additional services. As a result of the Mission actions, this issue was not reported in the body of the report.

Second, it was noted during the audit that the Mission had failed to obtain a waiver in accordance with AID Handbook 3, Appendix 2G, which requires a counterpart contribution of 25 percent for Operational Program Grants (OPG), unless waived by the authorizing official. The $500,000 Federation of Private Development Organizations of Honduras (FOPRIDEH) OPG project had no counterpart contribution and project files contained no waivers. The Mission was advised of this deficiency during the audit. On June 25, 1987, the Mission Director signed a waiver which retroactively covered the project period.

Third, as regards identifying and solving critical project implementation problems, the audit showed that project officers, managers and coordinators, especially non-American direct hires, were not fully aware of the standards that their performance ratings were based on or how their performance was to be measured. As a result, the Mission's performance rating process was not being used as either an effective incentive or disincentive for those key staff responsible for day-to-day project management. This deficiency could be easily corrected by having the Mission identify those priority areas which performace ratings would be based on, and effectively communicating these areas to all staff.

Fourth, the audit disclosed that USAID/Honduras had not adequately defined the types of activities in its project financial reports. It was difficult to differentiate between discreet developmental projects and other activities. For example, the December 31, 1986 Quarterly Project Financial Report listed 70 line items or activities in the Mission's 8 program offices including the Regional Urban and Housing Development Office. One could not tell from this document which line item

constituted a discreet project (one with a project agreement) and which was merely a minor or support activity. Discussions with Mission officials also demonstrated a lack of consensus as to the number of activities in the Mission's portfolio. The confusion created by this uncertainty could adversely affect the Mission's monitoring, reporting and other responsibilities. The Mission should therefore, review and classify project activities in such a manner as to clearly portray the nature of these activities (e.g. projects with legal agreements, support activities, funding sources, etc.).

AUDIT OF
USAID/HONDURAS' MANAGEMENT SYSTEM
FOR FLAGGING TROUBLED PROJECTS

PART III - EXHIBITS AND APPENDICES

USAID/HONDURAS' PROJECT PORTFOLIO DATA
INCLUDING ECONOMIC SUPPORT FUNDS

Mission Classification As of September 30, 1986	As of December 31, 1986 ($000) No. of Projects	Amount Authorized	Amount Obligated	Accrued/Actual Disbursements	Pipeline	Committed	Uncommitted
"A" Projects 1/	34	$331,053	$254,697	$219,339	$ 35,358	$233,046	$ 21,651
"B" Projects 2/	9	255,930	242,580	208,659	33,921	214,625	27,955
"C" Projects	5	107,450	88,631	42,542	46,088	52,911	35,720
TOTAL	48 3/	$694,433	$585,908	$470,540	$115,367	$500,582	$ 85,326

Definition of Project Status Classification:

A - No major implementation problems.

B - Corrected previous problems and back on track.

C - Major problems which require management attention.

1/ Includes one ESF transfer fund project with an authorized amount of $131,000,000.

2/ Includes one ESF transfer fund project with an authorized amount of $208,748,000.

3/ This total was derived by consolidating activities funded from project development and support funds and excluding three Regional Housing and Urban Development Office guaranty projects in Honduras.

USAID/HONDURAS' PROJECT PORTFOLIO
EXCLUDING ECONOMIC SUPPORT TRANSFER FUNDS

Mission Classification As of September 30, 1986	No. of Projects	Amount Authorized	Amount Obligated	Accrued/Actual Disbursements	Pipeline	Committed	Uncommitted
	As of December 31, 1986 ($000)						
"A" Projects	33	$200,053	$123,697	$ 88,339	$ 35,358	$102,046	$ 21,651
"B" Projects	8	47,182	33,832	21,159	12,673	27,125	6,707
"C" Projects	5	107,450	88,631	42,542	46,088	52,911	35,720
TOTAL	46	$354,685	$246,160	$152,040	$ 94,119	$182,082	$ 64,078

EXHIBIT 1
Page 2 of 2

Summary of Projects Selected for Review - Flagging Troubled Projects Audit

	Mission Classification as of 9/30/86	Start/ PACD	No. of Times/ Total Months Extended	Life of Project Funding	Funds Obligated	Accrued and Actual Expend.	Pipeline	Uncommitted Funds
					As of December 31, 1986			
					$	$	$	$
OFFICE OF RURAL DEVELOPMENT								
1. Natural Resources Management (522-0168) G/L (MNR)	A	7/16/80 5/31/89	2/46	14,000,000	14,000,000	9,600,000	4,400,000	2,900,000
2. Small Farmer Land Titling (522-0177) G/L (INA)	C	8/30/82 8/29/89	1/24	12,500,000	12,500,000	5,700,000	6,800,000	4,200,000
OFFICE OF HUMAN RESOURCES DEVELOPMENT								
3. Rural Primary Education (522-0167) G/L (MOE)	A	7/08/80 12/31/86	4/20	19,700,000	19,700,000	19,000,000	700,000	446,270
4. Council Human Resources Development (522-0257) OPG (CADERH)	A	7/26/84 1/30/90	3/54	1,325,000	1,080,000	841,279	238,721	- 0 -
5. Health Sector I (522-0153) G/L (MOH)	C	7/31/80 6/30/88	3/48	30,750,000	27,900,000	19,900,000	8,000,000	5,400,000
OFFICE OF DEVELOPMENT ENGINEERING								
6. Rural Trails and Access Roads (522-0164) G/L	A	3/31/80 3/31/87	2/48	21,700,000	21,700,000	19,700,000	2,000,000	868,025
7. Rural Water and Sanitation (522-0166) G/L (SANAA/PRASAR/MOH)	C	3/31/80 12/31/87	2/51	20,700,000	20,200,000	13,000,000	7,200,000	6,600,000
8. Rural Roads II (522-0214) G/L (SECOPT)	C	7/03/85 7/01/89	- 0 -	20,000,000	9,915,000	360,953	9,554,047	9,400,000

EXHIBIT 2
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	Mission Classification as of 9/30/86	Start/ PACD	No. of Times/ Total Months Extended	Life of Project Funding	As of December 31, 1986: Funds Obligated	Accrued and Actual Expend.	Pipeline	Uncommitted Funds
					$	$	$	$
OFFICE OF PRIVATE SECTOR								
9. Export Development and Services (522-0217) (PIDE) (FEPROEXAAH) B/L	C	8/30/84 9/30/89	- 0 -	23,500,000	17,600,000	3,600,000	14,000,000	5,900,000
OFFICE OF DEVELOPMENT PROGRAMS								
10. Strategic Planning and Technical Support (522-0269) CONSUPLANE	A	8/23/85 7/31/88	- 0 -	4,000,000	4,000,000	338,560	3,661,440	1,800,000
OFFICE OF DEVELOPMENT FINANCE								
11. FOPRIDEH Institutional Strengthening (522-0266) (DPG)	B	3/29/85 3/28/88	- o -	500,000	500,000	105,019	394,981	- 0 -
TOTALS			17/291 months	168,675,000	149,095,000	92,145,810	56,949,189	41,514,295
			24.25 years		Percentage Obligated/ LOP Funding	Percentage Accrued & Actual/ Obligated	Percentage Pipeline/ Obligated	Percentage Uncommitted/ Obligated
					88%	62%	38%	28%

SELECTED PROJECT SUMMARIES

(1) RURAL WATER AND SANITATION PROJECT NO. 522-0166

This $28.4 million project was authorized on March 31, 1980 for the purpose of expanding access to, and use of, safe water and human waste disposal systems in Honduras. AID funding consisted of a $19.5 million loan and $1.2 million grant. The remaining project support funds ($7.7 million) were to be provided by the Government of Honduras (GOH). The project goal was to improve the quality of life, especially, the health status of the Honduran rural poor. The status of project activities as of September 30, 1986 was as follows:

Activity	Original Goals	Revised Goals	Actual Accomplishments
Rehabilitation			
Aqueducts	150	50	45
New construction			
Aqueducts	430	430	320
Windmills	50	7	7
Sewer systems	6	6	3
Wells	2,000	2,000	1,410
Pit latrines	22,000	38,000	27,925
Water seal latrines	80,000	48,000	33,850
Septic tanks	------	49	14

The original project assistance completion date of September 30, 1983 was extended twice, by a total of 4 years and 3 months, to December 31, 1987. As of December 31, 1986, $20.2 million of AID funds had been obligated. Accrued and actual expenditures amounted to nearly $13 million leaving a project pipeline of $7.2 million, of which $6.6 million was uncommitted. Reported GOH counterpart contributions were $6.6 million (not including GOH in-kind costs) for the same period.

As of September 30, 1986, the Mission classified this as a "C" project, one having major problems which required management attention.

Project Implementation Problems

Project implementation had been adversely affected by (1) cumbersome GOH clearance and approval procedures, (2) GOH counterpart management problems, (3) inadequate local personnel contracting procedures, (4) poor coordination between the Ministry of Health and SANAA, and (5) inadequate GOH procurement procedures. Specifically, cumbersome GOH clearance procedures resulted in delays in requests for reimbursement from USAID/Honduras. GOH counterpart management problems accounted for the lack of counterpart funds to pay for operational costs - fuel, vehicle maintenance, salaries, per diem - preventing project personnel from traveling to the field and implementing the project. This was exacerbated

by inadequate GOH local personnel contracting procedures. Project personnel exerienced delays of up to three months in the renewal of their contracts. Furthermore, project implementation was hampered by the lack of coordination between the Ministry of Health and SANAA. Work performed by both organizations was not complementary and activities were not coordinated to avoid duplication of effort. Finally, materials and supplies needed to implement the project were not obtained on time due to inadequate GOH procurement procedures.

The Mission was aware of these problems as early as 1983 through periodic meetings between PRASAR/SANAA, the Ministry of Health and AID representatives. These problems have persisted and were recently reported to the Mission in an April 1986 Regional Inspector General Audit Report (1-522-86-11). These problems still had not been fully resolved as of March 1987.

Mission Actions to Resolve Problems

The Mission was aware of these problems for at least four years, however had never adequately resolved them. The audit found evidence that the problems had been dealt with on a temporary or immediate basis but that the root causes were never adequately addressed. GOH counterpart problems were discussed at meetings with GOH officials and through letters but never fully resolved at this level. To deal with this problem, a local currency revolving fund was established; however, this measure did not solve the liquidity problem. Coordination problems were known to both GOH and AID, but were generally considered a project design problem. GOH procurement problems were resolved by transferring procurement responsibility to the Mission.

None of the problems were closely tracked or reported, therefore, one could not readily determine the extent or measure the intensiveness of actions taken to resolve them. There was no evidence that time frames had been established to bring the problems to a conclusion.

Semiannual Report Problem Presentation

The problems were not adequately discussed in the semiannual project reports. The March 1985 and March 1986 semiannual reports stated that the GOH administrative and financial procedures were complex and time consuming. This problem was mentioned, but no details were given on the seriousness of the problem or its potential impact on the project. No solutions were offered and there was no follow-up discussion in subsequent reports providing the reader with information on the problems current status.

The audit found no discussion of the counterpart management problems, although a problem with insufficient rotating funds was mentioned in the March 1985 and March 1986 reports. The last report indicated that this particular problem may be corrected by increasing the amount of ESF local currency generations, but in the following September 1986 report there was no mention of the problem or whether or not additional ESF support was provided.

The GOH personnel contracting problem was never mentioned in the semiannual reports. The coordination problem was discussed in three reports. Procurement problems were discussed in five reports between December 1983 and September 1986. However, one could not tell from reading these reports how serious the problems were and what corrective actions, if any, were being initiated to resolve GOH procurement procedure problems.

Other project information was also deficient. For example, actual counterpart contributions were not reported and errors were noted in project financial figures.

In summary, the critical problems affecting this project were never adequately addressed in the semiannual reports. When discussed, the information was generally not useful as it did not indicate the problem's importance, how long it had existed, or what corrective actions had been tried or were planned. There was no continuity or linkage between reports to put the problems in proper perspective.

Problem Impact

These project problems contributed to project delays resulting in (1) extending the project over 4 years to December 31, 1987, (2) decreasing the project outputs, thereby reducing project benefits, and (3) resulting in over $4.8 million in excess funds.

After more than 6 years of project implementation, only 71 percent of the Project's revised targets had been accomplished. With only 15 months remaining in the life of the project, it is uncertain if 100 percent of the revised targets will be accomplished.

Delays in requesting reimbursements from USAID/Honduras resulted in implementation delays due to lack of funds to finance project activities.

Lack of, or delays in, GOH counterpart funding resulted in project promoters not traveling because of insufficient funds for fuel and per diem. Consequently, very little work was performed in the field.

The GOH personnel contracting problem caused annual delays of up to three months because project personnel contracts were not received. During this time, almost no work was accomplished due to the uncertainty of obtaining new contracts and because without valid contracts no funds could be assigned for either salaries or per diem.

Poor coordination between the Ministry of Health and SANAA resulted in the duplication of efforts in some villages and a lack of accomplishments in other areas, because each project sponsor generally worked independently.

Finally, because of inadequate GOH procurement procedures, the project experienced delays of up to one year in obtaining materials and supplies needed to implement the project.

See Appendix 1, page 9 for the Mission's response to this project summary.

(2) RURAL TRAILS AND ACCESS ROADS PROJECT NO. 522-0164

This $28.5 million project was authorized on March 31, 1980 for the purpose of expanding the network of all-weather rural trails and access roads to regions of high agricultural potential within Honduras. AID funding, as amended in 1983, consisted of a $21 million loan and $700,000 grant. The remaining project support funds ($6.8 million) were to be provided by the Government of Honduras. The project goals were to increase the incomes of, and delivery of social and technical services to, small farm families in rural areas. Planned project activities included the rehabilitation, construction and maintenance of 1,510 kilometers of rural trails and access roads; reconstruction of a bridge; and rehabilitation of 44 selected units of road maintenance equipment.

The original project assistance completion date of March 31, 1983 was extended twice, by a total of 4 years, to March 31, 1987. As of December 31, 1986, all AID funds had been obligated. Accrued and actual expenditures amounted to $19.7 million, leaving a project pipeline of nearly $2 million, of which $868,025 was uncommitted. The GOH reported $3.4 million in counterpart contributions (not including GOH in-kind cost) for the same period.

As of September 30, 1986 the Mission classified this as an "A" project, one with no major implementation problems.

Project Implementation Problems

Project implementation had been adversely affected by the absence of uniform road construction standards and inadequate maintenance. Specifically, there was no evidence that construction contractors followed uniform construction standards even though such standards were reportedly provided them as part of their contract, and the GOH gave rural road maintenance low priority and diverted assigned rural maintenance equipment to primary roads.

The Mission was aware of these problems as early as 1983 through field trip reports and a mid-term evaluation. These problems persisted and were reported to the Mission in a February 1985 Regional Inspector Audit report (1-522-85-7). These problems had not been fully rectified as of March 1987.

Mission Actions to Resolve Problems

The Mission had been aware of these problems since early 1983, however, it never fully resolved them. In August 1984, the project officer stated in a memo to the Director General of Roads that a manual or guide was needed to ensure adequate and consistent construction standards were followed. The February 1985 Regional Inspector General audit report also reiterated the need for such a manual. In August 1985, a construction

manual was prepared and was used to guide construction of the remaining 320 kilometers of project roads. In the meantime, USAID/Honduras initiated actions to hire additional personal service contract staff to assist in monitoring project activities including road construction, selection and maintenance. However, these individuals were not fully on-board until November 1985.

The Mission had notified the GOH of the road maintenance problems for which it was responsible, on several occassions. However, no immediate results were obtained. A maintenance manual was also prepared in 1985 under the project. However, the problem's root cause - limited GOH support of maintenance activities - was never effectively dealt with.

In summary, the Mission was slow in reacting to the problems and when action was taken it did not fully rectify the problems. Instead of directly resolving GOH maintenance problems, USAID/Honduras deferred resolution to a follow-on project. An $8.5 million maintenance component ($8.3 million GOH and $150,000 in AID funds) in the Rural Roads II project No. 522-0214 is to provide maintenance for the roads constructed and rehabilitated under the Rural Trails and Access Roads project. As discussed later, this solution has also not been effective because of GOH budgetary constraints.

Since the implementation problems were not closely tracked or reported, we could not readily determine the full extent of consideration given to them by the Mission. There was no evidence that the Mission had an effective system for managing critical problems.

Semiannual Report Problem Presentation

The problems were not included in the quarterly or semiannual reports. The only mention of either problem was in the March 1985 semiannual report where it was stated that "maintenance of project roads [was] delayed." The magnitude of the problem was never stated. Based on the semiannual reports, a cold reader would have no idea that these problems existed or what their impact was on attaining the project's objectives.

Other project information was general and not always useful. For example, recent reports did not report loan and grant funds separately as in the past. These funds were lumped together. In addition, reports did not provide actual counterpart contributions. This was particularly important on this project as road maintenance was to be provided as part of GOH counterpart contributions.

Problem Impact

According to project officials, the extended project resulted in constructing and rehabilitating most of the planned 1,510 kilometers of rural trails and access roads. However, the quality of construction was questionable as construction standards were apparently not followed by contractors and road maintenance had not been performed as originally planned. Nearly 1,200 kms of roads were built before uniform standards were developed. The unavailability of uniform construction standards and the lack of maintenance contributed to the premature deterioration of roads built under the project. Consequently, the communities to benefit from these roads were left as before, without all-weather roads that could help them get their products to market and receive social services. In addition, 60 percent of the planned maintenance activities under the follow-on Rural Roads II Project are directly related to maintaining the roads built under the Rural Trails and Access Roads project. These activities had to be added because the Mission was unable to get the GOH to provide the maintenance originally agreed upon.

See Appendix 1, page 13 for the Mission's response to this summary.

(3) NATURAL RESOUCES MANAGEMENT PROJECT NO. 522-0168

This $19.6 million project was authorized on July 16, 1980 for the purpose of strengthening the Government of Honduras' management over the country's natural resources, developing an action program for the Choluteca Watershed area and conserving soil and water through the introduction of modified agriculture and forestry practices. AID funding consisted of a $10.3 million loan and $3.7 million grant. The Government of Honduras was to contribute $5.6 million to the project. The project's goals were to improve employment and incomes of poor farm families through assisting them in making more productive use of their lands, and to improve the management and use of land, forests and other renewable natural resources.

The original project assistance completion date of July 30, 1985 was extended twice, by a total of three years and 10 months, to May 31, 1989. As of December 31, 1986, all AID funds had been obligated. Accrued and actual expenditures amounted to $9.6 million leaving a pipeline of $4.4 million, of which $2.9 million was uncommitted. The GOH had reported counterpart contributions of $3.8 million for the same period.

As of September 31, 1986, the Mission classified this as an "A" project, one with no major implementation problems.

Project Implementation Problems

Project implementation was affected by delays experienced in procuring a special computer to store, analyze and synthesize natural resources and land use data. Other problems, including equipment and vehicle procurement delays and GOH counterpart contribution difficulties had also affected project implementation. However, the computer procurement was of particular interest since it not only affected this project, but also the Small Farmer Titling Project No. 522-0173. The titling project required the computer to produce land delineation maps in order that land could be titled.

According to the original procurement plan, the computer was to be purchased by July 1981. However, due to project start-up delays the Mission did not actually approve the go-ahead to purchase the computer until April 1983. It was not until December 1985 that it was finally received. In March 1986, the computer's installation was completed.

Mission Actions to Resolve Problems

The Mission did not effectively deal with the computer problem. It should have been evident at the beginning that there could be major problems in procuring a specialized computer. However, it wasn't until March 1983 that actions were taken to determine the actual computer needs of the project.

A technical/sales representative was invited to assess the project's computer requirements. Recommendations proposed by the representative were rejected by the Mission as too sophisticated and costly. In late 1983, the Mission requested AID/Washington to provide procurement support. Additional delays were experienced because AID/Washington's computer specialists were unavailable. Eventually, the Mission was able to obtain the services of a specialist from the Interamerican Geodetic Survey to provide the necessary technical support and to identify the computer's specifications.

The Mission provided evidence that it had actively monitored computer procurement activities during the period April 1983 through December 1985. Nevertheless, the audit found no evidence that the Mission assigned specific responsibility for tracking and reporting the status of the project, especially when AID/Washington became involved with the procurement. Since AID/Washington participated heavily in this procurement, it appears that the Mission passed the problem on to AID/Washington. The October-December 1983 quarterly report stated that responsibility had been transferred to AID/Washington for procuring the computer equipment.

This problem was unique in that the solution depended on AID/Washinton's participation. Nevertheless, it is similar to those of other projects in the manner in which the Mission managed the problem. The problem was not effectively tracked or reported nor was there any evidence of pressure being exerted to resolve the problem or identify alternative solutions in a timely manner.

Semiannual Report Problem Presentation

The procurement problem was referred to in most of the early quarterly review reports under the section entitled "Key Indicators" which identified actions to be performed. Subsequently, the problem was referred to in the report's project summary section. However, the problem was never defined nor presented in terms of its seriousness or potential impact on the project. Furthermore, the report did not provide continuity as to how the problem was being handled or why procurement deadlines were extended. The report did not convey the significance of the problem and could even leave the reader with the impression that the problem was not serious.

Other project information was general and not always useful. For example, recent reports did not provide actual counterpart contributions. This information, when compared with planned contributions, is a useful indicator for identifying potential problems.

Problem Impact

The extended project was able to function, although not optimally, without the new computer because the National Cadaster Program had an existing older computer capable of providing limited project support. This existing equipment was considered obsolete and close to worthless by the Mission's contracted computer specialist. According to project officials, during this period project field work was performed without the best information and more funds than planned were used to maintain the older computer in order to keep it on line while awaiting the new project computer. In addition, implementation of the land titling project was delayed.

See Appendix 1, page 15 for the Mission's response to this summary.

(4) RURAL PRIMARY EDUCATION PROJECT NO. 522-0167

This $32 million project was authorized on July 8, 1980 for the purposes of expanding and improving the physical infrastructure of the rural primary educational system and improving the quality of primary education received in rural schools. AID funding consisted of a $16.9 million loan and a $2.8 million grant. The remaining project support funds ($12.3 million) were to be provided by the Government of Honduras ($8.9 million) and local communities ($3.4 million). The project's revised goals were to:

- build 2,100 new classrooms,

- renovate 600 existing classrooms (1000 were initially planned),

- build one teacher training center (this center was added at the same time 595 out of 600 teacher houses were deleted),

- develop a maintenance system and manual for 5 of the country's 18 departments (initially a nationwide maintenance system was planned),

- improve the nation's education supervision and in-service teacher training system, and

- institute a management information system.

The original project assistance completion date of April 30, 1985 was extended four times, by a total of one year and eight months, to December 31, 1986. At its termination all AID funds had been obligated. Accrued and actual expenditures amounted to $19 million leaving a pipeline of about $700,000, of which, $446,270 was uncommitted. GOH counterpart contributions totaling $8.7 million ($6.9 million in cash and $1.8 million in-kind) were reported during the same period.

As of September 30, 1986, the Mission classified this as an "A" project, one with no major implementation problems.

Project Implementation Problems

Project implementation was adversely affected by the Ministry of Education's (MOE) construction unit's inability to effectively work under AID's fixed amount reimbursement (FAR) accounting system and GOH equipment and material procurement problems. Other problems, including GOH organizational coordination and internal accounting and control systems also affected project implementation. However, the problems with the FAR system and GOH procurement were considered the most serious.

The Mission was aware of the MOE's difficulty in complying with the FAR system's requirements in late 1982, and was aware of the project's procurement problems as early as mid 1981. The MOE procured project equipment and materials through the GOH's General Procurement Agency. As a result of complex procurement guidelines and procedures procurement was extremely slow. Procurement problems with the government agency were last reported in March 1984. In mid 1984 AID assumed project procurement responsibility. Subsequently, in 1985 AID also experienced procurement problems with RONCO, their procurement service agent. The FAR system problems were corrected in early 1985 when the system was abandoned and school construction responsibility was shifted from the MOE's construction unit to private sector contractors.

The organizational coordination and internal accounting and control problems were first identified in a September 1983 Regional Inspector General audit report (1-522-83-16). The organizational coordination problems appeared to remain throughout the project's implementation. However, according to project officials the internal accounting problems had been corrected soon after being identified in the RIG audit report.

Mission Actions to Resolve Problems

With the exception of the internal accounting control problem, the Mission had not resolved the project problems in a timely manner. The FAR system problem persisted for about one year, the procurement problem with the government agency lingered for about three years, and there was no evidence that the organizational coordination problems were ever fully resolved, however according to Mission officials, improvements in this last area were observed during the final 18 months of the project.

The audit showed that the Mission had effective mechanisms to identify critical implementation problems, but, it did not have an effective system for resolving these problems. A review of project files showed that various actions were taken to resolve the selected implementation problems including frequent meetings between the project officer and MOE representatives and at least one meeting on these problems between the Mission Director and the Minister of Education. However, the audit showed that the problems were not systematically tracked or reported nor was there any evidence that problem resolution timeframes were established.

Semiannual Report Problem Presentation

The problems were not fully disclosed in the quarterly and subsequent semiannual project reports. The FAR system problem was only clearly identified once in the December 1982 report. The procurement problem received more attention and was mentioned in many of the reports. The reports, however, did not provide information on the seriousness of the problem or the potential impact on achieving project and sector objectives.

Other information was not always useful or correct. For example, the recent reports did not show GOH counterpart contributions. Also the audit noted errors in various amounts shown in the reports.

Problem Impact

The lingering implementation problems contributed to extending the project's assistance completion date by more than one and one-half years and increasing the project's costs. Initially, AID funding totaled $15 million. However, this amount was increased by a total of $4.7 million to $19.7 million in several increments. Some of these funds were used to implement a management information system which was added to the project in early 1984. However, additional funds were apparently needed to complete activities which were delayed due to implementation problems, even though project outputs were significantly reduced from those originally planned.

Also as mentioned earlier, responsibility for project construction was switched from the MOE, because of delays and difficulties with the FAR system, to private contractors. This switch reportedly resulted in higher unit costs because of built-in profit margins, but also resulted in expediting construction work. This switch also affected school maintenance. Originally, local communities were to work alongside the MOE in constructing the schools and were to continue providing school maintenance after construction was completed. However, according to the project officer, once private contractors started constructing the schools the local communities lost interest and/or no longer identified with the schools. As a result the local communities will not provide the planned maintenance when required. This was apparently the reason why counterpart contributions were $3.6 million less than planned. The failure to obtain maintenance services as planned caused AID to include maintenance coverage for units built under this project in a follow-on project - the Primary Education Efficiency project (522-0273).

See Appendix 1, page 17 for the Mission's response to this summary.

(5) Health Sector I Project No. 522-0153

This $48.7 million project was authorized on July 31, 1980 for the purpose of increasing the effectiveness, efficiency, and usage of the health care system services in Honduras. AID funding consisted of a $15.6 million loan and $15.1 million grant. The remaining project support funds ($17.9 million) were to be provided by the Government of Honduras.

The project's goal was to improve the health status of Hondurans measured in terms of increased life expectancy at birth, decrease in morbidity, especially of infants, and a decrease in mortality among children under age five. The project, as amended, has 19 components. The human resources and institutional development and improvement component was to assist the Ministry of Public Health and Social Assistance with planning, organizing and implementing its program of extending primary health care throughout the country, particularly in the rural and marginal urban areas.

The original project assistance completion date of July 31, 1984 was extended three times, by a total of nearly four years, to June 30, 1988.

As of December 31, 1986, $27.9 million in AID funds had been obligated ($15.6 million loan and $12.3 million grant). Accrued and actual expenditures amounted to $19.9 million leaving a pipeline of $8 million, of which $5.4 million was uncommitted. The GOH reported counterpart contributions of $13.8 million for the same period.

As of September 30, 1986, the Mission classified this as a "C" project, one having major problems which required management attention.

Project Implementation Problems

Project implementation had been adversely affected by (1) delays in building central and regional warehouses, (2) irregular operation of a revolving fund, and (3) procurement delays of medical and related commodities. Construction of the project's planned 14 warehouses were considered important to achieving the project's goals since adequate storage facilities were required before sufficient quantities of medicines and other supplies could be positioned in support of the project's components. The warehouses were planned to be constructed by mid-1983; however, as of April 1987 only two warehouses had been completed, both in the country's capital, Tegucigalpa. The status of the remaining 12 warehouses was as follows.

Four warehouses were under construction, but were experiencing legal problems; four were partially completed but may not be completed soon because the contractor has gone bankrupt; and contracts for the last four warehouses were just recently awarded.

The revolving fund was established for the purpose of financing in-country training of health personnel; however, its operation has been irregular and it has not been functional since December 1985. The problems with this fund were related to the GOH's requirement that it be closed-out each year. The time lost to closing down and reinstating the fund each year limited the funds' availability to finance training needs. Another related problem was that the fund's administrator was required by GOH regulations to be bonded. Bonding fees had to be paid by the administrator. Therefore, it has not been easy to find a willing administrator. AID therefore agreed to cover this bonding fee with project monies, but this attempt failed when the commercial bank demanded an additional 100 percent guaranty of the employee's property.

Delays in purchasing project financed commodities were due to a lengthy and cumbersome procurement process required by regulations established by the host country and AID/Washington.

Mission Actions to Resolve Problems

The Mission has been fully aware of these three problems. However, in our opinion, the Mission did not deal with the problems in a timely and effective manner. Besides reporting the problems in the periodic project status reports, these problems were also addressed in a February 1984 evaluation report. They were also mentioned in another evaluation report in August 1986. Subsequent documents referring to the revolving fund problems and delays in warehouse construction were also identified. These evaluations and documents suggested alternative solutions to the problems, however it seems that actions have not been effective since the problems remain unresolved. The audit found no evidence of what specific actions the project officer and the Mission took to try to solve these problems, other than what was reported in the quarterly and semiannual reports. The project officer stated he generally never put into writing the actions taken to try to solve the problems.

The Mission Director also sent several letters to GOH officials regarding the project's implementation problems, with increasingly stronger language when positive results were not obtained. These letters helped to move things within GOH offices.

The project officer considered that certain problems affecting this project beyond his or the Mission's control. He stated that high level discussions between AID and GOH officials were needed to resolve the problems affecting this project. According to the project officer, the problems and solutions could be identified at his level, but could not be implemented without the support of GOH officials.

Semiannual Report Problem Presentation

The problems were included in the quarterly and semiannual project status reports. However, the reports did not disclose the seriousness of the problems or their possible effects on project implementation. No alternative solutions were suggested or discussed. A comparison of planned versus actual outputs was presented in the reports beginning in 1985. However, the reports provided no continuity as to how the problems were being dealt by the Mission. Actual GOH counterpart data was also not provided.

However, we were told by Mission officials that the Mission Director monitored the project closely because of his personal interest in how the project was proceeding. The project's implementation problems were discussed in memorandums and notes to the Mission Director. These internal documents often disclosed the seriousness of the problems and their effect on the project's results.

Problem Impact

According to the project officer and semiannual reports, the warehouse construction's slow pace adversely affected project implementation since these warehouses were critical to achieving the goal of supplying adequate levels of medications to 70 percent of the health centers. Sufficient quantities of basic medications could not be provided to health centers because of the lack of adequate storage capacity. The project officer stated that the GOH response to a polio out-break in 1985 was probably impeded somewhat because rural areas lacked sufficient polio vaccines. Another major effect of project delays has been an increase in construction costs. We estimated that construction costs increased by nearly $400,000 between submissions of the first warehouse construction bids in October 1984 and the last bids submitted in February 1987. Additional project costs of $160,000 will be required to complete two of the four warehouses partially completed by the one contractor who declared bankruptcy. The project officer was optimistic that the warehouses would be completed by June 1988, but, considering the current status of their construction and remaining problems, this possibility appears doubtful.

The project officer considered that the revolving fund problems had not been critical for the in-country training program of health personnel, since the project's training target goals had been surpassed. However, he said, more training was required for health personnel. He also stated that the lengthy and cumbersome procurement process had contributed to project implementation delays.

See Appendix 1, page 20 for the Mission's response to this summary.

(6) SMALL FARMER LAND TITLING PROJECT NO. 522-0173

This $16.7 million project was authorized on August 30, 1982 for the purpose of establishing a system for titling rural lands in Honduras. AID funding consisted of a $10 million loan and $2.5 million grant. The remaining project support funds of $4.2 million were to be provided by the Government of Honduras (GOH) as counterpart contributions. The project's goals were to increase food production, employment, and incomes in rural Honduras by expanding the benefits of private property ownership to small farmers. The project initially estimated that the GOH's Agrarian Reform Institute would be able to issue up to 50 fee simple titles per day or about 70,000 during the life of the project. In March 1987, this amount was revised downward to 40,000.

The original project assistance completion date of August 29, 1987 was extended once, by 2 years, to August 29, 1989. As of December 31, 1986, all AID funds had been obligated. Accrued and actual expenditures amounted to $5.7 million, leaving a pipeline of $6.8 million, of which $4.2 million was uncommitted. The GOH reported to the project officer counterpart contributions of $1 million during the same period.

As of September 30, 1986, the Mission Classified this as a "C" project, one with major problems which required management attention.

Project Implementation Problems

Project implementation was adversely affected by the funding mechanism used to reimburse the Executive Cadastral Directorate (DEC) for land delineation and mapping work. The DEC was to be reimbursed through a fixed amount reimbursement (FAR) system.

Under the project, DEC was advanced funds to support delineation field teams which were responsible for delineating specific land parcels. The advanced funds were to be liquidated as field delineation work was completed and specific work units were certified by the National Agrarian Institute (INA). Upon certification by INA, AID would review the necessary documents and reimburse DEC for worked performed. This payment control system was established to better ensure that work was completed as agreed. However, the field delineation work required more time and resources than originally planned and resulted in DEC exhausting its advances before it could complete work for INA's certification. As a result, DEC had to rely on its own limited resources to support field teams. Even with these funds, field work had to be halted on several occasions.

The potential for large unliquidated advances was foreseen by the project coordinator within the first year of implementation because of the slower than planned rate of field work. However, the first documented evidence of problems was found in a March 1985 technical advisor's memorandum to DEC's Director stating that DEC vehicles could not be maintained due

to spare part shortages. Subsequently, the problem was reported by the project officer to the Mission in the semiannual review reports. In February 1987, a Regional Inspector General audit report (1-522-87-6) showed that project funding problems still remained. Delays in procuring a computer under the Natural Resources Management Project also affected this project, as the same computer was required to produce maps for land titling purposes. The computer procurement problem was discussed under the other project.

Mission Actions to Resolve Problems

In October 1985, a $1 million ESF local currency-generated rotating fund was established by Project Implementation Letter No. 22 to alleviate the project's funding requirements. This rotating fund was exhausted by August 1986 and an additional $1 million was required to increase the fund to $2 million to support project activities. This additional funding was agreed to by the GOH, but, they were not made available to the project until January 1987. In the meantime, the Mission advanced $250,000 to the project.

The effects of the project's financing problem were recognized by the Mission in 1985. The Mission responded to the problem by establishing another funding source to enable DEC to continue its field activities.

This solution was not fully effective as additional rotating funds were required to continue project activities. In the meantime, field work was again halted. Its unclear from the files what other options were considered in trying to resolve the problem. According to project officials, the Mission Controller's Office was opposed to increasing AID advances or abandoning the FAR system. It appears that the rotating fund was a compromise solution which was not fully effective.

Semiannual Report Problem Presentation

Once identified, the problem was presented in each subsequent semiannual report. The problem was fully discussed, including the effects the problem might have on achieving project objectives. The actions taken to solve the problem were also discussed. The semiannual reports, however, did not disclose the status of counterpart contributions.

Problem Impact

The project's funding problem adversely affected the project's performance. Field delineation work was halted four times during the period January 1985 through September 1986, resulting in 101 lost field work days. Work was halted because funds were unavailable to support field delineation teams and to keep field vehicles operational. During these periods staff were laid off. Some trained staff found other employement and never returned. According to the project officer the loss of trained staff was serious because it took about 6 weeks of

classroom instruction to train each field employee in delineation procedures. The funding problems also reportedly affected the quality of field delineation and mapping as adequate support was not always provided.

As of December 31, 1986, about 22,000 land titles had been issued and registered, which represented 31 percent of the originally planned 70,000 titles and 55 percent of the current revised target of 40,000 titles. The project officer stated that the reduced target was not a result of project delays, but rather was a more accurate estimate of the potential land titles in the seven departments where work was planned. Nevertheless, he stated that the project might not have sufficient funds to complete all revised work.

See Appendix 1, page 22 for the Mission's response to this summary.

(7) COUNCIL FOR HUMAN RESOURCES DEVELOPMENT PROJECT NO. 522-0257

This $1.9 million project was authorized on July 26, 1984 for the purpose of improving the quality and relevance of worker training in Honduras, and making it more responsive to private sector needs. AID funding consisted of a $1.3 million grant. The remaining project support funds ($636,850) were to be provided by the Council for Human Resources Development (commonly known by its Spanish acronym CADERH).

The original project assistance completion date of July 31, 1985 was extended three times, by a total of four and one-half years, to January 30, 1990. As of December 31, 1986, nearly $1.1 million had been obligated. Accrued and actual expenditures amounted to $841,279 leaving a project pipeline of $238,721, of which all was committed. As of October 31, 1986, CADERH reported $573,500 in counterpart contributions.

As of September 30, 1986, the Mission classified this as an "A" project, one having no major implementation problems.

Project Implementation Problems

Project implementation was affected by inadequate technical assistance provided by Central Texas College (CTC). Specifically, CTC was unable to provide the technical services that were agreed to under a $563,058 technical assistance contract with CADERH.

The Mission learned of the problem in December 1985 during a meeting between the Director of CADERH and the AID project liaison officer. The problem should have been raised earlier, but initial implementing agency administrative problems consumed most of the project officer and liaison officer's time. Once these problems were improved in late 1985, attention shifted to assessing project accomplishments.

Mission Actions to Resolve Problems

The Mission responded to the problem in a timely and effective manner. Immediately after learning of the problem the AID project liason officer notified CTC of the situation and the College sent an evaluation team to Honduras to assess the problem. The evaluation team concluded that the technical assistance team lacked the necessary expertise to effectively provide the services under the technical assistance contract. Two of the three technical assistance team members were replaced with more qualified staff.

Semiannual Report Problem Presentation

The technical assistance problem was reported in two semiannual reports. However, the discussion did not provide adequate information on the seriousness of the problem or its potential effects on the project's objectives. Also the technical service contractor was not identified.

This type of information could be useful if other projects had had or were also experiencing problems with the same contractor. This was exactly the case with another USAID/Honduras project which also had a technical service contract with the same contractor. According to Mission officials, this project had also experienced similar problems with the contractor.

The reports contained some minor errors in financial figures and dates. In addition, the reports did not show actual counterpart contribution disbursements.

Problem Impact

The technical assistance problem had an adverse effect on achieving the project goals. Two contract elements - wood working training curriculum and an instructor training program - were not developed by CTC but instead were developed by CADERH with existing and loaned personnel at an estimated cost of $25,000. According to project officials, these two elements were performed by CADERH because delays in their development would have affected the project's achievements. The quality of the completed elements, however, was less than planned. As a result of our audit, USAID/Honduras obtained written assurances from CTC for additional services under the existing contract without additional costs.

The technical assistance problems also resulted in fewer workers being certified. By May 1987, 300 workers were to be certified under the two year technical assistance contract. However, as of March 31, 1987 only 40, or 13 percent of the original program goal had been certified. CADERH staff estimated that it would not be until November 1987 that the 300 certified worker goal would be reached.

See Appendix 1, page 23 for the Mission's response to this summary.

(8) EXPORT DEVELOPMENT AND SERVICES PROJECT NO. 522-0207

This $31.6 million project was authorized on August 30, 1984 for the purpose of increasing non-traditional exports. AID funding consisted of a $16 million loan and $7.5 million grant. The remaining $8.1 million in project support funds were to be provided by the Government of Honduras ($2.5 million) and by the Honduran Private Sector ($5.6 million). In addition to these funds, the Government of Honduras was to establish a $24 million credit line with Economic Support Fund (ESF) local currency generations in order to provide loans to non-traditional exporters for working capital and investments. The project goal was to promote economic growth and employment through development of non-traditional exports.

The project assistance completion date was September 30, 1989. As of December 31, 1986, $17.6 million in AID funds had been obligated. Accrued and actual expenditures amounted to $3.6 million, leaving a project pipeline of $14 million, of which $9.9 million was uncommitted. GOH counterpart contributions had not been reported.

As of September 30, 1986, the Mission classified this as a "C" project, one having major problems which required management attention.

Project Implementation Problems

Project implementation had been adversely affected by inadequate coordination and communication among the key project participants - the Central Bank, Ministry of Finance, USAID/Honduras and local commercial banks. Specifically, commercial banks had made few loans to eligible exporters because of the banks' unfamiliarity with the project's credit line procedures, their perception of unacceptable lending risks, and their inability to participate in the project's generated foreign exchange earnings. In addition, the project's proposed one year import/export permit scheme was ineffective because USAID/Honduras, the Central Bank and the Ministry of Finance had different opinions on how it was to work.

The Mission had been aware of these problems since August 1985 through daily monitoring by a full-time private sector advisor to the project, who reported them to both the project officer and Mission Director. However, these problems persisted and were not seriously acted upon until they were highlighted in a March 1987 Regional Inspector General Audit Report (No. 1-522-87-17). As of May 1987, the problems had not been fully resolved, although a strategy had been developed to resolve them.

Mission Actions to Resolve Problems

The Mission had been aware of these problems for more than two years. According to USAID/Honduras officials, these implementation problems were discussed at meetings with the project's participants; however, the

operational problems persisted. The audit found that the problems had been identified in a timely manner but that the root causes were not adequately addressed. The March 1987 RIG audit report made several recommendations to get the project moving, including improvements in the credit line and import/export permit procedures. As of May 1987, the Mission was actively implementing the audit report's recommendations.

Semiannual Report Problem Presentation

The selected problems were mentioned in the semiannual report; however, the information was insufficient to determine the extent of the problems. There was no continuity in reporting on the problems. For example, the semiannual report of September 1985 stated that there were no major problems that existed at that moment. However, in the following report (March 1986) it was stated that significant problems existed, including the failure to establish local currency credit lines which had seriously inhibited project implementation for more than a year. These problems were reportedly solved; however, in the March-September 1986 semiannual report, it was stated that the credit line problems continued to impede project performance. Counterpart contribution data was never mentioned in the reports.

Problem Impact

The project implementation problems contributed to the project accomplishing less than planned during the nearly three years of operation. Only $4.4 million of the $34 million available for lending had been loaned to exporters under the project. This lending inactivity not only inhibited exporters/importers from expanding, but also adversely affected the two project implementing agencies - the Agricultural Exporters Federation and the Entrepreneurial Research and Development Foundation - who were to share in the interest generated by these loans. These two key agencies may not be able to independently support themselves without these funds.

In addition, no annual export/import permits had been issued, requiring eligible exporters/importers to endure continued delays in obtaining permits on a case by case basis, as they had in the past.

Notwithstanding, the project has made progress toward achieving its goals. As of March 31, 1987, the Mission reported that the project had resulted in an increase of $20.1 million in nontraditional exports, employment generation of 3,915 and increased investment of $30.7 million.

See Appendix 1, page 25 for the Mission's response to this summary.

(9) FOPRIDEH INSTITUTIONAL STRENGTHENING PROJECT NO. 522-0266

This $500,000 AID grant project was authorized on March 29, 1985 to create a mechanism to evaluate and fund individual Private Voluntary Organization (PVO) development programs in Honduras. It also was to provide institutional strengthening assistance to both the PVO community and its "umbrella" organization, the Federation of Private Development Organizations of Honduras (FOPRIDEH). In addition to the grant funds, the equivalent of $5 million in local currency was authorized from ESF local currency generations for sub-project financing and administrative support.

The grant project assistance completion date is March 28, 1988. The PACD for the ESF funds (project 522-ESF-0280) is March 28, 1990.

As of December 31, 1986, all grant funds and $900,000 in ESF local currency generations had been obligated. Expenditures under the $500,000 grant amounted to $105,019 leaving a pipeline of $394,981, of which all of the funds were committed.

As of September 30, 1986, the Mission classified this as a "B" project, one which had experienced problems but was back on track.

Project Implementation Problems

Project implementation had been adversely affected by inadequate accounting controls at FOPRIDEH. In addition, the project's long term continuance was in jeopardy because FOPRIDEH has been unable to obtain other sources of financial support.

Specifically, FOPRIDEH had not followed acceptable AID accounting procedures, which eventually caused AID to suspend ESF support funds to FOPRIDEH. Furthermore, FOPRIDEH had not obtained other sources of financing as envisioned under the project.

The Mission learned about the accounting problems through the project's long-term advisor during the project's initial year. As a result, a review of FOPRIDEH was conducted by the Financial Analysis and Review Section of the Mission Controller's Office. The November 18, 1986 report contained 27 recommendations to improve FOPRIDEH's accounting and administrative practices. The Mission has been aware of FOPRIDEH's need to obtain other sources of funds since the project's inception.

Mission Actions to Resolve Problems

The Mission took immediate action to ensure that FOPRIDEH corrected the deficiencies noted in the November 1986 FARS report. The Mission used its approval authority over the release of ESF generated local currency to the project as leverage to ensure that the accounting deficiencies

were corrected. ESF support funds were withheld until corrections had been made. As of April 1987, all but one of the 27 recommendations had been resolved and AID planned to release another $1 million to the project.

The issue of FOPRIDEH's self-sustainability has to be quickly addressed by FOPRIDEH and AID since both have vested interests in the project. Without arranging for additional financial support, FOPRIDEH will be unable to support its operations and provide lending and technical support services to other PVOs. If this were to happen, AID would have to resume dealing with PVOs on an individual basis, which would be an administrative burden. FOPRIDEH has requested the Inter-American Development Bank for a $5 million loan to lend to PVOs. It would use the income from reflows and interest to cover operational expenses. It has also hired a fund-raising expert who is trying to obtain grants and/or loans from European sources. In addition, AID is considering the possibility of giving FOPRIDEH an endowment. Under this arrangement, FOPRIDEH would invest the endowment funds in bonds, stock or interest bearing accounts and use the proceeds to pay its operational expenses. However, with less than one year remaining in the project, it is still uncertain how FOPRIDEH is going to support its operations after March 1988.

Semiannual Report Problem Presentation

The April-September 1986 semiannual report was the only report that discussed the FOPRIDEH project. The serious problems discussed above were not covered by this report. However, the "cumbersome FOPRIDEH/USAID project approval process" and the fact that required financial reports and project implementation plans were not being submitted by FOPRIDEH to AID were discussed.

Problem Impact

Due to the accounting problems, ESF local currency generation disbursements to FOPRIDEH were stopped. As a result, only $900,000 had been advanced to the institution as of April 1987. Of this amount, $378,120 had been granted to PVOs and the rest was being used to cover FOPRIDEH's administrative expenses. The original project plan called for $2.25 million to be distributed among PVO's during the first two years of the project. In other words, less than 17 percent of planned disbursements to PVOs have been made.

With one year before the project assistance completion date, it was still uncertain how FOPRIDEH was going to sustain itself. As a result the long-term impact of FOPRIDEH is also uncertain.

See Appendix 1, page 28 for the Mission's response to this summary.

(10) RURAL ROADS II PROJECT NO. 522-0214

This $34.9 million project was authorized on July 3, 1985 for the purpose of rehabilitating and maintaining rural access roads. This is a follow-on project to the Rural Trails and Access Roads Project which was discussed earlier. AID funding consisted of a $ 18.7 million loan and a $1.3 million grant. The remaining project support funds ($14.9 million) were to be provided by the Government of Honduras. The project goals were to increase the incomes of, and delivery of social and technical services to, rural families, especially small farmers. Planned project activities included rehabilitating and upgrading 1,000 kilometers of rural trails and roads and approximately 400 linear meters of related bridges and drainage works. In addition, the project was to provide maintenance for 1,500 kilometers of rural roads constructed under the previous Rural Trails and Access Roads project and for the 1,000 kilometers constructed under this project.

The project assistance completion date was July 1, 1989. As of December 31, 1986, $9.9 million in AID funds had been obligated. Accrued and actual expenditures amounted to $360,953, leaving a project pipeline of $9.6 million of which $9.4 million was uncommitted. The GOH reported $425,259 in counterpart contributions for the same period.

As of September 30, 1986 the Mission classified this as a "C" project, one with major problems which required management attention.

Project Implementation Problems

Project construction has been extremely slow as evidenced by the low amount of AID and counterpart funds used. This situation has been caused by GOH budgeting process problems which have prevented GOH project personnel from performing their duties in an efficient and effective manner. Specifically, the Ministry of Transportation and Public Works (SECOPT) was unable to schedule project activities until GOH budget funds had been identified and committed. As a result of budget uncertanties, SECOPT was unable to establish long-term (greater than one year) contracts with project staff. As a result, project contract staff found themselves in a state of uncertainty for one to three months at the beginning of the fiscal year. New contracts had to be signed and funds obtained for salaries, per diem and other support activities. This problem resulted in the low implementation progress at the beginning of each year since implementation begun.

In addition, the GOH had not budgeted any counterpart funds for maintenance of rural roads in 1987. This will undoubtedly have a detrimental effect on the condition and usability of these roads.

Mission Actions to Resolve Problems

The Mission was aware of these problems through daily communications with implementing agency staff. The Mission communicated its concerns to the Ministry on several occassions and $42,500 in project funds were budgeted to alleviate per diem payment problems. In addition, AID project staff were required to fill in for implementing unit personnel until new contracts were signed and funded. These temporary solutions helped keep the project from coming to a complete halt. However, they did not correct the problem's root causes. As a result, the project will experience additional delays which will cause the project to have less of an impact than originally planned.

To alleviate the road maintenance problem, in May 1987 USAID/Honduras assigned ESF Funds to cover maintenance activities through manual labor.

The audit showed that the corrective actions taken appeared isolated. There was no evidence that the problems were systematically tracked or reported for the purpose of expediting a solution. In addition, the audit found no evidence of alternative solutions - greater use of private sector contractors or changes in the GOH budgeting process - being actively sought or considered.

Semiannual Report Problem Presentation

Regarding the project implementation problems selected for review, the semiannual reports only mentioned the problem with contracting key personnel. However, neither the seriousness of the problem nor the extent of impact on achieving project goals were reported.

The other information in the semiannual reports appeared marginally useful and occassionally duplicative. No counterpart contribution information was provided.

Problem Impact

Project implementation has been seriously delayed because of GOH budgeting process problems. In 1986, almost 60 percent of the project's implementation time was lost due to delays in contracting personnel. Consequently, when road selection studies were completed and construction contracts were finally awarded prices were higher than anticipated in the project paper. The cost of the initial road construction contracts were at least 5 percent higher than planned ($17,500/km actual versus $12,500 - $16,600 planned). On this higher cost basis alone, the project would only be able to fund 900 kilometers versus the 1,000 kilometers originally planned. Additional implementation delays would further erode the value of project resources. In addition, because no GOH funds were budgeted for maintenance of rural roads, these roads will continue to deteriorate and the substantial investment in their construction will have been possibly wasted.

See Appendix 1, page 28 for the Mission's response to this summary.

(11) STRATEGIC PLANNING AND TECHNICAL SUPPORT PROJECT NO. 522-0269

The $5.5 million project agreement was signed on August 23, 1985 for the purposes of enhancing Honduran capabilities to identify priority development problems, designing approaches and strategies to address these problems in the context of the Jackson Plan objectives, and providing technical support services to priority development areas.

AID funding consisted of a $4 million grant. The remaining project support funds ($1.5 million) were to be provided by the Government of Honduras. The project goal was to promote the social and economic development of Honduras. The status of project activities as of September 30, 1986 was as follows:

ACTIVITY	PLANNED	ACCOMPLISHED
1. Strategic Planning, Policy Analysis, and Feasibility Studies Completed	10 sector policy assessments	none
	3 feasibility studies	none
2. Technical Assistance Support Contracted	300 person/months provided the GOH, the Honduran private sector and USAID/Honduras	40 person/months to USAID/Honduras

The project assistance completion date was July 31, 1988. As of December 31, 1986, $4 million in AID Grant funds had been obligated. Accrued and actual expenditures were $338,560 (for technical assistance to USAID/Honduras). The project had a pipeline of about $3.7 million, of which $1.8 million had not been distributed. No GOH counterpart contributions had been reported. The project's financial status as of December 31, 1986 was as follows:

Project Financial Status

Project Component	Obligations	Commitments	Accrued Expenditures	Unearmarked
Strategic Planning	$1,100,000	$ 0	$ 0	$1,100,000
Technical Support	1,100,000	596,204	338,560	262,277
To be distributed	1,800,000	--------	--------	1,800,000
Project Totals	$4,000,000	$596,204	$ 338,560	$3,162,277

As of September 30, 1986, the Mission classified this as an "A" project, one with no major implementation problems.

Project Implementation Problems

As of December 31, 1986, no funds had been committed or earmarked under the strategic planning component. The inactivity under this component was partially caused by a late start in initiating project activities because of personnel shortages and other workload demands in AID, and because the implementing agency, the Secretariat of Planning (SECPLAN) lacked adequate knowledge about the project. Initial project implementation was also interrupted for about five months because of the GOH 1985 presidential elections and subsequent government personnel changes.

The Mission was aware of the personnel shortage problem as early as September 1985, when it was reported in the semiannual project report. The implementing agency's lack of knowledge about the project was not directly reported. However, minutes of the project's Consultative Committee meetings indicated that the project objectives were not fully known. This problem persisted and, as of April 1987, had not been fully rectified.

Mission Actions to Resolve Problems

To alleviate the personnel shortage problems the Mission, in November 1985, used project funds to hire a Honduran personal service contractor to be the project liaison officer. However, this action was only partially successful as evidenced by the time it took to establish the Consultative Committee which was to be responsible for approving project activities. The Consultative Committee's first meeting was not held until April 23, 1986, and its by-laws were not approved until May 23, 1986, six months after the liaison officer was hired. There was no other evidence of actions taken by the Mission to alleviate this problem, aside from the fact that six additional personal services contractors were funded under the project. However, these additional employees, who were originally funded under program development and support and operation expense funds, were hired to provide support to the Mission in general areas, none specifically dealing with the project.

The Consultative Committee's lack of project knowledge was known by the Mission since October 1986, when the first study applications were received. Among the applications received was one prepared by the implementing agency, SECPLAN. This application did not meet project requirements and included a request for furniture, vehicles and training. Since USAID/Honduras was a member of the Consultative Committee, the Mission should have known that SECPLAN had a misconception about the Project. To solve the problem, the Consultative Committee appointed a team to explain the project objectives/requirements to the Ministry of Natural Resources, which had presented 11 applications. However, this action did not adequately address the problem since the explanation was not provided to all other applicants. Additionally, the audit found no evidence of a system to track actions taken or their results.

Semiannual Report Problem Presentation

The problem of personnel shortages was reported in the first semiannual report. However, neither the seriousness nor the impact was stated in the report. In addition, there was no follow-up discussion of the outcome of this problem in subsequent reports.

The implementing unit's misconception of project objectives/goals and its impact were never brought up in semiannual reports. Lack of progress in the strategic planning component was attributed to the long application review process and not the misunderstanding by the Consultative Committee members.

The project had always been classified as an "A" project by the Mission, even though the project manager and sector chief were very concerned about the project's performance as late as September 1986. At that time,

no activities had been accomplished under the project with the exception of support being provided to the Mission. No commitments had been made under the strategic component, and only minimal commitments had been made under the technical support component. The information provided in the semiannual report ending September 30, 1986 was misleading as it portrayed the project as one without problems, when in fact the project was experiencing serious implementation problems.

Other information in the semiannual reports was general and not always useful. For example, the financial information was repetitive. The major outputs were misleading, because in stating the project accomplishments, the report presents 40 person/months of technical assistance provided. However, it does not state that of this technical assistance only 11 person/months were directly related to the project; the other 29 person/months were in support of the Mission's portfolio. The project paper envisioned technical assistance to be provided to the GOH, the private sector and to AID. However, contracting for technical assistance was done unilaterally by the Mission. No information was provided on actual counterpart contributions nor were actual versus planned expenditures to date shown by project component.

Problem Impact

The project experienced implementation delays and as of April 1987 had accomplished little under the strategic planning component. The only real activity under the project was the support provided to the Mission's portfolio. The appropriateness of funding personal services contractors to support the Mission's portfolio under the project has been referred to the Inspector General's legal office for an opinion.

As a result, the project has achieved very little in regards to enhancing Honduran capabilities to identify priority development problems and to design approaches and strategies to address them.

See Appendix 1, page 29 for the Mission's response to this summary.

PROJECT STATUS REPORT DATA

Analysis of the Mission's Quarterly/Semiannual Reports for the
Rural Water and Sanitation Project No. 500-0166

CATEGORIES	October-Dec 1983	Jan-March 1984	April-June 1984	July-Sept 1984	October 1984 March 1985	April-Sept 1985	October 1985 March 1986	April-Sept 1986
Selected Critical Problems:								
1. Cumbersome GOH clearance Procedures resulted in delays in request for reimbursement from USAID/H								
Date problem known to the Mission (1983)								
Was problem identified in Reports?	NO	NO	NO	NO	YES	NO	YES	NO
Was problem fully developed as to:								
a. Seriousness?	NO	NO	NO	NO	NO	NO	YES	NO
b. Impact?	NO	NO	NO	NO	NO	NO	NO	NO
c. Actions taken?	NO	NO	NO	NO	YES	NO	YES	NO
d. Results of Actions taken?	NO	NO	NO	NO	YES	YES	YES	NO
					GOH requested authorization to establish a simplified liquidation procedure for revolving fund.	Corrective action has been initiated by GOH to improve administrative and financial problems.	Corrective actions have been initiated by GOH to improve administrative and financial problems.	
2. GOH Counterpart Management problems accounted for lack of counterpart funds to pay for operational costs								
Date problem known to the Mission (1983)								
Was problem identified in Reports?	NO	NO	NO	NO	NO	NO	YES	NO
Was problem fully developed as to:								
a. Seriousness?	NO	NO	NO	NO	NO	NO	YES	NO
b. Impact?	NO	NO	NO	NO	NO	NO	NO	NO
c. Actions taken?	NO	NO	NO	NO	NO	NO	YES	NO
d. Results of Actions taken?	NO	NO	NO	NO	NO	NO	YES	NO
							An $800,000 ESF rotating fund was expected to be approved.	

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CATEGORIES	October-Dec 1983	Jan-March 1984	April-June 1984	July-Sept 1984	March 1985	April-Sept 1985	March 1986	April-Sept 1986
Selected Critical Problems:								
3. Due to inadequate GOH Local personnel contracting procedures, project personnel experienced delays of up to 5 months in the renewal of their contracts which contributed to slow project implementation								
Date problem known to the Mission (1983)								
Was problem identified in Reports?	NO	NO	NO	NO	NO	NO	NO	NO
Was problem fully developed as to:								
a. Seriousness?	NO	NO	NO	NO	NO	NO	NO	NO
b. Impact?	NO	NO	NO	NO	NO	NO	NO	NO
c. Actions taken?	NO	NO	NO	NO	NO	NO	NO	NO
d. Results of Actions taken?	NO	NO	NO	NO	NO	NO	NO	NO
4. Project implementation was hampered by the lack of coordination between GOH implementing Agencies								
Date problem known to the Mission (1983)								
Was problem identified in Reports?	NO	NO	YES	YES	YES	NO	NO	YES
Was problem fully developed as to:								
a. Seriousness?	NO	NO	NO	YES	YES	NO	NO	YES
b. Impact?	NO	NO	NO	NO	NO	NO	NO	NO
c. Actions taken?	NO	NO	NO	YES	YES	NO	NO	YES
d. Results of actions taken?	NO	NO	NO	NO	YES	NO	NO	YES
					an administrative technical evaluation of the project would be carried out			in response to RIG/A/ Audit, Project coordinating unit began to meet monthly to monitor project problems and progress

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CATEGORIES	October-Dec 1983	Jan-March 1984	April-June 1984	July-Sept 1984	October 1984 March 1985	April-Sept 1985	October 1985 March 1986	April-Sept 1986
Related Critical Problems:								
Materials and Supplies needed to implement the project were not obtained on time due to inadequate GOH procurement procedures								
Date problem known to the Mission (1983)								
Was problem identified in Reports?	YES	YES	NO	NO	NO	NO	NO	YES
Was problem fully developed as to:								
a. Seriousness?	YES	YES	NO	NO	NO	NO	NO	YES
b. Impact?	NO	NO	NO	NO	NO	NO	NO	YES
c. Actions taken?	YES	YES	NO	NO	NO	NO	NO	NO
d. Results of actions taken?	NO	YES	YES Material was received.	NO	NO	NO	NO	YES Procurement to be done by USAID/H instead of GOH.
Other Items:								
Inaccurate counterpart information presented	NO	NO	NO	NO	NO	NO	NO	NO
Are errors identified in the report data	Cumulative disbursements (Grant) were not accurate.	Cumulative disbursements (Grant) were not reliable.	Cumulative disbursements (Grant) were not accurate.	NO	NO	NO	NO	NO
Mission's classification of project (B, C or equivalent description)	NO	NO	NO	NO	A	A	C	C
Planned vs. Actual outputs shown	NO	YES	YES	YES	YES	YES	YES	YES
Auditor's comments:	Actions were taken to solve the immediate procurement problem. However, these actions did not deal with the cause of the problem.		Lack of project funds was attributed to delays in obligating grant funds and inoperative rotating fund. The root of the problem was not addressed.	No follow-up on problems presented in prior reports (counterpart funds).	To solve liquidity problems a larger rotating fund was established. However, this action alone did not solve the problems because there were other factors to be considered.	The report states that there were no problems or delays during reporting period.	It appears that project problems were flagged by the RIG/A/T audit. Classification was changed as a results of the audit.	Excesses in project funds were established at this time. However, this was not reported.

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Analysis of the Mission's Quarterly/Semiannual Reports for the
Rural Trails and Access Roads Project No. 522-0164

CATEGORIES	Apr-June 1983	Oct-Dec 1983	Jan-Mar 1984	Apr-June 1984	July-Sept 1984	Oct 1984 March 1985	Apr-Sept 1985	Oct 1985 March 1986	Apr-Sept 1986
Selected Critical Problems:									
1. Project implementation had been adversely affected by the absence of uniform construction standards.									
Date problem known to the Mission (early 1983).									
Was problem identified in reports?	NO	NO	NO	NO	NO	NO	NO	NO	NO
Was problem fully developed as to:									
a. Seriousness?	NO	NO	NO	NO	NO	NO	NO	NO	NO
b. Impact?	NO	NO	NO	NO	NO	NO	NO	NO	NO
c. Actions taken?	NO	NO	NO	NO	NO	NO	NO	NO	NO
d. Results of actions taken?	NO	NO	NO	NO	NO	NO	NO	NO	NO
2. The GOH gave rural road maintenance low priority and diverted assigned rural maintenance equipment to primary road. In addition, community organizations expected to provide road maintenance were never effectively established.									
Date problem known to the Mission (early 1983).									
Was problem identified in reports?	NO	NO	NO	NO	NO	NO	NO	NO	NO
Was problem fully developed as to:									
a. Seriousness?	NO	NO	NO	NO	NO	NO	NO	NO	NO
b. Impact?	NO	NO	NO	NO	NO	NO	NO	NO	NO
c. Actions taken?	NO	NO	NO	NO	NO	NO	NO	NO	NO
d. Results of actions taken?	NO	NO	NO	NO	NO	NO	NO	NO	NO

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CATEGORIES	Apr-June 1983	Oct-Dec 1983	Jan-Mar 1984	Apr-June 1984	July-Sept 1984	Oct 1984 March 1985	Apr-Sept 1985	Oct 1985 March 1986	Apr-Sept 1986
Other Items									
-- Was actual counterpart contribution presented?	NO	NO	NO	NO	NO	NO	NO	NO	NO
-- Other errors identified with reporting data.	NO	NO	NO	NO	NO	NO	NO	NO	NO
-- Mission's classification of project (A, B, C, or equivalent description).	NO	NO	NO	NO	NO	A	A	A	A
Planned vs. actual outputs shown.	YES	YES	YES	YES	YES	YES	YES	YES	YES
Auditor's comments:	Project amended. Scope of work and funding increased. No actions regarding maintenance were discussed.	No implementation problems reported for this period.	Mid-term evaluation completed. Contractor addressed selected critical problems. However, these problems were not discussed in semi-annual reports.	No implementation problems reported this period.		Critical problems reported by RIG/A/T audit. Actions taken to comply with recommendations.	Recommendations made in RIG/A/T audit report were incorporated in Rural Roads II Project.	Audit recommendations of Feb 85 incorporated in Rural Roads II Project.	Critical problems were not reported.

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Analysis of the Mission's Quarterly/Semiannual Reports for the
Natural Resources Management Project No. 522-0168

ATEGORIES	Jan-Mar 1982	Apr-Jun 1982	Jul-Sept 1982	Oct-Dec 1982	Jan-Mar 1983	Apr-Jun 1983	Jul-Sept 1983	Oct-Dec 1983	Jan-Mar 1984	Apr-Jun 1984	Jul-Sept 1984	Oct-1984 Mar-1985	Apr-Sept 1985	Oct-1985 Mar-1986	Apr-Sept 1986
lected Critical Problem															
Delays in Procuring a Special Computer Problem known to Mission 12/82)															
as the problem identified in reports?	N/A	N/A	N/A	YES	NO	NO	NO	YES	YES	YES	NO	YES	NO	NO	NO
Computer planned to be procured by 1/	9/82	6/83	6/83	6/83	9/83	9/83	3/84	6/84	6/84	12/84	12/84	--	--	--	--
as problem fully developed as to:															
a) seriousness?	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	YES	NO	NO	N/A
b) impact?	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	YES	NO	NO	N/A
c) actions taken?	N/A	N/A	N/A	NO	NO	NO	NO	YES	NO	NO	NO	YES	NO	NO	N/A
d) results of actions taken?	N/A	N/A	N/A	NO	NO	NO	NO	YES	NO	NO	NO	YES	NO	NO	N/A
ther Items															
s Actual Counterpart Contribution presented?	NO	NO	YES	NO	NO	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO
er errors identified in the reporting of data.	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
anned Vs. Actual Outputs Shown?	NO	NO	NO	NO	YES	YES	NO	NO	NO	NO	NO	YES	YES	YES	YES
sion's Classification of Project (A, B, C or valent description)	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	A	B	A	A

Reports began in the July-September 1980 quarter, however, the problem was not identified. The computer was originally planned to be procured in July 1981, but it was not procured until October 1985.

EXHIBIT 4
Page 6 of 21

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Analysis of the Mission's Quarterly/Semiannual Reports
for Rural Primary Education Project No. 522-0167

CATEGORIES	April-June 1981	July-Sept. 1981	Oct.-Dec. 1981	Jan.-March 1982	April-June 1982	July-Sept. 1982	Oct.-Dec. 1982	Jan.-March 1983	April-June 1983	July-Sept. 1983	Oct.-Dec. 1983	Jan.-March 1984	April-June 1984	July-Sept. 1984	Oct. 84-Mar. 85	April-Sept. 1985	Oct. 85-Mar. 86	April-Sept. 1986
Selected Critical Problems																		
1) Ministry of Education's (MOE) Inability to Effectively Work Under AID's Fixed Amount Reimbursement (FAR) Accounting System (Problem known to Mission in late 1982)																		
Was the problem identified in the reports?	N/A	N/A	N/A	N/A	N/A	N/A	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Was the problem fully developed as to:																		
a) seriousness?	N/A	N/A	N/A	N/A	N/A	N/A	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
b) impact?	N/A	N/A	N/A	N/A	N/A	N/A	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
c) actions taken?	N/A	N/A	N/A	N/A	N/A	N/A	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
d) results of actions taken?	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
2) Ineffective MOE Organizational Coordination (Problem known to Mission in June 1983)																		
Was the problem identified in the reports?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	YES	NO	NO	NO	NO	NO
Was the problem fully developed as to:																		
a) seriousness?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
b) impact?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
c) actions taken?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
d) results of actions taken?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO

CATEGORIES	April-June 1981	July-Sept. 1981	Oct.-Dec. 1981	Jan.-March 1982	April-June 1982	July-Sept. 1982	Oct.-Dec. 1982	Jan.-March 1983	April-June 1983	July-Sept. 1983	Oct.-Dec. 1983	Jan.-March 1984	April-June 1984	July-Sept. 1984	Oct. 84-Mar. 85	Apr.-Sept. 1985	Oct. 85-Mar. 86	April-Sept. 1986
3) Internal Accounting and Control Systems (Problem known to Mission in June 1983)																		
Was the problem identified in the reports?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Was the problem fully developed as to:																		
a) seriousness?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
b) impact?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
c) actions taken?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
d) results of actions taken?	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
4) Procurement (Problem known to Mission around mid-1981)																		
Was the problem identified in the reports?	N/A	YES	YES	NO	YES	YES	YES	NO	YES	NO	YES	NO	NO	NO	YES	NO	NO	NO
Was the problem fully developed as to:																		
a) seriousness?	N/A	YES	YES	NO	NO	NO	NO	NO	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO
b) impact?	N/A	YES	YES	NO	NO	NO	NO	NO	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO
c) actions taken?	N/A	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
d) results of actions taken?	N/A	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Other Items																		
Was actual counterpart contribution presented?	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO

Categories	April-June 1981	July-Sept. 1981	Oct. Dec. 1981	Jan.-March 1982	April-June 1982	July-Sept. 1982	Oct.-Dec. 1982	Jan.-March 1983	April-June 1983	July-Sept. 1983	Oct.-Dec. 1983	Jan.-March 1984	April-June 1984	July-Sept. 1984	Oct. 84-Mar. 85	April-Sept. 1985	Oct. 85-Mar. 86	April-Sept. 1986
Other errors identified in the reporting of data?	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	Planned counterpart contribution incorrect	Planned counterpart contribution incorrect	NO	NO	NO
Mission's classification of project (A, B, C or equivalent description)	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	B	A	C	A
Planned Vs. actual outputs shown?	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	YES	YES	YES	YES

Analysis of the Mission's Quarterly/Semiannual Reports for the
Health Sector I Project No. 522-[illegible]

CATEGORIES	October-December 1983	January-March 1984	April-June 1984	July-September 1984	Oct 1984-Mar 1985	April-September 1985	Oct 1985-Mar 1986	April-September 1986
Selected Critical Problems								
1) Construction Delays of Central and Regional Warehouses. (Problem known to Mission 6/84)								
Construction estimated to be completed by ...)	2/84	12/84	12/84	9/85				
Was the problem identified in reports?	N/A	YES	YES	YES	YES	YES	YES	YES
Was problem fully developed as to:								
a) seriousness?	N/A	NO	YES	NO	NO	NO	YES	YES
b) impact?	N/A	NO	NO	NO	NO	NO	YES	YES
c) actions taken?	N/A	NO	YES	NO	NO	NO	YES	YES
d) results of actions taken?	N/A	NO	YES	YES	YES	NO	YES	YES
2) Irregular Operation of a Revolving Fund. (Problem known to Mission 12/83)								
Was the problem identified in reports?	YES	YES	NO	YES	YES	NO	YES	YES
Was problem fully developed as to:								
a) seriousness?	YES	NO	NO	NO	NO	NO	YES	YES
b) impact?	YES	YES No expenditures because of lack of funds.	NO	NO	NO	NO	YES	YES

CATEGORIES	October-December 1983	January-March 1984	April-June 1984	July-September 1984	Oct 1984-Mar 1985	April-September 1985	Oct 1985-Mar 1986	April-September 1986
c) actions taken?	YES Regional Administrators were informed of need to speed payroll documents for the fund.	NO	NO	NO	NO	NO	YES	YES
d) results of actions taken?	NO	NO	NO	NO	NO	NO	NO	YES
3) Procurement Delays of Medical and Related Commodities. (Problem known to Mission 6/84)								
Was the problem identified in reports?	N/A	N/A	YES	YES	YES	YES	YES	YES
Was problem fully developed as to:								
a) seriousness?	N/A	NO	YES	YES	NO	NO	NO	YES
b) impact?	N/A	NO	YES	NO	NO	NO	YES	YES
c) actions taken? and	N/A	NO	YES Emergency purchase of polio vaccines.	NO	NO	NO	NO	YES
d) results of actions taken?	N/A	NO	YES	NO	NO	NO	NO	NO
Other Items								
Was actual counterpart contribution presented?	NO	NO	NO	NO	NO	NO	NO	NO
Other Errors Identified in the Reporting of Data.	NO	NO	NO	NO	NO	NO	NO	NO
Mission's Classification of Project (A, B, C or equivalent description)	NO	NO	NO	NO	A	C	B	C
Planned Vs. Actual Outputs Shown?	NO	NO	NO	NO	YES	YES	YES	YES

Analysis of the Mission's Quarterly/Semiannual Reports for the
Small Farmer Titling Project No. 522-0173

CATEGORIES	Cumulative Oct. 1982 - Sept. 1984	Oct. 1984 - March 1985	April-Sept. 1985	Oct. 1985- March 1986	April-Sept 1986
Selected Critical Problem					
Funding Mechanism (FAR) Used to Reimburse DEC (Problem known to Mission 3/85)					
Was the problem identified in reports?	N/A	YES	YES	YES	N/A
Was problem fully developed as to:					
a) seriousness?	N/A	YES	YES	YES	N/A
b) impact?	N/A	YES	YES	YES	N/A
c) actions taken?	N/A	YES	YES (Revolving funds created)	YES (Additional revolving funds required)	N/A
d) results of actions taken?	N/A	NO	YES	YES	N/A
Other Items					
Was actual counterpart contribution presented?	NO	NO	NO	NO	NO
Other errors identified in the reporting data.	NO	NO	NO	NO	NO
Mission's Classification of Projects (A, B, C or equivalent description)	NO	B	C	A	B

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CATEGORIES	Oct. 1982 - Sept. 1984	Oct. 1984 - March 1985	April-Sept. 1985	Oct. 1985- March 1986	April-Sept 1986
Planned vs. Actual Outputs Shown?	NO	Partially	YES	YES	YES
Auditor's Comments:	During this period DEC was working with the advances provided by AID under the FAR System. Little work was completed and certified by IWA to AID. The everyday problems of project addressed by Project Officer. Good Reports.	Good Reporting.	Corrective Actions: Possible need to recruit the project.	The funding mechanism was not reported as a problem. However, it was addressed in this quarter mainly as follow-up on the funding for the project.	The revolving fund increase has been the alternative to the FAR System and apparently is working well.

Analysis of the Mission's Quarterly/Semiannual Reports for
CAHERH (Advisory Council for Human Resources Development) Project 522-0257

CATEGORIES	July-September 1984	October 84-March 1985	April-Sept. 1985	October 1985-March 1986	April-September 1986
Selected Critical Problems					
Inadequate Technical Assistance Provided by Central Texas College (CTC) (Problem known to Mission in December 1985)			Abbreviated information under OPG schedule.	Abbreviated information under OPG schedule.	
Was the problem identified in the reports?	N/A	N/A			YES
Was the problem developed as to:					
a) seriousness?	N/A	N/A			NO
b) impact?	N/A	N/A			NO
c) actions taken? and	N/A	N/A			NO
d) results of actions taken?	N/A	N/A			NO
Other Items					
Was actual counterpart contribution presented?	NO	NO			NO
Other errors identified in the reporting of data.	Amount authorized and PACD incorrect.	PACD Incorrect			NO
Mission's classification of project (A, B, C or equivalent description)	NO	A			A
Planned Vs. actual outputs shown?	NO	NO			YES

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Analysis of the Mission's Quarterly Semiannual Reports
for the Export Development and Services Project No. 522-0207

CATEGORIES	October 1984-March 1985	April-September 1985	October 1985-March 1986	April-September 1986
Selected Critical Problem				
Project Implementation Adversely Affected by Inadequate Coordination and Communication among the Key Project Participants (Problem known to Mission 6/85)				
Was the problem identified in reports?	N/A	NO	YES	YES
Was the problem fully developed as to:				
a) seriousness?	N/A	NO	NO	YES
b) impact?	N/A	NO	NO	YES
c) actions taken?	N/A	NO	YES	YES
d) results of actions taken?	N/A	NO	YES	YES
Other Items				
Was actual counterpart contribution presented?	NO	NO	NO	NO
Other errors identified in the reporting of data.	NO	NO	NO	NO
Mission's classification of project (A, B, C or equivalent description)	A	A	A	C
Planned vs. actual outputs shown?	NO	YES	YES	YES

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Analysis of the Mission's Quarterly/Semiannual Reports for the
FOPRIDEH Institutional Strengthening Project No. 522-0266

CATEGORIES	April-September 1985	October 1985-March 1986	April-September 1986
Selected Critical Problems			
1) Inadequate Accounting Controls (Problem known to Mission by early 1986)	Abbreviated information in OPG schedule.	Abbreviated information in OPG schedule.	
Was the problem identified in the reports?			NO
Was the problem developed as to:			
a) seriousness?			NO
b) impact?			NO
c) actions taken?			NO
d) results of actions taken?			NO
2) FOPRIDEH's self-sustainability (Problem known to Mission since project's inception)			
Was the problem identified in the reports?			NO
Was the problem developed as to:			
a) seriousness?			NO
b) impact?			NO
c) actions taken? and			NO
d) results of actions taken?			NO

CATEGORIES	April-September 1985	October 1985-March 1986	April-September 1986
Other Items			
Was actual counterpart contribution presented?			NO
Other errors identified in the reporting of data.			Incorrect authorization and obligation dates.
Mission classification of project (A, B, C or equivalent description)			B
Planned Vs. actual outputs shown?			NO

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Analysis of the Mission's Quarterly/Semiannual Reports for the
Rural Roads II Project No. 522-0214

CATEGORIES	April-September 1985	October 1985-March 1986	April-September 1986
Selected Critical Problems:			
1. GOH budgetary problems had prevented project personnel from performing their duties in an efficient and effective manner.			
Date problem known to the Mission (early 1986).			
Was problem identified in reports?	N/A	YES	YES
Was problem fully developed as to:			
a. Seriousness?	N/A	NO	NO
b. Impact?	N/A	NO	NO
c. Actions taken?	N/A	NO	YES
d. Results of actions taken?	N/A	NO	YES Meeting held with GOH personnel resulting in contract renewals of key personnel for periods of six months.
2. GOH had not budgeted counterpart funds for maintenance of rural roads.			
Date problem known to the Mission (early 1987).			
Was problem identified in reports?	N/A	N/A	N/A
Was problem fully developed as to:			
a. Seriousness?	N/A	N/A	N/A
b. Impact?	N/A	N/A	N/A
c. Actions taken?	N/A	N/A	N/A
d. Results of actions taken?	N/A	N/A	N/A

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CATEGORIES	April-September 1985	October 1985-March 1986	April-September 1986
Other Items			
-- Was actual counterpart contribution presented?	NO	NO	NO
-- Other errors identified in the reporting data.	NO	NO	NO
-- Mission's classification of project (A, B, C, or equivalent description).	A	A	C
Planned vs. actual outputs shown.	YES	YES	YES
Auditor's comments:			Road maintenance problems were not properly addressed; even though the same problems were encountered during the implementation of Rural Roads I Project.

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Analysis of the Mission's Quarterly/Semiannual Reports for the
Strategic Planning and Technical Support Project No. 522-0269

CATEGORIES	April-Sept 1985	October 1985 March 1986	April-Sept 1986
Selected Critical Problems:			
1. Personnel shortages and other workload demands in AID caused a late start in initiating project activities.			
Date problem known to Mission (September 1985).			
Was problem identified in reports?	YES	NO	NO
Was problem fully developed as to:			
a. Seriousness?	NO	NO	NO
b. Impact?	NO	NO	NO
c. Actions taken?	NO	NO	NO
d. Results of actions taken?	NO	NO	NO
2. The implementing agency lacked adequate knowledge about the project.			
Date problem known to Mission (mid 1986)			
Was problem identified in reports?	N/A	N/A	NO
Was problem fully developed as to:			
a. Seriousness?	N/A	N/A	NO
b. Impact?	N/A	N/A	NO
c. Actions taken?	N/A	N/A	NO
d. Results of actions taken?	N/A	N/A	NO

CATEGORIES	April-Sept 1985	October 1985 March 1986	April-Sept 1986
Other Items			
Was actual counterpart contribution presented?	NO	NO	NO
Other errors identified in the reporting of Data.	NO	NO	NO
Mission's classification of Project (A, B, C, or equivalent description)	A	A	A
Planned vs. Actual outputs shown?	YES	YES	YES
Auditor's Comments			After one year of implementation no planned objectives had been accomplished. No project funds had been disbursed. However, the project was classified as an A project.

UNITED STATES GOVERNMENT

memorandum

DATE: August 31, 1987.

REPLY TO ATTN OF: John A. Sanbrailo, MD

SUBJECT: Comments on RIG Draft Audit Report, Flagging Troubled Projects

TO: Coinage Gothard, RIG

RECEIVED
US AID
09 SET. 1987
RIG OFFICE

Following are the Mission's comments on the subject draft audit report for your consideration. We do not agree with some of your conclusions and recommendations. We are disappointed that the RIG chose not to incorporate more of the Mission's extensive comments provided in the debriefing and Mission's memorandum of July 9, 1987. We are again including similar comments for the 11 projects that were reviewed and request that they be included in the final report. In addition to those comments, we have provided some final observations with respect to the audit findings that we request you include in the final audit report. Most important is the following proposed insert for the Executive Summary which summarizes USAID/Honduras' general position on the audit and resulting recommendations:

Executive Summary (Proposed insert)

"USAID Honduras believes the audit presents an unbalanced view of its project implementation performance. The report does not discuss the many cases in which the Mission rapidly identified and thoroughly analyzed implementation problems and effectively got troubled projects moving. USAID strongly disagrees with the audit implications that its project portfolio has not been well managed. This is plainly not the case as recognized by numerous independent Mission assessments and evaluations.

USAID believes it has in place sound project monitoring system and procedures that have produced good implementation performance. This is evidenced by high levels of project expenditures which have often surpassed new obligations and by the highly positive developmental impacts that the USAID program is having in Honduras. On numerous occasions, AID/W has recognized the Mission's good implementation performance and the excellent monitoring systems it has in place. Nevertheless, the Mission recognizes that improvements can always be made even in the best of systems and has complied with the intent of the RIG recommendations as further refinements to its already sound monitoring system." End of Proposed Insert.

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

☆ U.S. GOVERNMENT PRINTING OFFICE : 1983 O - 381-526 (8238)

1. Recommendation No. 1: Formalize Mission Management Systems for Identifying and Correcting Implementation Problems

As indicated in the July 9, 1987, memorandum and above, the Mission believes that it has an adequate system in place for flagging and solving implementation problems and our record shows it.

The audit draft report states (pg. 5) that: "USAID/Honduras had (has) adequate systems in place to identify troubled projects and was (is) making greater use of objectively verifiable indicators to measure project implementation progress." The audit further describes, accurately, the monitoring/management systems the Mission has put in place over the past several years, such as, the Annual Project Implementation Plans, the bi-weekly priorities meeting system, extensive meetings with GOH counterparts at high levels, and the semiannual reporting system (page 12). This contrasts sharply with the apparent thrust of the recommendation: that there is an absence of a formal tracking and reporting system to force critical problem resolution. As recognized by the audit, the Mission does have what we believe constitutes a formal and effective system in place, albeit not as well documented as it could be for audit trail purposes.

The problem from the RIG's perspective is that there has not been sufficient documentation in some cases of the artful process of decision-making and how decisions were made, and what formal and informal steps were taken to resolve problems. This does not mean, however, that procedures and processes for making decision makers aware of problems do not exist or that they were not used in the cases cited by RIG in a consistent and standardized (that is to say, formal) manner by Mission personnel. They were. We agree, however, that our efforts in this area can be improved, insofar as leaving an improved paper trail is concerned, and we will do so in the future.

An additional perceived problem from the RIG's perspective is that problems have not often been solved within what RIG believes to be a reasonable time frame. We disagree, and feel that our excellent overall implementation track record speaks for itself when timely resolution of problems is considered. As with any project portfolio, there have been instances where resolution of implementation problems in some projects has taken considerable time. Such events are not uncommon in this or other AID recipient countries, where counterpart institutional and qualified human resource bases are weak, and country communications systems leave much to be desired. When these considerations are laid over the staffing and workload points made by the RIG, one might wonder why in fact problem resolution has gone as quickly as it has, rather than expecting quicker responses.

We believe our management systems appropriately place problem resolution responsibilities where they belong, among Mission staff following principles such as management by exception and management by objectives. Those principles have enabled us to avoid recently the kind of project and sector problems the RIG seems to think exist. Quite the opposite is true. One has only to look at our semi-annual review reports and Action Plan performance summaries to determine that our project and sector/program objectives are being achieved very much as planned. We maintain that this is happening because our management review systems catch and remedy "critical" problems before they interfere with achievement of our goals and objectives.

Finally, we believe the audit is flawed to the extent that it fails to distinguish between "critical" problems at the various levels of project and program implementation. For example, identification of "critical" problems at the input/output level of a project too often leads to the conclusion that "critical" problems exist at the project purpose or goal level, or even in the achievement of sector/program objectives and overall program impact. We suggest that such reasoning is faulty and not consistent with the impressive development results to which our program has contributed.

The bottom line for the Mission is that application of its problem identification and resolution processes has brought, or is bringing, AID's problem projects back on track on a timely basis, while significantly contributing to Honduran development. The Health Sector I, Primary Education Strengthening, Small Farmer Coffee Improvement, and Land Titling Projects are specific success stories on our management review system.

In sum, we believe that an adequate system is already in place for flagging troubled projects and for solving problems, and that we are taking care of "critical" and a host of other problems in a timely basis. In line with these observations, we suggest the changes discussed below.

The report recognizes that systems already exist to identify problems. To accurately reflect Mission procedures, we request that the first sentence on page 12 read: The Mission has several formal mechanisms in which critical problems are (rather than the present "could be") elevated to higher management levels. We also recommend that the phrase "and to bring to senior management's attention issues related to the solution of identified problems" be added to the first sentence in paragraph two of page ii of the Executive Summary.

The audit notes Mission steps taken over the past several years that the auditors believe could be very useful in enhancing project implementation but for which it may be "too early to assess" impact. This being the case, we suggest that the recommendation be changed to call for a formal Mission review

of our staffing and current management system for reporting, tracking, and resolving implementation problems to determine whether any changes or modifications may be needed.

We further request that the word "informal" be deleted in sentence three, first paragraph, page 20 with respect to the Mission's established systems. There is nothing "informal" about the APIPs and other established systems. We also disagree with the last sentence on page 21. We believe the record shows that the Mission is able to effectively manage its large portfolio of activities.

2. Recommendation No. 2: Semiannual Reports

Mission management and project officers who have spent long hours in semiannual reviews going over implementation problems strongly disagree with the observation that the reports have not been a useful management tool. While it is possible that their usefulness could be enhanced, they have clearly served a very useful purpose. In line with your observations, the Mission will pay special attention to ensuring that reports present a clear picture of project status, including problems and proposed solutions. However, there is a clarification of the project classifications used in the semiannual reports that we believe is needed. In cases where a project was not formally reviewed based upon a semiannual report, the proposed assessment was based upon a general concensus of the various concerned Mission offices, and a recommendation made to the Director. However, USAID Honduras' Directors have personally reviewed the assessments rendered on each project and, based upon personal knowledge stemming from formal and informal systems, concurred in these. In this context, the assessment system identifies project problems in which, based upon a number of criteria (e.g., seriousness of the problem to achievement of project purpose, significance of the project to attaining program objectives), the Director (or, in more extreme cases, the AA/LAC) must take a personal role in resolving. This system, therefore, is not designed to identify all project problems, the bulk of which can and should be resolved at lower levels of the USAID organization. Rather, the system is to identify those which demand the efforts of the Director and Mission management. In our judgement, the draft audit fails to recognize the principal purposes of the semiannual report and review system. This results in identification of what in the auditor's judgement are a number of "critical" problems, while failing to identify either at what levels (e.g., project input/output, project purpose, overall program), or to whom in the USAID organization these problems are critical. Simply put, many of the implementation problems indentified in the draft audit are not critical from the prespective of the Director (or the AA/LAC). Nonetheless, the Mission has followed your recommendation and issued a memorandum on this subject (attached). However, to accurately present

Mission views, and to provide more balance in line with what is said in other parts of the audit, we recommend that the second sentence in page 23 be deleted and substituted with the following: "USAID/Honduras' management indicated that semiannual reports and meetings were an important management tool."

3. Recommendation No. 3 (a): Emphasize Importance of Deobligation/Reobligation of Authority Through a Mission Order

As indicated in our July 9, 1987 memorandum, this recommendation is overdrawn. The referenced memorandum describes our current deobligation/reobligation plans, but calls for some additional comments. While the deobligation/reobligation authority is an important tool, we believe that it is one that should be used judiciously and in moderation. Again, development is a long-term endeavour. When we embark on a specific area of assistance, it is because, after much analysis, we are convinced that the planned project will help solve a critical development constraint, and that it deserves a sustained and forceful effort on our part. Before making a decision to forego a specific project, or even a component within a specific project, the Mission must be convinced that transfer of assistance resources to another project here or elsewhere, or their return to the Department of Treasury is indeed the most appropriate course of action. It is ironic that some of the projects listed on page 32 that were proposed for deobligation at some point during their life are having the most development impact in Honduras. The remarkable lowering of infant mortality rates in Honduras over the last five years has undoubtedly been catalyzed by primary health care programs of Health Sector I. Yet this project has encountered implementation problems at different times and, undoubtedly, was a good "candiate" for deobligation/reobligation. Would our money be better invested in another project or another country? We think not.

The assertions on page 35 and 36 on why deobligation/reobligation has not been used more often are not substantiated. We are particularly troubled by the allegation that "excess" funds have played a major role. There are numerous activities that have not been funded by the Mission over the last few years. We recommend that the following observation be inserted in the last paragraph on page 35 which lists reasons why the Mission has not used deobligation/reobligation more often "...a belief by Mission officials that development projects often encounter problems and that sufficient time must be allowed to correct these problems before deobligation/reobligation is implemented". As you are stating here reasons the Mission gives for the lack of deobligation/reobligation, we think it is fair and accurate for you to make this insert. Likewise, we recommend that the same or similar phrase be included on page 87, Management Comments, and page v. of the Executive Summary. In addition, on page 37, Management Comments, that portion of the last sentence beginning "... and that this belief..." should be deleted. We

do acknowledge, however, that there may be some lack of understanding within the Mission's staff as to how the deobligation/reobligation process works. Therefore, to assure that Mission staff thoroughly understand the deobligation/reobligation authority and its use, we have issued a Mission Order (attached) on this subject.

RECOMMENDATION No. 3 (b): Suspend Rural Water Procurement Under the Rural Water and Sanitation Project

The proposed $ 1.8 million equipment procurement under the Rural Water and Sanitation Project was based on three sound reasons:

(1.) the Mission, through extensive study, determined that the commodities proposed for procurement would be economically useful to enhance the long-term strategy to improve the health of the Honduran population;

(2.) a jump-start could have been obtained on the Health Sector II Project if equipment were prepositioned with SANAA under the Rural Water and Sanitation Project; and

(3.) funding for the purpose was available.

While we continue to believe that the basis for the original proposed procurement was sound, as a practical matter there is not sufficient time to effect the procurement prior to the current PACD of December 31, 1987. We have also concluded that a major procurement of this nature can be deferred to the new Health Sector II Project. Accordingly, the procurement has been cancelled (see attached PIO/Cs cancelling the original action) and, therefore, Recommendation 3(b) should be closed upon the issuance of the final report. In order to bridge effectively the Rural Water and Sanitation Project and the new Health Sector II Project and to complete water and sanitation systems under construction, we intend to seek AID/W approval of a PACD extension for the former Project. Prior to executing the PACD extension, we will deobligate any funds which are no longer required for the Project.

4. Recommendation No. 4: Mission Order on Extension of PACD's

The draft report recommends that USAID/Honduras issue a Mission Order which states that action memoranda to the Mission Director to extend PACDs take the format of an options paper emphasizing the advantages and disadvantages of alternative courses of action.

We believe that the action memoranda furnished to the Mission Director have reflected a consensus of participants for extending projects' PACDs. Furthermore, this consensus is the outcome of meetings, with full participation by appropriate Mission offices, in which the merits of

alternative courses of action are considered, including reducing project activities and reprogramming funds.

With rare exception, Mission management (the Mission Director and/or the Deputy Director) participate in these meetings. It is our judgement that recording these deliberations in a "consensus format" is an extremely inefficient use of staff resources. The recommendation to apply scarce staff time to produce options papers concerning matters that have already been thoroughly vetted, and about which options have been considered, appears to us to run contrary to the rubric of efficiency and the reduction of unnecessary paperwork. However, we will assure that future action memoranda contain a section summarizing the various alternatives considered (see attached memorandum from the Mission Director).

On the matter of "irregular" preparation of action memoranda, we found some variance with the findings in your report. With reference to the eleven projects reviewed by the RIG, we note sixteen amendments, of which seven were unaccompanied by action memos. However, of these seven, two were covered by either an authorization amendment or a project paper supplement and three took place before 1986. That leaves only two cases where we were unable to locate action memoranda since 1986. We agree that the Mission had a minor shortcoming in this area; however, this shortcoming has been essentially rectified during the past two years. Nonetheless, we recognize your observations as valid and will ensure that alternatives are adequately discussed in future action memoranda.

We do, however, take exception to the comment on page 43 that the Mission saw no benefit to requiring that action memoranda to the Mission Director disclose (emphasis added) alternative strategies to extending PACDs or providing project financial data. This wording implies that the Mission Director has not been made aware of existing options. Our point was that senior management has been made aware of options through meetings, semiannual reviews, and other established mechanisms and that, accordingly, the documentation on alternatives already discarded was not incorporated in some cases.

We request that the last sentence on paragraph one of page 43 be deleted and in place thereof, the following be substituted: "Mission officials did not place emphasis on requiring that action memos to the Mission Director present alternative strategies to extending PACDs that had already been reviewed and rejected by Mission management and project officers." In effect, Mission officials believed that adequate systems were in place to ensure that management was in fact aware of all options.

5. Other Pertinent Matters

Third sentence the first paragraph should be changed to read: "...as a funding source to support the design and implementation of an expanding USAID Program."

Ninth sentence of first paragraph should be changed to read: "Half the grant funds have been budgetted for the Technical Support and Assistance component of the project."

Tenth sentence of the first paragraph should be changed to read: "The Mission has used these funds, inter alia, to support eight personal service contractors to assist in the design and implementation of the joint U.S.-Honduran economic assistance program."

Last sentence: Should be deleted and replaced by language similar to that contained in Exhibit 3, p. 32: " The appropriateness of funding personal services contractors to support the joint U.S.-Honduran economic assistance program under the project has been referred to the Inspector General's legal office for an opinion."

In our opinion, USAID employees are aware their performance is to be rated on several performance factors, including their ability to identify and resolve implementation problems. Mission management has stressed previously and has reinforced more recently the importance for implementing projects as planned. The Mission Director has emphasized and reemphasized that project implementation is a priority and the success of the program is dependent on timely implementation. Moreover, implementation was specifically addressed during the most recent EER rating period, and has been the constant theme of general staff and the bi-weekly priority meetings with the senior staff. The ability of staff members to find and resolve problems are reflected in their annual performance ratings. However, to reinforce the priority given to implementation, this topic is included in the attached memorandum to the staff.

Concerning your comments on the difficulty RIG auditors had in differentiating between discrete development projects and other activities in our portfolio, it was suggested we revise our financial report to reclassify the project financial reporting. We do not agree that our financial report statements should be changed as Mission personnel are familiar with their respective projects and activities. However, we are revising the distribution of the financial reports. Each operating office will receive a copy of the financial report listing only the activities for which it is responsible.

ATTACHMENT - RESPONSE
TO DRAFT REPORT

1. Rural Water and Sanitation Project No. 522-0166

The Mission's response to the draft report's comments are focussed on a) USAID/GOH health strategy, b) USAID commitment to GOH in water and sanitation and due reprogramming proposed, c) assessment of procurement alternatives, and d) assessment of intended recipient's maintenance capability. This response will illustrate that the Mission's original decision to proceed with the equipment procurement was based on a judgement that the acquisition would contribute to the implementation of the health strategy and achievement of health objectives. The judgement included a careful analysis of alternatives, an assessment of SANAA's maintenance capability and prudent management of the project.

a. USAID/GOH Health Strategy. Among the key objectives in the USAID/Honduras Action Plan for the Caribbean Initiative (CBI) is to improve life expectancy of the Honduran population from 61 years in 1985 to 65 years in 1990 and to reduce the country's infant mortality from 70/1000 in 1985 to 60/1000 in 1990. These objectives coincide completely with Government of Honduras (GOH) targets. Moreover, they are congruent with, and are central elements of the general GOH initiative to improve the health status of the nation's populace.

To achieve these targets, as well as new targets that will be set for the post-CBI era, USAID, in close coordination with the GOH, has developed a 20-year, three-phase health strategy. Each phase has a slightly different focus and each builds on the gains made under the previous stage. Phase I (1980-1988) coincides with the Health Sector I and the Rural Water and Sanitation projects. It has addressed the most pressing problems (such as the lack of effective management, planning, logistical services, and sanitation infrastructure) required to establish and to maintain an effective primary health care program. For the most part, the management and planning efforts were directed at the central (national) offices of the principal implementing institutions -- the Ministry of Health and SANAA. Infrastructure installation, viz., construction of water and sanitation systems, was of course, carried out among the beneficiary population.

Data indicated that major advances were made in improving the health status of the Honduran population during this period. For example, there was a 40 percent reduction in deaths from diarrhea. Infant mortality fell from 80/100 in 1980 to an estimated 70/100 in 1985. In addition, over 400 rural water and sanitation systems were installed. There was a reduction in the unit cost of medications and nation-wide programs on prevention and treatment of diarrhea. Family planning and breast feeding were established. It is a shared USAID-GOH belief that much of this progress is attributable to the A.I.D.- supported Health Sector I and Rural Water and Sanitation Projects.

Phase II (1988-1994) of the strategy will support GOH efforts to consolidate and expand the coverage of efficient, effective and sustainable primary health care. In so doing it will build upon the progress achieved under Phase I. The centerpiece of A.I.D.'s participation in this second stage will be the Health Sector II Project. The Health Sector II PID was approved by AID/W on March 26, 1987. The PP is under preparation and will be completed early in FY88. The project will consist of a series of related components including further institutional development and continued rural water and sanitation (RWS) efforts. The RWS element will be executed by SANAA, in coordination with the MOH, and will consist of technical assistance and financing for the construction and maintenance of potable water and sanitation systems throughout the country.

The hub of Phase III (1994-2000) will be a Health Sector III Project which will consolidate the gains achieved under Phases I and II.

It is anticipated that Health Sector III will continue the concentration on logistics, information systems, local programming and financial management. The delivery of technical services (viz., child survival packages and rural water and sanitation interventions) to the identified target groups will be expanded. It is further anticipated that the Ministry of Health and SANAA will continue to be the lead implementing insitutions.

b. USAID Commitment and Management Decision. The management process affecting this proposed procurement, including assessment of alternatives, started in November 1986 as a result of a semi-annual review of the project. It was determined at that time that some reprogramming would be necessary during the last twelve months of the project in order to meet as many of the objectives of the project as might be possible. A series of alternatives were considered.
The decision to go forward with the procurement was based on the Mission's judgement that the commodities would be in direct support of an agreed upon A.I.D./GOH long-term strategy to improve the health status of the Honduran populace. As noted above, the centerpiece of Phase II of the strategy is the Mission's planned Health Sector II Project. This project will include a rural water sanitation component that will be implemented by SANAA. The material included in the proposed procurement would have enabled SANAA to effectively carry out its mandate under Health Sector II and, thereby, contribute to the achievement of health sector objectives shared by the Mission and the GOH. The procurement would have demonstrated A.I.D.'s commitment to the strategy, while simultaneously ensuring a smooth transition from Phase I to Phase II.

c. Procurement Alternatives. When the Mission received the TDY engineer's report recommending procurement of additional equipment, it was reviewed by the Project Review Committee and was subsequently the topic of two senior Mission management meetings and one extensive meeting between USAID staff and the SANAA Manager. During the USAID meetings, several alternatives to the procurement were weighed and the relative prudence of each was discussed in depth. The alternatives were: (1) do nothing allowing the project to continue its current course to PACD, (2) contracting the

construction of water and sanitation systems to private contractors in hope of accelerating the rate of completion, (3) prepositioning SANAA, by purchasing equipment to be used for the Health Sector II Project, to participate in the 20-year rural health sector plan, or (4) a combination of (2) and (3). During a subsequent consultation with the Director of SANAA, he pointed out to USAID officials that SANAA had developed estimated demand figures, citing target groups and community sizes where demands had not been met by the existing project. The SANAA Director estimated that some 2.7 million rural poor did not have adequate access to water and sanitation facilities and that these would be SANAA's target beneficiaries under the Health Sector II Project. He recommended that our strategy for the remainder of the Rural Water and Sanitation Project be that of: (a) completion of systems underway, as well as some 30-35 under design by December 31, 1987; and (b) preparing to preposition SANAA for the Health Sector II Project by selected equipment purchases. On the basis of the above meetings and analyses, Mission management determined that the procurement of certain commodities to support alternative (3) above would be a prudent and cost effective way of assisting SANAA, as well as contributing to AID's long-term goals in assisting Honduras in reaching the rural poor with water and sanitation facilities. Option (2), "contracting out", will be limited to a subproject agreement between SANAA and the Employment Generation Program (a Ministry of Finance sponsored infrastructure program) under which the latter will assist in the construction of water and sanitation systems.

With respect to the final selection of equipment for procurement, it should be noted that the purchase of drill rigs and laboratory equipment was recommended by WASH experts in their earlier evaluation of the Rural Water and Sanitation Project Following the receipt and analysis of the TDY engineer's report, several discussions were held with the SANAA Director and his staff concerning the precise items to be recommended for procurement. These discussions, as well as further deliberations with WASH experts resulted in a modified list of items proposed for procurement. The revisions were a result of lengthy analyses by professionals in the field of water and sanitation and it was determined that the revised list reflected more accurately the needs of SANAA.

Finally, the procurement list was reviewed by procurement experts with up-to-date knowledge of unit costs and shipping charges, hence the difference in cost per item and overall total cost.

The fact that procurement of this equipment was not planned under the original project design (1980) was not considered to be a constraint on the decision to make these purchases now, seven years later. Often, over such an extended period of work with an implementing agency, other needs that were not realized in the original project paper become apparent. Further, a large part of the proposed procurement was recommended by those prominent in the water and sanitation field after careful evaluation of the project, SANAA's existing institutional capability and USAID's commitment to enhance the same.

c. PRASAR/SANAA's Maintenance Capability. The following information is provided with regard to PRASAR/SANAA's maintenance capability:

(1) The Honduran Government agreed to provide adequate maintenance by covenant in the Project Agreement.

(2) Prior to proposing the procurement, the Mission made a collective judgement that vehicles could and would be maintained. This was confirmed by assurances from the Honduran Government's implementing agency.

(3) Field observations of PRASAR/SANAA's equipment confirmed that vehicles already procured were being maintained properly. Of the 16 pick-ups, 2 double cabin pick-ups, 4 CJ-7 Jeeps, 2 flatbed trucks and 1 bus that were purchased with project funds in 1981, all except two are operational. With respect to the two pick-ups that are unusable, one was totally damaged in an accident and the other is currently under repair. The 4 pick-ups and 10 motorcycles purchased in 1986 are all operating and are in good running condition except for one motorcycle that is being repaired.

(4) In April 1985 RIG carried out an audit of the Rural Water and Sanitation Project. While Audit Recommendation No. 8 dealt with vehicle usage, the report made no recommendations related to the need for PRASAR/SANAA to improve maintenance procedures.

This information gave the Mission a favorable assessment of PRASAR/SANAA's maintenance capability. Further investment of valuable financial and human resources for a detailed study appeared to us to be unwarranted.

The five implementation problems cited in the annex will be discussed in turn:

Cumbersome GOH clearance and approval procedures:

GOH administrative and financial procedures, like A.I.D.'s , are designed, inter alia, to minimize the misuse of funds. These procedures apply to all GOH activities, including A.I.D. projects. The A.I.D. Project Officer has worked closely with counterpart personnel and has been notably successful in streamlining clearance procedures and expediting approvals. Isolated instances of delays still exist in material procurement approvals. We continue to monitor that situation.

GOH counterpart management problems:

A.I.D. believes a shortage of funds created what appeared to be a management problem. The financial problem was solved when a revolving fund was established, thus permitting timely payment of per diems and other travel costs. This revolving fund was later increased and payment procedures revised to speed up the processing of reimbursement requests with satisfactory results.

Inadequate local personnel contracting procedures:

Although some problems still exist in contracting for personnel, there have been cases in which PRASAR has contracted personnel in an efficient manner. For example, eighteen local engineers were contracted by PRASAR in a timely manner to design water systems. The designs were completed in three months. Even though some Project personnel experienced delays of two or more months in the renewal of their contracts, they continued performing Project activities. Thus, implementation of the project was never halted. SANAA pays and renews personal contracts in a timely manner.

Poor coordination between the Ministry of Health and SANAA:

Some mis-coordination undoubtedly has taken place but the A.I.D. Project manager has diligently worked toward improving the situation and has kept A.I.D. management aware of the progress and problems. We believe there is adequate coordination and communication between the implementing agencies.

Inadequate GOH procurement procedures:

No doubt this reference is to the slow pace of the procurement procedures. That is not an unusual situation in Honduras. However, A.I.D. has taken over the procurement task so the project will not be delayed because of late delivery of material.

Rural Trails and Access Roads Project No. 522-0164

Project implementation was not adversely affected by an absence of uniform road construction standards. SECOPT had adopted uniform standards which were set forth in U.S. Department of Transportation publication FP-74. These standards and specifications were also incorporated into all construction contracts. Therefore, the RIG contention that they were not provided to the construction contractors is incorrect.

With respect to community maintenance organizations, SECOPT attempted to organize some local groups in the Western Region but encountered strong opposition due to the fact that it is a region of high agricultural activity and the farmers did not want to leave their fields to perform road maintenance. For this reason, the requirement for community assistance on rural trails was dropped by an amendment of the Project Agreement and was thereafter not a Project requirement or goal. It was, therefore, no longer considered a reportable problem. This was not unanticipated in view of Section 6.2(g) of the Project Agreement which states that the Borrower/Grantee will establish alternative maintenance procedures for the trails in the event that the rural communities do not provide regular, effective maintenance service under the system proposed in the Project Paper. SECOPT agreed to perform the necessary maintenance by force account.

The statement that unavailability of uniform construction standards contributed to the premature deterioration of the roads is in error. The standards mentioned earlier have been utilized by SECOPT for many years and are incorporated into all contracts. The statement that communities to benefit from these roads were left as before without all weather roads is incorrect. They now have roads where previously none existed and those roads are being maintained or are scheduled to be maintained by SECOPT. Further, the RIG statement implies that all of the roads constructed under this project are hopelessly deteriorated. This is just not the case. Only a small percentage of the roads constructed under this Project are partially deteriorated. Also, the RIG statement implies that no maintenance whatsoever has been performed. Maintenance has been performed on most of these roads, but unfortunately not always on a timely basis.

With the above factual clarification in mind (also refer to RIG's audit report of February 1985), a discussion of Mission problem solving in this project follows:

a. Problem of varying application of existing standards from one project to another resulting in construction deficiencies.

This problem was solved in a fairly expeditious manner by publication and distribution of a manual solely for the construction of rural roads. This manual, in conjunction with seminars involving SECOPT and subsequent monitoring, resulted in greatly improved quality of maintenance work. A rural trail or access road is just that - a country road. Its low unit cost may not warrant development of rigid construction standards or standard designs. Except for minimum requirements such as top width, surfacing type and depth, etc., design of such a road basically takes place in the field as it is being built. Under those basic principles, it is difficult to understand how implementation can be "adversely affected by the absence of uniform road construction standards".

b. Problem of inadequate maintenance.

The problem of getting the GOH to properly schedule and perform proper maintenance has been a difficult one and the subject of numerous meetings with SECOPT officials. Although the maintenance budget levels have been continued above the agreed levels, SECOPT repeatedly complains that it lacks proper equipment, personnel and funds. We feel this problem has been solved by including maintenance funds in the Rural Roads II Project, formalizing maintenance programs and reinstituting a plan for campesino work teams. For example, the recently inaugurated "Peon Caminero" road maintenance operation, funded by the GOH and with tools provided by A.I.D., promises to enhance road maintenance. The Mission feels that this program is "on-track" and will be successful.

c. Semi-annual report problem.

Both the Mission and AID/W feel that these reports are useful and informative. They are written specifically and exclusively for AID/W and internal Mission use.

Information on counterpart contributions is now included in these reports.

Natural Resourses Management Project No. 522-0168

a. Your draft report (Page 8, Exhibit 3) states that: "The Mission did not effectively deal with the computer problem." This central premise is incorrect.

The Mission, once the decision was made to continue the Project, undertook a series of efforts over a period of time that resulted in the purchase and installation of the new system at a cost considerably below that originally proposed on July 28, 1983. Many of the efforts required were beyond Mission control. Nevertheless, we maintained constant activity in monitoring, pressuring, and communicating to other involved entities in an effort to facilitate the process. In the interim, the Mission provided a small amount of Project funds to allow the GOH to maintain an existing system in operation in order to provide the computer services necessary to meet all related project objectives. Thanks to this small investment, the DEC continues to operate this system (once considered near-obsolete) as an integral part of its data system.

b. With respect to the draft's comments that it was not until March 1983 that actions were taken to determine actual computer needs, the Mission did not decide to fully implement the Project until March 1983. Once this favorable decision was made, actions were taken to go forward with the procurement.

c. The draft's reference to a consultant to assess the Project's computer requirements is incorrect. He was not a consultant, but a technical/sales representative of Intergraph Corporation. His report was received on July 28, 1983, eight weeks later than promised, and his recommendations were unacceptable.

The third sentence on page 9 is incorrect. There simply were no computer technicians at this post (or any other post, probably) with the required expertise in this type of computer system. The draft's sentence with respect to a contract specialist from the U.S. Defense Mapping Agency is incorrect and misleading. "Eventually" should read "immediately" because this Mission, within three weeks of receipt of the unacceptable proposal from Intergraph, had an Interamerican Geodetic Survey (IAGS) technician at post to assist the USAID and GOH. It was not a contract, but a case of interagency cooperation

facilitated by this Mission's good relationship with the local IAGS representative.

d. On page 9, second paragraph of the draft, it is indicated you found no evidence that the Mission had assigned specific responsibility for tracking and reporting the status of the Project. This statement implies that RIG expects us to place a memorandum in the files formally assigning an officer responsibility for any implementation problem that may arise. This is not agency practice. Also, it is clear from a review of the files that the Project Officers for 522-0168 and 522-0173 (Land Titling) were fully and continuously involved. This sentence in the draft should be deleted.

The last sentence on page 9, second paragraph, is demonstrably incorrect based on the chronology of Mission actions. In addition, it directly contradicts the first sentence of the same paragraph and should, therefore, be deleted.

e. Regarding page 9, third paragraph, last sentence of the draft, this sentence tends to contradict the first sentence of paragraph 2. Additionally, the Mission believes it has shown conclusively in our response of July 9, 1987 to the RIG's record of audit findings and based upon our development of a Project Chronology that we did track and report upon the problem and that pressure was repeatedly exerted on AID/W and others to resolve the problem. Regarding identification of alternatives, what the Mission was pursuing was, in fact, an alternative solution suggested and endorsed by the IAGS and AID/W experts. (The original alternative of a sole-source purchase based on Intergraph's July 28, 1983, proposal had been rejected, and AID/W insisted that sole-source procurement was not justifiable.)

f. With respect to your comments on the semiannual report problems presentation, these reports are not used to present detailed discussions of procurement or other problems, but to identify such problems for discussion in the reviews, especially those requiring the Mission Director's personal attention. This problem was thus identified in the reports. Detailed discussions of the problem were covered in numerous other ways such as memoranda, and verbally in every quarterly or semi-annual review meeting. AID/W was made aware of the problem via repeated telephone conversations and cables. This problem's negative impact on Project 522-0168 was nil.

g. Regarding the problem's impact on the Project, its implementation was not adversely affected by the delay, because DEC was able to continue utilizing its existing system to cover Project needs. The draft audit states: "...more funds than planned were used to maintain the older computer in order to keep it on line while awaiting the new project computer." We contend that extending the useful life of an expensive machine is an appropriate use of funds. By investing a few thousand dollars in maintenance of the older equipment, substantial

savings were achieved. Due to this maintenance, the old equipment is still functioning as an integral part of DEC's highly complex graphic computer system. By refusing the initial Intergraph proposal of July 1983, the Mission saved the U.S. Government and the Project about $300,000 and through competitive bid obtained the system that was required for the purposes at hand.

There are incorrect statements on page 10 of your draft. For example, regarding the second sentence, no person involved considered the system "worthless". Due to project funded upgrading and maintenance, this system continues to provide valuable data management service, and it provided adequate service during the interim while the new system was being procured.

4. Rural Primary Education Project No. 522-0167

a. These comments are relevant to the draft report's paragraph on "Problem Impact".

The Project Officer did say that the members of the "Contracting Out Study" team found that the communities where private sector school construction was done did not seem to be as committed to maintenance as the communities where the FAR system was used. However, there has been no feedback on actual school maintenance since the schools have only been used for one year and they are built to require minimum maintenance. The engineers indicate that in one year of use, little if any maintenance would be required on the school. Thus, the statement "... the local communities will not provide the planned maintenance" is misleading and premature.

The total community counterpart contribution under the project is $3,392,000. The community contribution to maintenance was to be $334,000. While the communities met the 25 percent legal requirement for counterpart contribution, there was a shortfall in the planned amount.

This was due to the dropping of the requirement that communities provide materials, transport, and labor when the project switched to a private sector mode of construction and when the number of classrooms to be renovated was reduced. The new Primary Effeciency Project includes a maintenance component to promote community involvement in maintenance efforts.

While it is true procurement problems were still being reported in 1985, the draft report implies these were the same problems throughout the project. In fact, there were two major procurement problems during the Project, one set with the GOH Proveeduria and one individual problem with the Procurement Service Agent (RONCO) which were essentially unrelated. The biggest problem under the Proveduria was procurement of materials under the FAR system for school

construction. It was not being done on a timely basis and, consequently, it delayed construction. The last procurement for FAR The subsequent procurement problem was in 1985, after A.I.D.had confronted the general procurement problem with the Proveeduria by contracting a Procurement Services Agent (PSA) to purchase the equipment. The contracting and purchasing processes were delayed, but the delay was due to delays in Washington (e.g., Small Business Association) and problems with RONCO. In any case, the change from use of the Proveeduria to an A.I.D. procured PSA was part of a problem solving mechanism and was one of the few alternatives available to deal with the problem.

The subsequent procurement problem was in 1985, after A.I.D. had confronted the general procurement problem with the Proveeduria by contracting a Procurement Services Agent (PSA) to purchase the equipment. The contracting and purchasing processes were delayed, but the delay was due to delays in Washington (e.g., Small Business Association) and problems with RONCO. In any case, the change from use of the Proveeduria to an A.I.D. procured PSA was part of a problem solving mechanism and was one of the few alternatives available to deal with the problem.

Beyond procurement, the Ministry of Education (MOE) had trouble delivering schools according to specifications, but the specifications not complied with were the minor ones, although disbursements were held up. The schools, however, were sturdy and of good quality because of A.I.D. insistence on these specifications. The quarterly report for January-March 1984 indicates a breakthrough and resolution of this problem. The report discusses an agreement negotiated between the A.I.D. Director and Minister of Education to complete the large backlog of unfinished projects and cancellation of the cash advances. A deadline was given for completion of these projects. The report also speaks of a meeting with the Minister of Education and A.I.D. Director to discuss Project problems. In September 1983, a revolving fund of L.3,000,000 ESF counterpart was authorized by AID. The establishment of this fund was another part of the action taken to resolve the FAR system problem. As a result, it is reported there were improvements in the project. This, in our opinion, is evidence of a system in place and a problem solving methodology which is not uncommon in project implementation.

The fact that the problems persisted does not necessarily mean that problem solving was not going on. Each Project Officer has to determine problems and use the appropriate resources to resolve them. Each problem is different, requiring a different approach. Governmental changes and MOE personnel changes, especially in this case with six different ministers and the changes in government (three different governments), also strongly influenced the resolution of problems. Those changes affected project implementation especially because senior GOH policy makers were

changed so frequently. In this context problems have to be dealt with tact, diplomacy and shrewdness if a project is to be implemented. Time is required to resolve problems. The Project Implementation Course teaches officers that responses to problems have to be flexible and approached by each officer in his own way; there are no pat responses.

b. With respect to semiannual project reports, these do not include the step by step process used for resolving problems. Rather a process is in effect. Problems and solutions are discussed in the report review meetings and plans are made. Problem solving is carried out on a continual basis. Also, efficiency and cost effective trade-offs exist between time spent or problem resolution versus taking time to document each problem and solution for the file.

While specific mention is not made of the FAR system in the reports, problems in this system were raised in each of the reports when the problems arose. Component I before 1985 related to FAR system activities until we changed to the private sector. It is not accurate to state that the FAR system is only mentioned in one report in 1982.

Regarding project coordination, comparing early reports on this and the experience in the last 18 months of the Project, there was improvement. Basically, the coordination problems reported earlier were so serious they impeded Project progress. In the last 18 months, some problems existed, but were related more to the competence of the Coordinator than other things.

The improvement in coordination was basically due to mechanisms the Ministry of Education and the Coordinating Unit put in place to strengthen coordination. Weekly meetings were held to discuss Project problems and more serious problems were formally brought to A.I.D.'s attention. Solutions were worked out in the meetings or in component specific meetings. A.I.D. attended the meetings when the need existed. Monthly reports on construction progress were passed from supervisors to the Component Director, to the Coordinator, and to the A.I.D. Engineer. Quarterly reports were submitted by each Component Director to be submitted to A.I.D. in a project Quarterly Report from the Coordinator. While the quality of this report could have been better, it did address problems and inform A.I.D. about solutions.

Another indication that the coordination improved was the GOH initiative to eliminate the head of the Construction Unit who was not performing well and causing delays in the construction being done by the first private sector construction firms. His removal resulted in the last 300 classrooms being completed on time.

To compensate for the weakness of the Coordinator, USAID supervised

implementation very closely in the last 18 months. The premise was that, in spite of Coordinator weakness, we could, with extra support to that unit, complete the Project and provide the outputs under the Project.

5. Health Sector I Project No. 522-0153

a. The draft audit report focusses on three implementation problems which the Project has faced in its seven years of implementation. The audit makes no mention of the complexity of the Project nor the number of problems that were successfully addressed and resolved. The audit gives no credit for the significant advances of the Honduran health system during the years of the Project: infant mortality has declined dramatically; and the incidence rates of most communicable diseases are much lower than before.

b. Our specific comments are as follows:

Introduction. In the fourth paragraph discussing financial performance, it is stated there was a pipeline of $8 million in December 1986, of which $5.4 million was uncommitted. Although $5.4 million was uncommitted, 97 percent of Project funds were earmarked in activities which were very close to becoming commitments. Also, the rate of disbursements had increased as evidenced by an average quarterly expenditures rate of $1.7 million for the first three quarters of this fiscal year. This rate is expected to increase in the coming quarters.

Project Implementation Problems. The following sentence from the first paragraph of this section is misleading: "Construction of the project's planned 14 warehouses were considered important to achieving the project's goals since adequate storage facilities were required before sufficient quantities of medicines and other supplies could be positioned in support of the project's components."

This leaves the impression that the entire Project was crippled without the warehouses. That is not true. The Project has made important advances without the warehouses. It is true they are essential to achieving one of our outputs, albeit an important one: that of placing 70 percent of drugs into 70 percent of the health centers.

In the second paragraph, the audit states that four warehouses are under construction but are experiencing legal problems. The audit is referring to the La Ceiba and San Pedro Sula warehouses, the largest and most important, and which are now complete.

The audit does not completely describe the revolving fund problems. There are two revolving funds which were established for the Project. There is a problem currently on using one of the revolving

funds which finances training costs, because the Project Administrator has to be bonded to manage the fund. There is no problem with the other revolving fund which finances other costs. The GOH bonding requirement has had more serious implications on the Project than the annual liquidation requirement. Bonding is required for all GOH personnel managing cash funds, is a general legislative requirement and one which the GOH has shown no inclination to legally change. Some problems may not be resolvable.

Negotiations nonetheless continue. The audit does not mention a third problem of the annual contracting of the Project Coordinator. This problem was recently resolved through negotiations with the Ministry of Finance. The Coordinator will now be contracted for the life of the Project.

The last sentence in the final paragraph of this section is misleading when it states that all three problems (warehouses, procurement, and revolving fund) are still present. The revolving fund problem identified in December 1983 is different from the one today. During most of 1983, all of 1984, and most of 1985, the Project did not have revolving fund problems. The Administrator for this period was bonded. He had paid the bonding fee and used personal property as colateral. In June 1984, procurement problems were reported and were resolved. It should be noted that the delayed commodity procurement is only one of perhaps fifty procurements undertaken by the Project. The current procurement problems are different and originated well after June 1984.

Mission Actions to Resolve Problems. The audit report states that the Mission did not deal with these problems in a timely and effective manner. It should be reiterated that the examples cited were discrete problems which arose sequentially and were addressed sequentially. Superficially, they may look the same and it appears as though they persisted, but this is not the case. With the warehouses, for example, the Project has dealt with about fifty different problems in attempting to construct 14 of them. Almost every one of the fifty was unanticipated at the time. As for procurement, the Mission will always have some difficulties because of the GOH and USG regulations are relatively complex.

Semiannual Report Problem Presentation. The audit states that neither counterpart funds nor excess Project funds are identified. The semi-annual report guidelines at the time did not require counterpart fund tracking. Counterpart contributions are now being reported in accordance with AID/W instructions.

Problem Impact. As to the comments that the response to the polio outbreak was adversely affected by the lack of warehouses, this is a simplification. All of the systems the MOH put in place with Project assistance (training, supervision, cold chain maintenance, and

reporting) helped successfully contain the outbreak. If all the warehouses had been constructed, the response would have been better, but the difference probably would have been marginal. In any event, the impact of these other activities was not given proper weight.

6. Small Farmer Titling Project (PTT) No. 522-0173

a. The principal issue raised in the audit review has to do with the application of the FAR system in the Project. Problems involve keeping the Cadastre's (DEC) delineation teams at work in the field with sufficient funds in advance of certifications and liquidations of their work. As noted in our response to the PTT's initial audit, the problem resulting from lack of advances for those field teams has been relieved by establishing an ESF local currency revolving fund. DEC's field staff now receives money in advance without having to go to PTT's budget, thereby allowing for liquidations to make up for funds previously unliquidated. While the rotating fund took time to establish and function smoothly, the funds are now available more readily, and should continue to be so until the final phases of the Project. There have been no DEC work stoppages in 1987.

It is true that the computer system was delayed for reasons beyond the Mission's control during PTT's first years (see our response regarding the Natural Resources Management Project), but it became fully operational by January 1986 and is presently serving effectively.

The Mission has jointly programmed for the National Agrarian Institute (INA) ESF local currency counterpart to cover contributions throughout the life of PTT. Funds withheld by INA during part of 1986 have been restored. These funds pay for operating costs.

b. Our response to the various sections of the draft audit follows:

Project Implementation Problems

The draft report indicates that field work costs more money and will take more time than planned. It is significant to note that PTT is the first massive, major delineation effort on a national scale ever attempted in Honduras. While more time is needed to complete all work, Project funding will not be significantly greater than originally budgeted. By mid-1983, it was clear that future certification and subsequent liquidations would not keep pace with needs for advances of funds for delineations due to the great length of time necessary for completion of field work. That situation grew more critical in 1984. The revolving fund has served as a solution to the lack of advances from PTT's budget starting in 1986 and continuing into 1987.

The draft report indicates that PTT vehicles could not be maintained due to spare parts shortages resulting from lack of funds. However, they were

not PTT vehicles. Those employed in the Project make up only a portion of DEC's fleet, most of which are used for other purposes. The spare parts shortage involved DEC's own budget and should have been addressed by that agency on a fleet-wide basis. Also, even though some vehicles were assigned to PTT, the spare parts issue had much to do with the general lack of such items in Honduras at that time.

Mission Actions to Resolve Problems

The draft report states that, between August 1986 and January 1987, PTT received no funds from the Mission. In fact, the Mission advanced PTT L.500,000 while all parties awaited Ministry of Finance approval for an increase of L.2,000,000 in the revolving fund. DEC had access to that advance for approximately four months prior to the increase of the fund at the start of 1987. Both the advance and the revolving fund were effective in providing liquidity to the Project. No work stoppages have occurred since.

Problem Impact

As mentioned above, after the Mission resolved the issue of lack of funds for DEC's field staff, no time was lost whatsoever. The audit report indicates that a number of days were lost prior to the revolving funds. However, it should be noted that only in the field did that take place. All other PTT work, both at INA and at DEC, was carried on as usual.

The report indicates that some delineation products were of poor quality. In fact, INA's staff continued to reject any and all field work done by DEC's delineators that was of less than high quality. In all such cases the work not meeting certification standards was immediately returned to DEC for additional preparation. DEC then returned the rejected product to the field for reviews and corrections. It should be noted that all work that has been certified, and qualifies for liquidation, is always of high quality. Where rejections have taken place, that work is sent back to the field and subjected to technical assistance until it is considered acceptable to those responsible for reviewing for certification.

Council for Human Resources Development Project No. 522-0257

a. Our observations on the draft audit report contains only minor clarifications. However, the section on the replacement of the technical assistance team does not fully reflect the nature of the technical assistance and the manner in which technical assistance deficiencies were detected.

b. Our response to the various sections of the draft audit follows:

The section on Project Implementation Problems states: "The Mission learned of the problem in December 1985 during a meeting between the Director of CADERH and the AID project liaison officer. The problem

should have been raised earlier but initial implementation agency administration problems consumed most of the project officer and liaison officer's time. Once these problems were improved in late 1985, attention shifted to assessing project accomplishments."

It is true that CADERH was undergoing major personnel changes from July-September 1985 and both the Project and Liaison Officers participated in the orientation of new personnel for accelerating Project implementation. It was very difficult to identify the problem any earlier, however, because of the nature of the technical assistance which was working with trade advisory committees on curriculum development. This area, at the time, did not have appropriate measurable evaluative outcomes. For example, competency based curriculum development begins with meetings of trade advisory committees. These committees were organized and began working in San Pedro Sula and Tegucigalpa in August 1985. During this process general occupational skills (competencies and tasks) were identified by the trade advisory committees. The technical assistance team then had the responsibility of refining these into more specific performance objectives with quantifiable indicators. The competencies and tasks were defined as anticipated and the technical assistance was being monitored during this period (through early October 1985).

However, as the technical assistance team was to present its performance objectives in October and November 1985, we began to notice deficiencies. The technical assistance team explained that they preferred to develop full training modules before defining the performance objectives. In contrast, we argued that competency based instruction required that the performance objectives be developed and approved by the advisory committees before beginning any further curriculum development. Although this difference in opinion caused initial concern, the Mission's position was accepted by the technical assistance team and we then jointly awaited the performance objectives.

It was in December when the final list of performance objectives for three trade areas was presented by the technical assistance team. Although CADERH and the Mission asked for the objectives earlier, the technical assistance team requested additional time to put the objectives into final form, to assure that the advisory committees were all in agreement on the final product, and also requested that we not judge their work on the basis of the initial objectives but on the basis of the final product. This seemed reasonable and extensions of several weeks were given for presenting the performance objectives in final form. When their work was presented, it was evident that the objectives were not defined with sufficient specificity and, at this point, we recognized that the technical assistance was not acceptable. Central Texas College's home office was contacted.

The section on Semiannual Report Problem Presentation states:

1. "...the technical service contractor was not identified. This type of information could be useful if other projects had or were also experiencing problems with the same contractor. This was exactly the case with another USAID/Honduras project which also had a technical service contract with the same project."

2. "Other project information contained some minor errors in financial figures and dates. In addition, the reports did not show actual counterpart contribution disbursements."

The only other Project receiving technical assistance from Central Texas College (CTC) was another A.I.D. financed Project (ITEC Project No. 522-0287). The Mission's Project Officers and ITEC were informed of the problem.

As now required by AID/Washington, we will provide the counterpart financial information in Mission semiannual reports. At the time of this audit, counterpart contributions in semiannual reports were not required.

The section on Problem Impact states:

"Two contract elements - wood work certification competency standards and an instructor training program..." This should read: "Two contract elements - the wood working training curriculum and an instructor training program...."

"The technical assistance problems also resulted in fewer workers being certified." This should read: "The technical assistance problems also resulted in fewer workers being certified because of consequent delays in project implementation."

8. Export Development and Services Project No.522-0207

Our responses to the various sections of the draft audit report follow:

Project Implementation Problems

Your draft audit report states that: "Project Implementation had been adversely affected by inadequate coordination and communication among the key project participants -the Central Bank of Honduras, Ministry of Finance and Public Credit, USAID/Honduras, and the local commercial banks."

It should be understood that the Ministry of Economy and Commerce is the Ministry responsible for Project implementation, not the Ministry of Finance. However, once the Project was approved, the Central Bank of Honduras (CBH) became the entity primarily responsible for resolving outstanding issues with regard to the credit lines. The statement that the USAID Mission has not worked continuously with key project

participants is incorrect. Following Project obligation, we worked closely with the Central Bank providing guidance on implementing regulations for the funds. A USAID Credit Advisor participated on a daily basis and was responsible for the design of the shared risk mechanism for the Lempira Fund. Implementing regulations for the two lines were approved in August and September 1985. As a result of continuing discussions with the Central Bank, in January and again in March 1986, the Mission and the CBH amended the regulations initially approved in 1985. Since mid-1986, we have had numerous meetings with the Central Bank; in fact, monthly meetings have been scheduled since October 1986, with additional meetings held as needed to negotiate changes to the regulations, which were subsequently approved as per Project Implementation Letter No. 53.

Every semi-annual report since March 1986 cited problems with the credit lines. As the credit lines came into operation, the March 1986 report "Major Outputs" section was changed to include as an output indicator the value of certificates of eligibility issued. The subsequent September 1986 report indicated the movement of the credit lines. It also identified and described in a separate section problems encountered and the our intention to focus on the problem, as well as the Mission's intention to explore the possibility of reprogramming some of the dollar and local currency line funds.

During the following semester, local currency funds were reprogrammed. As we gained more experience with the credit lines, the semi-annual report was refined again, adding additional output indicators to better track utilization of both the dollar and lempira revolving funds. In addition, numerous memoranda to the files recorded the Project Officer's sustained efforts to work with the Central Bank to put the credit revolving funds into operation. These documents evidence our concern over the credit lines.

The facilities available were promoted by FIDE and FEPROEXAAH among their clients and the commercial banks. They issued a brochure which described the facilities and their operational procedures. One bank, FICENSA, even held a seminar to promote the facilities among its clients. Mission staff and representatives from the Central Bank gave presentations to the banks in Tegucigalpa and San Pedro Sula, and to members of the Chamber of Commerce in San Pedro Sula. As a result, we believe the banks are quite familiar with the facilities and advantages provided to reduce their credit risk, such as the shared risk feature of the local currency fund. The need to make the facilities more attractive to the banks and exporters by increasing their share of the foreign exchange earnings generated was recognized and is reflected in the letter to the Central Bank dated October 15, 1986, in which the Mission addressed this issue and other issues such as the one year export/import permits. We know that initial efforts resulted in operating regulations that did not expedite flow of credit due to the changes in circumstances (e.g., increased liquidity in the banks), and the complexity and innovativeness of this new program

which Honduran bankers have been slow to embrace. Documentation in our files substantiates the significant and sustained effort made by Mission officials to look for ways to overcome operational problems by addressing what were perceived as the "root causes" of slow disbursements of the revolving funds.

Semiannual Report Problem Presentation

With regard to the revolving credit funds, the September 1985 report identified no significant problems because, at that time, the regulations for the dollar and lempira funds had just been approved by the Central Bank and AID. However, during the following six months, problems with the funds evolved and a process of revision of those regulations was carried out, which led to a delay in disbursement of funds. By April 1986, the regulations had been amended and the Mission fully expected increased disbursements. In fact, as of September 1986, the Central Bank had rediscounted $2,450,000 in local currency loans; by June 30, 1987, that figure was $6,500,000 equivalent in local currency loans.

Problem Impact

The draft report states that: "....no annual Export/Import permits had been issued." This is incorrect. According to PIL No.53, dated April 13, 1987, the USAID, Central Bank of Honduras, Ministry of Finance, and Ministry of Economy agreed to the following: "The Central Bank will give priority to the issuance and renewal of Export/Import Permits to those exporters participating in the program processing those permits within five (5) working days." This agreement avoids delays in obtaining permits, even though they are issued on a case-by-case basis. Also, it should be noted that the One-Stop Export Document Processing Center (CENTREX) has been created to centralize all nontraditional export document processing initially in one location in Tegucigalpa, which is already open to the public, and a second facility in San Pedro Sula opened on Friday, August 7, 1987. The purpose of CENTREX is to shorten the processing time required and to simplify paperwork required of exporters.

Also on the public sector side, the Government of Honduras' policy and promotion activities have resulted in: (1) the passage of legislation to facilitate nontraditional exports (revised Temporary Import Law passed 10/86; Export Processing Zone Law passed 4/87; revised Export Promotion Law passed 5/87); (2) a reorganization within the Ministry of Economy and Commerce and the creation of the National Council for Export and Investment Promotion (CONAFEXI); (3) the establishment of a One-Stop Center (CENTREX) for government approvals for exporters and importers; and (4) the launching of the Year of Exports 1987. These actions show substantial GOH action to improve the climate for increasing nontraditional exports.

Concerning the counterpart contributions, data was submitted in the semiannual report for the period ending March 31, 1987, as now required by AID/Washington.

9. FOPRIDEH Institutional Strengthening Project No. 522-0266

The draft audit report refers to the need for FOPRIDEH to become self-sufficient.
FOPRIDEH has devised an action plan for generating its own financing which includes seeking assistance from other donor sources, collecting administration fees from sub-projects, administration of non-FOPRIDEH projects for other institutions, interest income generated under subproject revolving funds, and fees for member services. They are presently working with BANCASA, a local bank, to try and channel some of the Bank's development funding through FOPRIDEH. They are also talking with several private sector organizations regarding donations. FOPRIDEH will finalize a $500,000 loan with the Inter-American Development Bank by the end of this year and are also starting an extensive fund raising campaign in Europe fund raising in September. As of June 30, 1987 FOPRIDEH had generated L700,000, or approximately enough funds to support it for one year.

Recently, a progress evaluation of FOPRIDEH was completed. As a result, the Mission is helping FOPRIDEH to program some of its dollar budget to bring in technical assistance to develop services for which fees can be charged to expand its fund raising campaign, and other activities to help generate income. FOPRIDEH has already generated support for one year and this concerted effort as described above is achieving results. The Mission feels that FOPRIDEH is making good progress in this area and is well on its way to being able to finance itself once the project is over.

The draft report states that only $900,000 out of a planned $2.25 million of the ESF local currency had been disbursed to the project by April 1987. The Mission has disbursed an additional $2 million bringing the total amount disbursed to $2.9 million. Because FOPRIDEH had continued to approve subprojects as scheduled, most of these funds are already committed and they are practically on schedule again with their disbursements and commitments of local currency.

10. Rural Roads II Project No. 522-0214

Our response to various sections fo the draft audit report follows:
Project Implementation Problems" :

The statement that, as a result of budget uncertainties, the Project contract staff found themselves in a state of uncertainty for one to three months infers that they were not on the job. This is misleading. In reality, they continued to work in anticipation of contract renewal and for the most part continued to make field trips. As to the paragraph concerning counterpart funds for maintenance of rural roads in 1987, an amount of lempiras 1.4 million was made available from ESF funds for this purpose through Implementation Letter No. 135 on May 12, 1987. These funds will be used throughout 1987. Therefore, there will be no detrimental effect on the condition and usability of these roads. Further, one year contracts are mandated by current Honduran legislation.

Length of contracts are not established by budgeted amounts. Therefore, please correct your statement relating budgeting and contracting.

Mission Action to Resolve Problems: Their section states that: "AID Project staff were required to fill-in for implementing unit personnel until new contracts were signed and funded." A.I.D. Project staff were never required to fill-in for implementing unit personnel. There never was any danger that the Project would come to a complete halt. USAID Project staff realized that certain problems existed on the GOH side and took necessary steps to minimize the adverse effects. The last sentence of this paragraph is unclear. To say that additional delays will be experienced and that the Project will have diminished impact is speculation. USAID and SECOPT staff have proceeded with implementation, especially on planning and contracting. The awarding of road and bridge contracts totalling about $4 million (contracts will be signed as soon as contractors receive financial certification) are in process, with approximately $ 3.5 million more expected to be approved in the near future. This will result in about $ 9.5 million in contracts by the end of FY 1987. Sixteen road projects are presently under construction, two more are about to start, bids have been received on eight others and justification of more projects is under way. Full commitment of Project funds is expected by December 31, 1988. In our opinion, this cannot be considered as experiencing additional delays or having less impact.

With regard to your comments on the lack of funds for maintenance, these funds were budgeted in 1985, 1986 and recently in 1987 for maintenance of rural roads. It is unclear how you could conclude that no GOH funds were budgeted for maintenance of rural roads and predict resultant dire consequences. The roads in question will not continue to deteriorate and the investment in construction will not "... have been possibly wasted."

11. Strategic Planning and Technical Support Project No. 522-0269.

a. In addressing the comments in the draft audit report, we believe it would be helpful to point out several needed corrections. For example, the Introductory section states that the Project was authorized on August 23, 1985, however, the Authorization was signed on August 1, 1985 (the Project Agreement was signed on August 23).

Although, we often must use shorthand to refer to the Project due, for example, to the limitations on characters to be used in MACS, the correct titles for the two components of the Project are:

Component 1: Strategic Planning and Policy Analysis

Component 2: Technical Support and Assistance.

We appreciate your pointing out that our records had to be updated to reflect the allocation ("distribution") of funding to those two components. In discussing the financial and implementation status of

the Project, the draft report uses various dates, e.g., September 30 and December 31, 1986. Since a good deal of the field work for this audit was performed after the close of the second quarter of the fiscal year, when Agency financial reports were prepared and available, we believe that December 31, 1986, is the more appropriate date to use in providing fiscal information. No counterpart contributions had been reported because the requirement to track these in semiannual reports was not established until the receipt of State 95207 on April 1, 1987. As of March 31, 1987, the local currency equivalent of $173,854 had been provided for SPATS activities from the local currency trust fund. In addition, proposals for assistance under the first component of the Project indicate that in-kind support valued at an estimated $963,154 would be provided.

Based upon financial information available in the USAID's Controller's Office, we have modified the financial reporting for SPATS. The $400,000 "to be distributed" shown in the March 31, 1987, Quarterly Financial Report has been allocated to the Strategic Planning and Policy Analysis and the Technical Support and Assistance components of the project. Reservations and earmarks have been added to the commitment data since the total of those three provides a clearer picture of funds available for project activities. To assist in the comparison of the Project's financial status at the end of March and and the end of May, disbursement data are provided since accrual information is developed only quarterly. Attribution of studies and technical assistance between the Strategic Planning and Policy Analysis and the Technicial Support and Assistance components of the project have been corrected. Future Quarterly Project Financial Reports of the Controller's Office will reflect these allocations.

SPATS Financial Status
(Dollars)

Project Component	Obligations	Commitments	Disbursements	Unearmarked
As of March 31, 1987:				
Strategic Planning and Policy Analysis	2,000,000	473,270	25,000	1,526,730
Technical Support and Assistance	2,000,000	854,196	289,803	1,145,804
To be distributed	0	-	-	0
	4,000,000	1,327,466	314,803	2,672,534

As of May 29, 1987:

Strategic Planning and Policy Analysis	2,000,000	873,270	82,705	1,126,730
Technical Support and Assistance	2,000,000	1,144,459	395,347	855,541
	4,000,000	2,142,729	486,852	1,982,271

Your statement that the September 30, 1986, semiannual report indicated that there were no major implementation problems requiring the Mission Director's or AID/W's attention is correct. However, it is clear from the material presented in our semiannual report that the Project was suffering implementation delays. That material also clearly specifies a number of actions which were underway and proposals being reviewed indicating that those delays should be overcome soon.

In view of the March 31, 1987, and May 29, 1987, status of SPATS, we believe it would be appropriate to update the statement regarding commitments, earmarks, and reservations under the Strategic Planning and Policy Analysis component.

b. The draft audit report states that inactivity (no funds earmarked or committed) under the Strategic Planning and Policy Analysis component of the Project through December 31, 1986, was caused: (1) by a late start in initiating project activities because of personnel shortages and other workload demands; (2) because the implementing agency, SECPLAN, lacked adequate knowledge about the project; and, (3) because of a five month interruption due to presidential elections and subsequent government personnel changes.

These statements overemphasize a comment in the September 30, 1985, semiannual report regarding personnel shortages. Although true for the period covered by that report, (i.e., approximately one month from August 23 to September 30 1985), the personnel shortage issue was resolved with the assignment of a Project Officer in early September 1985 and the transfer of a Project Liaison Officer on September 30, 1985. The Liaison Officer was wrapping-up responsibilities under another project and was not financed from the Project until May 1986. However, increasing amounts of his time were devoted to the SPATS Project from the time of his transfer. This was the reason a "shortage of personnel" issue was not repeated in future semiannual reports -the problem had been solved.

c. With respect to the section on Mission Actions to Resolve Problems, the audit fails to acknowledge the nearly dozen working level meetings which took place with the Ministry of Finance and Public

Credit between November 1985 and March 1986. Also, the audit does not mention that the soon to be named Minister of Planning, Coordination and Budgeting (who at that time was a Mission employee) participated in the Mission's initial organizational meeting for implementing the Project. As Minister, he chaired the first several Consultative Committee meetings as implementation of the Strategic Planning and Analysis component of SPATS got underway. Due to our error in the previous semiannual reports, SECPLAN is incorrectly identified as the implementing agency for SPATS. The Vice Minister of the Ministry of Finance and Public Credit is the GOH's legal representative and the Consultative Committee made up of GOH representatives from that Ministry, the Minister of Planning, Coordination and Budgeting and the Central Bank jointly implement the Project for the GOH. The Consultative Committee agreed that SECPLAN, through its official representative, would act as chairman of the Committee. The audit does not consider the almost dozen working level meetings with the Ministry of Finance and Public Credit between November 1985 and March 1986, as well as the USAID meetings and seven Consultative Committee meetings (under the Chairmanship of SECPLAN) between April 1986 and December 1986 --each of which was preceded and followed by detailed working group meetings. During all of these meetings the purpose, objective, scope, and functioning of the Project were discussed.

The correspondence which documents the convening of meetings and the decisions reached, the newspaper advertisements regarding the Project published by and at the expense of CONSUPLANE on May 29 and 30, and June 2 and 3, 1986, and the newspaper advertisements published by USAID in July 1986, the Consultative Committee's Bylaws, a briefing paper titled Que Es PESAT, and a proposal format titled Formato Para Solicitud de Financiamento de un Estudio Bajo...(PESAT) all argue against a conclusion that there was a lack of knowledge about the Project. We believe it is more probable that proposals included items which SPATS would not finance: (1) as a negotiating strategy to maximize the assistance from SPATS; or (2) because they represented ideas on hand with the proposers before SPATS became active. It is significant that although the Committee eliminated those items which were not appropriate for SPATS financing or which should be provided by the beneficiaries, none of the proposals were withdrawn.

In our opinion, the audit does not give adequate recognition to the lack of USAID control over the root cause of those delays. These were: (1) the national election campaign which was underway at the time the Project Agreement was signed (August 23, 1985); (2) the meeting of initial Conditions Precedent on December 9, 1985 (an important date which should be considered the actual starting point of the project and which is not mentioned); (3) the inauguration of the new Administration, Cabinet and other officials on January 27, 1986; (4) the time needed after the inauguration and assumption of

office to commence carrying out duties; and (5) the naming of the GOH representatives on March 13 for the Ministry of Finance, April 1 for SECPLAN, and May 30, 1986, for the Central Bank. It should be noted that the Mission actively pursued the naming of these officials both informally from September 1985 and formally through Implementation Letter Number 2 of February 25, 1986, and Implementation Letter Number 3 of May 30, 1986.

The statement that there continues to be a problem (as of April 1987) regarding knowledge of the project is not factual. The documentation underlying the material presented above demonstrates that there were extensive discussions with a wide range of officials over an extended period of time covering all aspects of the Project.

The first formal meeting of the Consultative Committee took place April 11, 1986. There is evidence that the Mission took numerous steps to accelerate implementation - naming of a Project Officer, transfer of a Project Liaison Officer, meetings with and letters to the Ministry of Finance and Public Credit, acceleration of meetings far above the quarterly meetings called for in the Project Agreement, etc. Delays were outside the control of the Mission and the time needed to resolve these delays is a fact of life of the development work in which A.I.D. is engaged.

The first proposals under the Strategic Planned and Policy Analysis component were received in August 1986 and not October 1985.

With regard to the section on Semiannual Report Problem Presentation, AID/W has basic control of the format and content of semiannual reports. However, it should be noted that the Project was experiencing implementation delays and not "problems" requiring action by the Mission Director or AID/Washington.

Mission management and AID/W are on record as stating that semiannual reports, and presumably the information they contain, are useful. AID/W has lauded the Mission on its semiannual reports and management systems. These opinions by the users of the information and decision makers of the Agency support the USAID's position on this issue.

The requirement to provide information on counterpart contributions was only received on April 1, 1987 (see State 95207). This information is included in the semiannual reports for the period ending March 31, 1987.

Except for the contracting of management support consultants to assist in carrying out the Central American Initiative, as called for in the Project Agreement and discussed and approved by the Consultative Committee, technical assistance can be provided under the SPATS Project only in response to requests. RIG should not

fault USAID if few such requests have been received. Since the preparation of the RAF, one such proposal has been received (support for the census) and favorably acted upon. AID/W "guidance" (inter alia, 85 State 243395 and 86 State 99474) on semiannual reports requires brevity and requests "repetitive" financial information. The Mission objects to the assertion that major outputs were misleading. That subject was extensively addressed in the response to the RIG's separate "inquiry" regarding SPATS.

d. With respect to the draft audit's section on Problem Impact, the second and third sentences of paragraph 1 should be deleted and replaced by the following: The Mission has used funds under the Technical Support and Assistance Component of the Project to, inter alia, support eight personal services contractors to assist in the design and implementation of the joint U.S.-Honduran economic assistance program. The appropriateness of funding personal services contractors to support the joint U.S.-Honduran economic assistance program has been referred to the Inspector General's legal office for an opinion.

LIST OF REPORT RECOMMENDATIONS

Page

Recommendation No. 5

We recommend that USAID/Honduras:

(a) formalize its management system for resolving critical implementation problems to include specific assignment of responsibility for tracking, reporting and timely settlement of problems and

(b) assess and report to AID/Washington the effect that the Mission's expanded activities have had on the Mission staff's ability to effectively perform their assigned responsibilities.

Recommendation No. 2 13

We recommend that USAID/Honduras issue a Mission Order or equivalent document covering the semiannual reporting process which includes guidelines for enhancing report usefulness. These guidelines should establish the criteria for report preparation and review to better guarantee full disclosure of critical project implementation problems, accuracy of data, and identification of deobligation potential.

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Recommendation No. 3

We recommend that USAID/Honduras:

(a) issue a Mission order emphasizing the importance of deobligation/ reobligation authority, describing the factors and procedures that should be considered and followed in using it and requiring that deobligation potential be identified in the semiannual project status reports; and

(b) immediately suspend the planned procurement under the Rural Water and Sanitation Project, until it provides evidence that the procurement decision was based on a careful analysis of alternatives and that the implementing agency can effectively maintain and use the proposed equipment in the absence of AID financial assistance. Without such evidence, we recommend that the planned procurement funding of $1.8 million be deobligated with the other excess funds being considered for deobligation by the Mission under this project.

Recommendation No. 4 22

We recommend that USAID/Honduras issue a Mission Order or equivalent document requiring that memoranda on project modifications to the Mission Director include essential project information such as funds remaining, rate of expenditures and a discussion of the advantages and disadvantages of alternatives to extending the completion date.

Appendix 3

REPORT DISTRIBUTION

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GC	1
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