

PD-ABA-209

64142

**AUDIT OF
USAID/HONDURAS' ACCOUNTING FOR
LOCAL CURRENCY PROGRAM FUNDS**

**Audit Report No. 1-522-90-04
December 6, 1989**

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987
also 32-3120 EXT. 2701-2703

December 6, 1989

MEMORANDUM

TO: USAID/Honduras Director, John A. Sanbrailo

FROM: *for* RIG/A/T, Coinage N. Gothard *Son Murphy*

SUBJECT: Audit of USAID/Honduras' Accounting for Local Currency Program Funds

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of USAID/Honduras' Accounting for Local Currency Program Funds. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments in their entirety are attached to the report as appendix 1. The report contains four recommendations. Recommendation No. 4b is considered closed upon final report issuance, and requires no further action. Recommendation Nos. 1, 2, 3, and 4a are considered resolved but cannot be closed until further action is taken. Please advise me within 30 days of any additional actions taken with respect to these recommendations.

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

The local currency equivalent of \$574.7 million had been made available under the Economic Support Fund and Public Law 480 Title I and Title I/III programs in Honduras during the period June 1982 through December 1988. The equivalent of \$541.5 million had been jointly programmed by USAID/Honduras and the Government of Honduras to finance public and private sector development activities of which \$456.6 million had been disbursed.

The Office of Regional Inspector General for Audit/Tegucigalpa made a performance audit of USAID/Honduras' accounting for local currency program funds. The specific audit objective was to determine the effectiveness of USAID/Honduras' and the Government of Honduras' systems to properly account for local currency in accordance with A.I.D. policy.

The audit found that USAID/Honduras' and the Government of Honduras' systems had not fully accounted for the use of local currency program funds in accordance with A.I.D. policy. USAID/Honduras was, however, monitoring certain aspects of the program in that its Office of Controller, Financial Analysis Review Section had conducted about 60 financial reviews annually since 1985 of the activities funded under the local currency program. The majority of these financial reviews covered A.I.D. direct assistance projects that had received local currency counterpart funds and generally provided good information to management on these activities.

The report contains four findings. First, at least \$129 million in local currency was not disbursed in compliance with A.I.D. policy. Second, USAID/Honduras did not obtain adequate assurance that the Government of Honduras implementing agencies had the required accounting capabilities to carry out the program. Third, USAID/Honduras did not use independent audit as a means of providing assurance that local currency was appropriately accounted for. Last, USAID/Honduras' Office of the Controller needed to strengthen its administrative control over the recommendation follow-up process.

A.I.D. local currency policy calls for missions, as a minimum, to ensure that documentation exists to demonstrate that local currency is disbursed from the special account to the appropriate project or line agency. Local currency funds of at least \$129 million equivalent programmed for public sector

projects, sectoral support, and general budgetary support were not disbursed in compliance with Agency policy. This situation occurred because the Government of Honduras' accounting system did not segregate local currency inflows to the Government of Honduras Treasury, so that their later disbursement from the Treasury could be traced to the intended recipient. As a result, USAID/Honduras did not have the required assurance that all of the local currency intended for the public sector was disbursed as intended. The report recommends that disbursement of local currency to the public sector be suspended until evidence can be provided to demonstrate that local currency can be adequately accounted for from the special account to the intended recipient. Management stated that USAID/Honduras will establish new disbursement procedures with the Government of Honduras that will comply with the traceability requirement. This recommendation is resolved.

A.I.D. policy requires USAIDs to assure that the technical and administrative capabilities of the host government's implementing entities are satisfactory. USAID/Honduras did not obtain adequate assurance that the Government of Honduras implementing agencies had the required accounting capabilities. Although USAID/Honduras made a positive certification of the accounting system used by the Government of Honduras' Ministry of Finance and Public Credit, its verification did not extend to the various Government of Honduras implementing entities responsible for projects receiving local currency funds. As a result, USAID/Honduras was not aware that the Ministry of Finance and Public Credit was reporting the status of local currency funds inaccurately. Therefore, USAID/Honduras had less than reasonable assurance that programmed local currency funds were accounted for properly and disbursed as intended. The report recommends that a determination be made that the accounting capabilities of the entities implementing the program are satisfactory. The Mission's Office of the Controller made a certification of the implementing entities. However, this certification did not include an assurance that reconciliations between amounts expended by the entities and the amounts reported as expended under the program were being made. This recommendation is resolved but will remain open until such assurance can be provided.

A.I.D. policy calls for missions to have reasonable assurance that local currency assistance funds have been used

appropriately. Independent audit is required to verify if local currency is adequately accounted for and used as jointly programmed. USAID/Honduras did not identify the universe of local currency recipients and did not encourage the independent audit concept. It considered its in-house financial reviews as a substitute for independent audits, however, its financial reviews are not audits. As a result, there was less than reasonable assurance that proper fiscal control existed over approximately \$363 million equivalent in Economic Support Fund and Public Law 480 Titles I and III local currency assistance funds. The report recommends that independent audit reports of local currency financed activities be obtained, evaluated and followed up by appropriate USAID/Honduras staff. The recommendation is resolved.

Basic management principles require the prompt resolution of financial review recommendations. The Office of the Controller, Financial Analysis Review Section's follow-up files demonstrated that the status of several financial review issues was uncertain. The Office of the Controller had not adequately maintained these files. As a result, USAID/Honduras did not always know whether recommended corrective actions and recoveries had been completed. The report recommends that the issues identified by the Office of the Controller, Financial Analysis Review Section, in its financial report recommendations be resolved. The recommendation is resolved.

Office of the Inspector General

**AUDIT OF
USAID/HONDURAS' ACCOUNTING FOR
LOCAL CURRENCY PROGRAM FUNDS**

TABLE OF CONTENTS

	<u>Page</u>
PART I - INTRODUCTION	1
A. Background	1
B. Audit Objectives and Scope	2
PART II - RESULTS OF AUDIT	4
A. Findings and Recommendations	5
1. Local Currency Disbursements for Public Sector Activities Were Not Accounted for As Required	5
2. USAID/Honduras Needed To Expand Its Certification Coverage of Government of Honduras Accounting Systems	9
3. USAID/Honduras Needed to Ensure That All Local Currency Program Activities Were Appropriately Audited	14
4. USAID/Honduras Needed to Improve Its Management of Outstanding Financial Review Recommendations	19
B. Compliance and Internal Control	22
C. Other Pertinent Matters	23

PART III - EXHIBITS AND APPENDICES

A. Exhibits

1. Summary of the Local Currency Program in Honduras Made Available from ESF and PL 480 Funds
2. Summary of Local Currency Program Funds Disbursed to the Government of Honduras Treasury
3. Summary Results of Accountability Review of Selected Projects Funded Under the USAID/Honduras Local Currency Program
4. Summary of Issues Identified in USAID/Honduras, Office of the Controller, Financial Analysis Review Section Reports Requiring Resolution per RIG/A/T Audit Recommendation No. 4.a.

B. Appendices

1. Management Comments
2. List of Report Recommendations
3. Report Distribution

**AUDIT OF
USAID/HONDURAS' ACCOUNTING FOR
LOCAL CURRENCY PROGRAM FUNDS**

PART I - INTRODUCTION

A. Background

The local currency equivalent of \$574.7 million had been made available under the Economic Support Fund (ESF) and Public Law 480 (PL 480) Title I and Title I/III programs in Honduras during the period June 1982 through December 1988. The equivalent of \$541.5 million had been jointly programmed by USAID/Honduras and the Government of Honduras (GOH) to finance public and private sector development activities of which \$456.6 million had been disbursed (see exhibit 1).

Local currency was deposited in the Central Bank of Honduras in a special account for each program. Each ESF special account was to fund public sector activities and private sector/special activities that directly supported or complemented Honduran and USAID/Honduras objectives. Funding was split equally between these two activities in accordance with the terms of the ESF agreements. Local currency made available to the special account from the PL 480 Title I and Title I/III programs was to support public and private sector agricultural initiatives.

USAID/Honduras designated its Office of Development Finance (DF) with overall Mission responsibility for the local currency program. It was assisted by the Office of the Controller which played the leading role in financial monitoring of the program. The DF participated with the Ministry of Finance and Public Credit (MFPC) in the programming of local currency and the MFPC provided a monthly status report of the local currency program to USAID/Honduras. Funds were monitored by both the MFPC and the Office of the Controller. The Office of the Controller's Financial Analysis Review Section monitored local currency disbursements and conducted financial reviews of the various activities funded under the local currency program.

B. Audit Objectives and Scope

The Office of Regional Inspector General for Audit/Tegucigalpa (RIG/A/T) made a performance audit of USAID/Honduras' accounting for local currency program funds. The specific audit objective was to determine the effectiveness of USAID/Honduras' and the Government of Honduras' systems to account for local currency in accordance with A.I.D. policy.

To accomplish the objective, we interviewed officials and reviewed agreements and fiscal records and related support at USAID/Honduras and the following GOH entities: The Ministry of Finance and Public Credit, the Ministry of Natural Resources, the Ministry of Health, the Ministry of Education, the Secretary for Communications, Public Works, and Transportation, the Executive Directorate of Cadastre, and the National Autonomous Service for Water and Sanitation. We also tested the system used by the GOH to account for local currency funds programmed for public sector development and agriculture activities. Finally, we evaluated the system used by USAID/Honduras to monitor the programming and disbursement of local currency program funds.

We performed the audit during the period February 1, 1989 to August 7, 1989 in the offices of USAID/Honduras and the offices of the previously referred to GOH entities, all located in Tegucigalpa, Honduras. The audit included local currency funds made available by five ESF agreements and seven PL 480 Title I and Title I/III agreements during the period June 11, 1982 through December 31, 1988 (see exhibit 1); however, our review concentrated primarily on local currency programmed for GOH activities during calendar years 1987 and 1988.

Of the total \$456.6 million equivalent disbursed from the ESF and PL 480 special accounts during the audit period, we reviewed the disbursement of \$192.2 million to determine if the funds could be tracked to their programmed use (see exhibit 2). We examined 29 projects which had been programmed with the local currency equivalent of \$19.3 million to determine if the GOH entities which implemented the projects adequately accounted for the local currency funds (see exhibit 3).

We did not review the eligibility of costs charged to projects and activities funded under the local currency program. In

addition, this audit did not include a review of the excess \$6.7 million in local currency deposited in the USAID/Honduras trust fund because the U.S. General Accounting Office had recently completed an audit of various missions' trust funds, including that of USAID/Honduras.

We limited the review of internal controls and compliance to USAID/Honduras and GOH management of the local currency made available for activities (other than that of the Trust Fund) by the ESF and PL 480 agreements. The audit was performed in accordance with generally accepted government auditing standards.

**AUDIT OF
USAID/HONDURAS' ACCOUNTING FOR
LOCAL CURRENCY PROGRAM FUNDS**

PART II - RESULTS OF AUDIT

Our review of USAID/Honduras' and Government of Honduras' systems to account for local currency program funds disclosed that funds had not been fully accounted for in accordance with A.I.D. policy. USAID/Honduras was, however, monitoring certain aspects of the program in that its Office of the Controller, Financial Analysis Review Section (CONT/FARS) had conducted about 60 financial reviews annually since 1985 of the activities funded under the local currency program. The majority of these financial reviews covered A.I.D. direct assistance projects that had received local currency counterpart funds and generally provided good information to management on these activities.

The report contains four findings. First, at least \$129 million in local currency was not disbursed in compliance with A.I.D. policy. Second, USAID/Honduras did not obtain adequate assurance that the GOH implementing agencies had the required accounting capabilities to carry out the program. Third, USAID/Honduras did not use independent audit as a means of providing assurance that local currency was appropriately accounted for. Last, CONT/FARS needed to strengthen its administrative control over the recommendation follow-up process.

The report recommends that USAID/Honduras suspend disbursements of local currency for GOH projects, sectoral support, and/or general budgetary support until it can be demonstrated that the GOH accounting system can trace local currency funds to the intended recipient, make a determination that the accounting capabilities of the GOH implementing agencies are satisfactory, obtain independent audit reports of local currency financed activities and ensure they are evaluated and followed up by appropriate USAID/Honduras staff, and resolve various issues concerning local currency resources identified in financial report recommendations issued by CONT/FARS.

A. Findings and Recommendations

1. Local Currency Disbursements for Public Sector Activities Were Not Accounted for As Required

A.I.D. local currency policy calls for missions, as a minimum, to ensure that documentation exists to demonstrate that local currency is disbursed from the special account to the appropriate project or line agency. Local currency funds of at least \$129 million equivalent programmed for public sector projects, sectoral support, and general budgetary support were not disbursed in compliance with Agency policy. This situation occurred because the GOH accounting system did not segregate local currency inflows to the GOH Treasury, so that their later disbursement from the Treasury could be traced to the intended recipient. As a result, USAID/Honduras did not have the required assurance that all of the local currency intended for the public sector was disbursed as intended.

Recommendation No. 1

We recommend that USAID/Honduras suspend disbursements of local currency for public sector projects, sectoral support, and general budgetary support until it can provide evidence that the Government of Honduras can adequately account for local currency funds from the special account to the intended recipient.

Discussion

A.I.D. local currency guidance establishes local currency accountability requirements. These requirements vary depending on the level to which local currency is programmed. Mission responsibility is greatest when local currency is programmed for host government project support and somewhat less when programmed for nonproject support, that is sectoral, subsectoral, or budget support of the host government. In order to ensure that local currency is used as intended, A.I.D. local currency accountability requirements, as a minimum, require that:

If A.I.D. and the recipient government program the local currency for more general purposes, for example, an agreement that local currency will be used to meet development budget requirements of, say, the ministry of agriculture, the role of A.I.D. may be limited to ensuring that documentation exists demonstrating that the local currency indeed was

transferred to the ministry's development account. The mission need not trace the funds to specific budgetary or end-use items since A.I.D.'s development goal is a level of overall financial support to a program or institution; indeed, once transferred from a special account to a program or institution, the funds will generally have been combined with other budgetary funds and will not be traceable. However, the mission should generally be satisfied on the quality of overall program activities and the technical and administrative capabilities of the implementing entity or entities to carry out the program.

USAID/Honduras Mission Order 560 also establishes local currency program responsibilities. In regard to monitoring general budget support activities, the Order states:

The Mission (CONT/FARS) will ensure that documentation exists demonstrating that LC [local currency] was transferred (or disbursed) to appropriate line agencies.

Our review found that USAID/Honduras did not fully comply with its local currency monitoring responsibilities. Local currency funds programmed for public sector projects, sectoral support, and general budgetary support were disbursed from the special account directly to the GOH Treasury. At this point the local currency lost its identity and thus could not be traced to the appropriate project account, GOH Ministry targeted for sectoral support, or other recipient for whom the local currency had been programmed.

Our review disclosed that \$129 million equivalent in local currency that had been programmed for public sector projects and activities had been disbursed from the special account to the GOH Treasury. This amount, in all likelihood, is higher as we reviewed only \$192 million of the \$299 million in local currency program funds disbursed as of December 31, 1988 for GOH public sector activities and projects. Of the equivalent \$192 million reviewed, however, \$129 million or 67 percent (see exhibit 2) was remitted directly to the GOH Treasury and could not be tracked to the appropriate GOH ministry, implementing agency, or project account.

The situation occurred because the GOH accounting system did not earmark or identify and thus segregate local currency inflows to the GOH Treasury so that their later disbursement from the Treasury could be traced to the intended recipient. Local currency funds were not segregated because the direct

disbursements to the Treasury were to reimburse it for projects previously funded by the GOH. In using this "reimbursement method" of programming funds, USAID/Honduras has precluded itself from complying with the A.I.D. accountability guidance. As a result, USAID/Honduras could not ensure that \$129 million in local currency had been disbursed from the special account to the appropriate recipient as required by A.I.D. policy.

In conclusion, A.I.D. has established minimum accountability requirements to ensure that local currency program funds are used for their programmed purposes. Unless USAID/Honduras adheres to these requirements, there is less than reasonable assurance that these resources will be used as intended. USAID/Honduras should suspend further local currency disbursements for public sector projects, sectoral support, or general budgetary support until it is satisfied that the GOH accounting system has been modified to permit local currency funds to be traced from the special account to the intended recipient.

Management Comments

Management disagreed with our recommendation citing the following two reasons:

First, the GOH has adequate accounting procedures and records which show the local currency was used as mutually programmed by the GOH and the Mission. Second, LC [local currency] countersigned programming PILS represent formal agreements of the GOH and the USAID/Honduras on the use of funds on either a project or sectoral level, and an accounting base against which the GOH and Mission can and do track disbursement.

To support these contentions, management gave a brief description of the GOH budget system and concluded that "The use of the transfers from the Special Account, however, are traceable through the budgetary system which is used to account for GOH funds." Management also presented a schedule of projects to support the \$25 million in local currency programmed in December 1988 for sectoral support to the GOH.

With regard to the guidance followed, Management stated that "The Mission followed LAC Bureau guidance (STATE 313159, September 24, 1988) which state that 'A.I.D. should ensure that documentation exists demonstrating local currency was

transferred (or disbursed) to the appropriate budget account. The Mission need not trace funds to specific budgetary or end-use items since A.I.D.'s development goal is a level of overall financial support to program or institution.' "

In conclusion, management made the following comments:

The Mission agrees with Recommendation No. 1 in that it should assure itself that the GOH can adequately account for local currency funds from the special account to the intended recipient ("intended recipient" meaning implementing agency under project programming and Ministry under sectoral programming). The Mission is reviewing the possibility of programming funds early in the calendar year. USAID/Honduras has analyzed all categories of assistance allowed for in the current A.I.D. Policy guidance procedures including general budgetary support and has concluded that while from a mechanical point of view general budgetary support may be attractive, that sectoral and project categories allow for a better way of ensuring the resources are used toward development objectives and for assuring LC assistance funds are used appropriately. Based on the Mission's certification on the adequacy of the GOH budgetary and accounting system, including its implementing agencies, the Mission will establish new disbursement procedures with the GOH that will comply with this traceability requirement.

We believe the GOH's budgetary procedures and accounting records show the use of the local currency that was programmed on a reimbursement basis. We do not agree with the report's statement the funds could not be tracked to the appropriate GOH Ministry, implementing agencies or project account. Attachment I shows that ESF funds can be traced to the intended recipient through the GOH budget system. We ask that the recommendation be closed as the Mission has shown that the GOH can account for local currency transfers.

Office of the Inspector General Comments

Although management begins by stating it does not agree with the recommended action, they conclude their comments by stating that "...the Mission will establish new disbursement procedures with the GOH that will comply with this traceability requirement." We believe that management, by taking this correct course action which will satisfy the Agency's accountability requirements as well as our recommendation. This recommendation is considered resolved and will be closed when management provides the new disbursement procedures to RIG/A/T.

2. USAID/Honduras Needed To Expand Its Certification Coverage of Government of Honduras Accounting Systems

A.I.D. policy requires USAIDs to assure that the technical and administrative capabilities of the host government's implementing entities are satisfactory. USAID/Honduras did not obtain adequate assurance that the GOH implementing agencies had the required accounting capabilities. USAID/Honduras made a positive certification of the accounting system used by the Ministry of Finance and Public Credit (MFPC) but did not extend its verification to the various Government of Honduras implementing entities responsible for projects receiving local currency funds. As a result, USAID/Honduras was not aware that the MFPC was reporting the status of local currency inaccurately. Therefore, USAID/Honduras had less than reasonable assurance that programmed local currency funds were accounted for properly and disbursed as intended.

Recommendation No. 2

We recommend that USAID/Honduras make a determination that the accounting capabilities of the Government of Honduras' implementing agencies are satisfactory prior to the programming of any additional local currency for general budgetary or sectoral support.

Discussion

As a prerequisite to programming local currency for sectoral or general budgetary support to the host government, A.I.D. policy states in part:

... the mission should generally be satisfied on the quality of overall program activities and the technical and administrative capabilities of the implementing entity or entities to carry out the program.

Implicit in the above policy is the need for USAID/Honduras to have assurance that the entities carrying out the program have adequate accounting systems to properly account for and report to USAID/Honduras the status of the local currency program. USAID/Honduras did not obtain adequate assurance that the GOH implementing agencies carrying out the local currency program had these required capabilities.

USAID/Honduras' Office of the Controller, Financial Analysis Review Section issued a positive certification of the accounting practices and system used by the Ministry of Finance and Public Credit (MFPC). This certification concluded by stating:

We hereby certify that the MHCP [MFPC] uses standard accounting practices, and that their accounting system is adequate to control and account for the local currency funds and provide sound and timely financial data. We find the monthly Financial Reports present the actual financial status of the local currency funds.

The certification, however, did not extend to the accounting practices and systems used by the various implementing entities which were responsible for executing GOH projects funded under the general budgetary and sectoral programming of local currency. Because of this limited certification USAID/Honduras was not aware that the MFPC was reporting the status of local currency inaccurately.

Within the public sector, local currency was programmed both for projects and for nonproject support (sectoral and general budgetary support) by USAID/Honduras. The GOH supports both types of programming with projects and we were able to assess the effectiveness of the systems established by USAID/Honduras and the GOH to account for local currency funds by visiting six entities responsible for implementing 29 projects funded with local currency. A total of \$19.3 million in local currency was programmed for the 29 projects. As of December 31, 1989 the MFPC reported to USAID/Honduras that \$18.6 million in local currency had been disbursed for these projects. See exhibit 3 for details on all projects reviewed.

Our review disclosed that the MFPC accounting system, used as the basis for reporting to USAID/Honduras on the status of programmed local currency, was not supported by the accounting records of the implementing agencies in 27 of the 29 projects reviewed (93 percent). Our review of implementing agency records showed that disbursements for 25 projects were the equivalent of \$759,380 less than what had been reported as disbursed by MFPC, disbursements for 2 projects were more than what had been programmed, and 2 projects' records were in agreement with MFPC accounting.

We noted larger discrepancies for the 16 projects which were funded through nonproject support programming. As shown in

exhibit 3 the local currency not accounted for under these projects totaled \$666,578. Most of the discrepancies noted were a result of the "reimbursement method" of programming discussed previously in finding 1.

For example, under a GOH project entitled "Road Construction and Supervision - San Nicolas to Pito Solo", USAID/Honduras and the GOH jointly programmed \$1,550,000 equivalent. Local currency was programmed to reimburse project costs which had already been incurred and funded by the GOH during calendar year 1988. The \$1,550,000 equivalent was disbursed to the GOH Treasury, and the MFPC recorded and reported to USAID/Honduras that all of these funds were fully disbursed. However, our review of the records at the implementing entity level demonstrated that only \$1,275,000 in GOH funds had been expended during 1988 for the project. As a result, \$275,000 equivalent was disbursed from the special account, was not supported beyond the records of the MFPC, and was not accounted for.

Implementation of the recommendation in finding 1 should resolve this type of discrepancy.

Although not as significant, records of the implementing agencies for the 13 projects funded directly with local currency showed disbursements of \$92,802 less than reported as disbursed by MFPC. Contributing to the accounting discrepancies and resultant reporting errors was a lack of accounting record reconciliations between the implementing agencies and MFPC. We found only one instance where the MFPC and an implementing agency had reconciled their records. Reconciliation of accounting records is a basic feature of any effective accounting system. These discrepancies between actual local currency disbursements to that reported to USAID/Honduras existed because CONT/FARS had certified the technical and administrative capabilities for only the MFPC and not for the implementing agencies.

Thus, the CONT/FARS review and certification failed to identify problems, such as the absence of GOH reconciliation practices, a basic internal control deficiency. The accounting and reporting of local currency at the implementing agency level is an integral part of the accounting system of the GOH and must be considered when certifying the capabilities of the GOH as a whole. Without reconciliations, GOH accounting practices and internal controls are weak and

USAID/Honduras has less than reasonable assurance that local currency funds have been accounted for properly and disbursed as intended.

Management Comments

Management stated that the Mission's Office of the Controller evaluated the GOH budgetary and accounting procedures for accounting for budget allocations and expenditures. In addition, 69 implementing agencies were reviewed and found to have adequate budgetary and accounting systems to account for funds and were complying with GOH budgetary and accounting requirements. Based on this work the Office of the Controller certified the implementing agencies of the GOH in response to our recommendation.

With regard to the report's discussion of the lack of accounting reconciliations between the Ministry of Finance and Public Credit and the implementing agencies management stated:

It should be noted the implementing agencies, through their Ministry's administrative offices, reconcile their budgetary accounts with the Directorate of the Budget. The legislative decree on GOH budget and accounting procedures make the Directorate of Budget responsible for managing the national budget. We don't believe it is necessary to reconcile programmed amounts with the Directorate of Public Credit.

Management also commented that the report's conclusion, that local currency was not accounted for properly, was incorrect. To support this contention management presented a schedule of projects in support of the \$25 million in local currency programmed for sectoral support to the GOH. The schedule shows that the GOH expended more than what was programmed.

Office of Inspector General Comments

We commend management's timely efforts in complying with the recommended action. However, the certification of the GOH system cannot be accepted until it can be demonstrated that the implementing agencies and/or Directorate of the Budget are reconciling their accounts with the Ministry of Finance and Public Credit (Directorate of Public Credit). These reconciliations are necessary as the Mission uses the figures reported by the Ministry of Finance and Public Credit (MFPC) to report on the status of their local currency program. As an alternative, the Mission could change its source for the

local currency status report from MFPC to the implementing agencies or Directorate of the Budget. It should also be noted that this level of accounting is only necessary when the Mission chooses to program local currency to the project level and is not required if sectoral or budgetary support is programmed.

Finally, we noted various errors in the schedule of projects presented by USAID/Honduras to support the local currency programmed as sectoral support to the GOH. For example, for the project for road construction and supervision from San Nicolas to Pito Solo, management has considered only the funds programmed from one ESF funding source and thus, incorrectly concludes that the GOH expended 1.0 million Lempiras more than programmed. Actually, when all local currency sources were considered we found that the Mission had programmed 500,000 Lempiras (\$275,000) more than expended under the project by the GOH. A similar error was made on another road construction project for 1.5 million lempiras. Based on the methodology used by the Mission in developing their schedule we can not accept their conclusion as valid.

The recommendation is considered resolved and will be closed when USAID/Honduras provides RIG/A/T evidence that the GOH system certified by the Mission includes a procedure for reconciling amounts expended by the GOH entities to the amounts reported as expended under the local currency program.

3. USAID/Honduras Needed to Ensure That All Local Currency Program Activities Were Appropriately Audited

A.I.D. policy calls for missions to have reasonable assurance that local currency assistance funds have been used appropriately. Independent audit is required to verify if local currency is adequately accounted for and used as jointly programmed. USAID/Honduras did not identify the universe of local currency recipients and did not encourage the independent audit concept. It considered its in-house financial reviews as a substitute for independent audits, however, its financial reviews are not audits. As a result, there was less than reasonable assurance that proper fiscal control existed over approximately \$363 million equivalent in ESF and PL 480 Titles I and III local currency assistance funds.

Recommendation No. 3

We recommend that USAID/Honduras:

- a. identify the universe of recipients of Economic Support Fund and Public Law Titles I and III local currency; determine which ones have not been independently audited; and, establish a plan to have them audited;
- b. institute procedures to ensure that periodic independent audits are performed on recipients of local currency made available by the Economic Support Fund and Public Law 480 programs and that standard audit guidance is sent to all recipient organizations; and
- c. establish procedures to ensure that audit reports of said local currency recipients are obtained, evaluated, and followed up by appropriate Mission staff.

Discussion

USAID/Honduras' Office of Development Finance (DF) was primarily responsible for monitoring ESF and PL 480 Titles I and III local currency. DF relied on USAID/Honduras' Office of the Controller, Financial Analysis and Review Section (CONT/FARS) for technical advice and assistance with respect to local currency fiscal matters. The local currency programming officer, assigned to DF, advised us that CONT/FARS was the designated depository for independent audit reports.

A.I.D. policy affecting ESF and PL 480 Titles I and III local currency calls for missions to have reasonable assurance that local currency assistance funds have been used appropriately. The degree of A.I.D.'s monitoring involvement is dependent upon the type of local currency programming and the capabilities of the recipient. To illustrate, A.I.D. policy guidance (STATE cable 327494) provides that periodic audits of activities are to be made when jointly programmed local currency is directly associated (or projectized) with recipient government projects or private sector activities.

In contrast, if a less detailed programming approach such as sector programming is used, there must be assurance that technical and administrative capabilities of the local currency recipient are adequate. As previously discussed in finding 2, certification of technical and administrative capabilities is used to document assurance under this type of programming.

Other regulations and A.I.D. policies establish the requirement for independent audits in order to provide reasonable assurance that local currency assistance funds have been used appropriately. To illustrate, Office of Management and Budget (OMB) Circular A-110 requires all private voluntary and other nonprofit organizations receiving Federal funds to have an audit performed by the institution's independent auditors, usually on an annual basis, but not less frequently than every two years. Although OMB Circular A-110 does not legally apply to indigenous nonprofit organizations located abroad, A.I.D. has administratively extended it to cover them in A.I.D. Handbook 13, Chapter 1. Several of USAID/Honduras' recipients fit this category, and had received ESF and PL 480 Titles I and III local currency as counterpart to their direct assistance-funded agreements.

Next, A.I.D.'s payment verification policy provides, in part, that if local currency is to be made available to an intermediate credit institution or to any other organization, including private voluntary organizations (PVOs), responsible for controlling and reporting on the use of such funds, USAIDs should first assess the organizations' financial procedures and related internal controls. Then, subsequent audit or evaluation reporting on the activity should also measure performance from the standpoint of accountability. Again, several of USAID/Honduras' recipients of ESF and PL 480 Titles

I and III local currency were intermediate credit institutions and PVOs.

Since 1982, USAID/Honduras and the GOH have programmed local currency primarily on a projectized basis. Eliminating the trust fund, budget support and sector support components, the audit found that about \$363 million equivalent in ESF and PL 480 Titles I and III local currency assistance funds had been programmed for projects and discreet activities. Although USAID/Honduras did not identify a universe of local currency recipients, we were able to identify at least 105 executing entities that had received local currency program funding based on USAID/Honduras' CONT/FARS local currency accounting report as of December 31, 1988. However, there were more that could not be identified because in several instances the report associated local currency funding with the project name rather than the recipient.

Nonetheless, for the more than 100 recipients and \$363 million equivalent, the audit found that USAID/Honduras had only 35 external audit reports on file. Instead of obtaining independent audits, USAID/Honduras had relied upon more than 250 financial reviews made by its CONT/FARS to assure itself that the local currency had been appropriately used.

USAID/Honduras did not agree that external independent audits were required. USAID/Honduras believed that the financial reviews performed by CONT/FARS were appropriate and that the CONT/FARS personnel were qualified with broad expertise in accounting, auditing, banking, economics, and automated computer systems. USAID/Honduras also believed that its CONT/FARS staff met the standards of independence and due professional care and that their work was more comprehensive and management-responsive than the reports provided by independent audit firms. In addition, USAID/Honduras believed it was in compliance with OMB Circular A-110 because recipients were required by CONT/FARS to have adequate accounting and reporting mechanisms along with supporting documentation that would identify, segregate, accumulate, and record costs incurred.

Despite the qualifications of the CONT/FARS personnel, U.S. government regulation and A.I.D. policy require external independent audits and we could find evidence of only 35 such audits.

As a result, there was less than reasonable assurance that the more than 100 public and private organizations had established proper fiscal controls over \$363 million equivalent in ESF and PL 480 Titles I and III local currency assistance funds.

To sum up, Federal regulations and A.I.D. policies and procedures have clearly established the requirement for independent audits as a preferred means of providing reasonable assurance that local currency assistance funds have been used appropriately. The existence of only 35 independent audit reports at USAID/Honduras' designated depository indicated an internal control weakness in USAID/Honduras' administration of its local currency portfolio which needed to be corrected.

Management Comments

Management provided the following response with regard to the recommendation:

Concerning Recommendation 3(a), we have identified the current private sector entities which have been audited by external auditors. In addition, ... (financial reviews) have been performed by CONT/FARS of practically all private sector project/activities. On the public sector activities funded with PL-480 Title I and III and Section 416 there has been no A.I.D. requirement for independent audits by external auditors. However, 19 ...{financial reviews} were performed during the past two fiscal years by CONT/FARS of Title I and III and Section 416 projects. These reviews, in our opinion, complied with the standards of OMB Circular A-110 and A.I.D. HB 13 calling for prudent management of A.I.D. funds. Concerning future audits, the Mission will continue to require private sector organizations to contract external auditors. In addition, CONT/FARS will continue to schedule and perform ...{financial reviews} of all private sector organizations and activities in accordance with HB 13. The Mission will also perform financial reviews of public sector activities when required and approved by the GOH. External audits will be made, as required by agreements, of projects/activities financed with appropriated funds.

We request that Recommendation number 3(a) be closed based on the above comments.

Recommendation 3(b) has been complied with. The Mission's management procedures require that all private sector recipients of local currency to be periodically examined by CONT/FARS and external auditors when required by project agreements. Generally, all private sector recipients are being

examined annually or every two years. Recipients of A.I.D. assistance have been provided with standard audit guidance, Attachment "C", Audit Requirements. The attachment was sent with our response to RAF number 4. In addition, the Mission has provided some implementing agencies an expanded audit scope of work for use by external auditors. We ask that this recommendation be closed.

Recommendation number 3(c) has been carried out. CONT/FARS has procedures in place to ensure copies of all external audit reports are received by the Mission, reviewed by appropriate Mission staff and open recommendation of the audit report are followed up. The tracking system shows the entities that require external audits and the audits which are performed by independent external auditors. Please close the recommendation.

Office of Inspector General Comments

We consider management's comments responsive to the intent of our recommendation. Part a. of the recommendation is considered resolved and will be closed when management provides the established audit plan to RIG/A/T. Part b. of the recommendation is considered resolved and will be closed when management provides the applicable procedures to RIG/A/T. Part c. of the recommendation is considered resolved and will be closed when management provides the established procedures to RIG/A/T.

4. USAID/Honduras Needed to Improve Its Management of Outstanding Financial Review Recommendations

Basic management principles require the prompt resolution of financial review recommendations. The Office of the Controller, Financial Analysis Review Section's (CONT/FARS) follow-up files demonstrated that the status of several financial review issues was uncertain. The CONT/FARS had not adequately maintained these files. As a result, USAID/Honduras did not always know whether recommended corrective actions and recoveries had been completed.

Recommendation No. 4

We recommend that USAID/Honduras:

- a. resolve the issues concerning local currency resources identified in report recommendations issued by its Office of the Controller, Financial Analysis and Review Section as detailed in exhibit 4; and
- b. appoint a recommendations follow-up control officer within its Office of the Controller, Financial Analysis and Review Section to ensure that the status of recommendations is accurately and promptly documented and reviewed.

Discussion

Basic management principles require the prompt resolution of financial review recommendations. Audit follow-up standards are established in the Office of Management and Budget's (OMB) circular No. A-50. These standards require among other things:

- Prompt resolution and corrective action on recommendations within a maximum of six months after issuance of a final report,
- Appointment of a follow-up official, and
- Maintenance of accurate records of the status of reports and recommendations through the entire resolution/corrective action process.

Although CONT/FARS is not technically required to follow OMB Circular No. A-50, prudent management practices would suggest that these standards be followed as closely as possible.

In December 1987 the CONT/FARS Chief issued instructions to his employees on professional standards with respect to follow-up. Included with the transmittal was a "Recommendations Control" sheet to be used by CONT/FARS employees. This document was to be used to record the activity, financial review report number and date, recommendation number and status, comments, and responsible follow-up employee. In short, the document was intended to provide a ready reference on the status of recommendations.

While this was a good idea, CONT/FARS employees did not fully implement the instructions. For example, 15 of the 19 financial reviews tested had not been updated, some for over a year. Seven of these files contained recommendations with a monetary value totaling \$17.1 million. The follow-up folders for 4 of the 19 financial reviews tested did not contain Recommendations Control sheets at all.

Each CONT/FARS financial analyst was independently responsible for following up recommendations in their completed reports. Therefore, the integrity of the follow-up files, and the responsibility for coordinating and updating these files depended on the degree of attention given to the files by the financial analysts. The financial analysts had not given a high priority to recommendations follow-up.

As a result of recommendation follow-up weaknesses, USAID/Honduras did not always know whether recommended corrective actions and recoveries had been completed.

In discussing this issue with USAID/Honduras management, we suggested that management require a periodic review and update of CONT/FARS' Recommendations Control sheets and follow-up files. It was also suggested that USAID/Honduras appoint a recommendations follow-up control officer within CONT/FARS to ensure that the status of recommendations is accurately and promptly documented including those identified during the audit and detailed in exhibit 4. On August 17, 1989 USAID/Honduras provided us with a status report on the recommendations which is now included as part of exhibit 4.

USAID/Honduras also stated that CONT/FARS reports issued during 1988 and 1989 were reviewed and missing control sheets had been attached to the appropriate follow-up files. In addition, USAID/Honduras responded that the CONT/FARS staff reviewed instructions for reviewing and updating the files in order to keep them current. Also, effective July 31, 1989, procedures were implemented in which each financial analyst will complete a monthly Status Report on Recommendations for all reports for which the analyst has monitoring responsibility. The reports will be summarized and both the summary and individual detailed Status Reports will be distributed to responsible USAID/Honduras staff for their information and follow-up action.

The mission's actions demonstrated its desire to improve the situation. However, we believe the proposed procedure would not be as efficient as if a follow-up control officer was given responsibility for the entire follow-up system. USAID/Honduras may wish to reevaluate the proposed procedure prior to implementation.

Management Comments

In response to recommendation 4.a. management provided a status of each outstanding issue requiring resolution. According to the status report seven of the ten issues have been resolved and closed by the Mission. The remaining three issues are open issues.

With regard to recommendation 4.b. management has designated the Chief of the Financial Analysis and Review Sector as the follow-up control officer.

Office of Inspector General Comments

We consider management's comments responsive to the recommendation. Part a. of the recommendation is considered resolved and will be closed when management provides evidence that the three remaining open issues have been resolved by USAID/Honduras. Part b. of the recommendation is considered closed upon issuance of this report.

B. Compliance and Internal Control

We limited the review of compliance and internal control to Government of Honduras and USAID/Honduras management of local currency funds made available under the ESF and PL 480 agreements.

Compliance

There were three compliance exceptions. First, USAID/Honduras had not implemented A.I.D. policy which required that local currency disbursements or transfers be traceable to the implementing entity level (finding No. 1). Second, USAID/Honduras had not implemented independent audit as a means for providing the Mission assurance that local currency was appropriately accounted for as called for by A.I.D. policy (finding No. 3). Last, USAID/Honduras' CONT/FARS had not complied with its own procedures with regard to recommendation follow-up (finding No. 4).

Internal Control

The audit disclosed five internal control deficiencies. USAID/Honduras had not established adequate procedures to ensure that: (1) local currency programs funds were traceable from the special accounts to their intended recipients (finding No. 1), (2) implementing agencies had adequate technical and administrative capabilities to carry out the local currency program effectively (finding No. 2), (3) independent audits were being conducted on the use of local currency funds by recipient organizations (finding No. 3), and (4) administrative controls over the recommendation follow-up system were functioning adequately (finding No. 4). In addition, our review at one GOH implementing agency found that adequate internal control procedures had not been established over supplies purchased with local currency funds (other pertinent matters).

C. Other Pertinent Matters

Although the scope of this review did not include end-use reviews of program resources, the following matter came to our attention and is presented for USAID/Honduras' management consideration.

The National Autonomous Service for Water and Sewer Systems (SANAA) is the GOH semiautonomous institution responsible for the nationwide distribution of water resources and sewage services. The Rural Water and Sanitation Project - SANAA (PRASAR-SANAA) is an implementing unit within the SANAA organizational structure established to execute A.I.D. funded projects. PRASAR-SANAA maintains its own warehouse to store and manage materials and supplies needed to execute the projects for which it is responsible. SANAA also maintains several warehouses to service its countrywide operations.

The audit found that PRASAR-SANAA used \$5,261 in local currency program funds to purchase office supplies directly from local vendors. Rather than maintain these supplies in its own warehouse, PRASAR-SANAA had the supplies delivered to the SANAA central warehouse in Tegucigalpa. Subsequently, PRASAR-SANAA used an additional \$1,263 from local currency program funds to purchase office supplies from the SANAA warehouse. In the absence of proper accounting entries it could not be determined if PRASAR-SANAA had paid twice for the same office supplies. Accountability for the office supplies purchased and delivered to SANAA was lost due to inappropriate PRASAR-SANAA management decisions. Two project officials stated that the former project administrator had decided that these office supplies be delivered to the SANAA main warehouse. The officials also stated that once the supplies were delivered to the SANAA warehouse, they were used by SANAA in its own operations.

USAID/Honduras needed to examine and resolve this issue to ensure that local currency funds are used properly.

Management Comments

Management provided the following comments in response to this issue:

The draft report discusses two transactions which could have been paid twice for the same office supplies. We have examined the documentation

supporting the questioned amounts and find the transactions are proper and have no relation to each other. The documents totalling \$1,263 were purchased on February 11, 1988 from SANAA. The documents totalling \$5,268 were purchased by PRASAR/SANAA on October 17, 1988 and delivered to the SANAA warehouse.

Office of Inspector General Comments

Judging from management's comments, the concern of the RIG/A/T in this issue was not understood completely. The Mission's examination of the issue merely confirmed what we reported in our review. That is, that supplies were purchased with project funds but delivered to a warehouse where accountability over the supplies was lost. In another transaction supplies were purchased with project funds directly from the same warehouse. Although a distinct possibility, our concern was not that same supplies were paid for twice but that purchases made and delivered to a warehouse not under the control of the project were not accounted for properly. The Mission should assure that this practice is not continued and recover any local currency and/or supplies not accounted for properly.

**AUDIT OF
USAID/HONDURAS' ACCOUNTING FOR
LOCAL CURRENCY PROGRAM FUNDS**

PART III - EXHIBITS AND APPENDICES

25

**SUMMARY OF THE LOCAL CURRENCY PROGRAM IN HONDURAS
MADE AVAILABLE FROM ESF AND PL 480 FUNDS
AS OF DECEMBER 31, 1988 1/**

(000s of U.S. \$)

ESF Program A.I.D. Project Number	Date of Agreement	Amount Obligated	Amount Disbursed	Made Available	Local Currency	
					Programmed	Disbursed
522-0230	24-Sep-82	\$131,000	\$131,000	\$131,000	\$131,000	\$129,289
522-0283	25-Mar-85	208,748	208,748	208,748	208,748	179,813
522-0323	19-Jun-87	80,000	80,000	80,000	80,000	53,522
522-0331	11-Sep-87	20,000	5,000	5,000	0	0
522-0357	20-Aug-88	<u>75,000</u>	<u>65,000</u>	<u>65,000</u>	<u>50,000</u>	<u>25,000</u>
ESF Subtotals		<u>\$514,748</u>	<u>\$489,748</u>	<u>\$489,748</u>	<u>\$469,748</u>	<u>\$387,624</u>
PL 480 Program Type and U.S. FY	Date of Agreement	Amount of Agreement	Actual Value of Shipments	Made Available	Local Currency	
Title I/III: 1982	11-Jun-82	\$ 14,500	\$ 14,353	\$ 15,486	2/	2/
Title I: 1983	27-Jun-83	5,000	4,941	5,310	2/	2/
Title I: 1984	16-Dec-83	15,000	14,938	16,032	2/	2/
Title I: 1985	11-Mar-85	12,500	12,287	13,235	2/	2/
Title I: 1986	15-Mar-86	15,000	13,421	14,524	2/	2/
Title I: 1987	11-Mar-87	12,000	11,899	12,475	2/	2/
Title I: 1988	07-Mar-88	<u>12,000</u>	<u>11,880</u>	<u>7,891</u>	2/	2/
PL 480 Subtotals		<u>\$ 86,000</u>	<u>\$ 83,719</u>	<u>\$ 84,953</u>	<u>\$ 71,796</u>	<u>\$ 68,967</u>
ESF & PL 480 Totals		<u>\$600,748</u>	<u>\$573,467</u>	<u>\$574,701</u>	<u>\$541,544</u>	<u>\$456,591</u>

- 1/ Unaudited fiscal data in this exhibit were derived from the ESF and PL 480 agreements and USAID/Honduras Controller records.
2/ The programming and disbursement of local currency made available under the PL 480 program are not reported by agreement, but only in the aggregate.

**SUMMARY OF LOCAL CURRENCY PROGRAM FUNDS
DISBURSED TO THE GOVERNMENT OF HONDURAS TREASURY
FOR VARIOUS PERIODS ENDING DECEMBER 31, 1988 1/**

(U.S. \$)

Program Generating Local Currency	Total Local Currency Disbursed To 31-Dec-88	Period of Review 2/		Local Currency Disbursements Reviewed		
		From	To	To GOH Treasury	To Other Payees	Total
ESF 522-0230	\$ 64,701,588 3/	01-Jan-86	31-Dec-88	\$ 569,694	\$ 553,102	\$ 1,122,796
ESF 522-0283	102,675,909 3/	01-Apr-85	31-Dec-88	72,179,252	30,496,657	102,675,909
ESF 522-0323	37,837,875 3/	01-Jan-88	31-Dec-88	24,107,797	13,730,078	37,837,875
ESF 522-0357	<u>25,000,000</u> 3/	01-Dec-88	31-Dec-88	<u>25,000,000</u>	<u>0</u>	<u>25,000,000</u>
Subtotal-ESF	<u>\$230,215,372</u>			<u>\$121,856,743</u>	<u>\$44,779,837</u>	<u>\$166,636,580</u>
PL 480	<u>\$ 68,966,760</u>	01-Jan-87	31-Dec-88	<u>\$ 6,732,852</u>	<u>\$18,824,266</u>	<u>\$ 25,557,118</u>
Totals	<u>\$299,182,132</u>			<u>\$128,589,595</u>	<u>\$63,604,103</u>	<u>\$192,193,698</u>

Percentage of total disbursements reviewed 64.24%

Percentages of disbursements reviewed 66.91% 33.09% 100.00%

1/ The audited \$192.2 million contained in this exhibit was based on a review of the monthly local currency status reports maintained by the USAID/Honduras Office of the Controller.

2/ Local currency amounts which RIG/AT reviewed were disbursed during these time periods.

3/ Disbursements for projects/programs of the public sector only.

**SUMMARY RESULTS OF ACCOUNTABILITY REVIEW
OF SELECTED PROJECTS FUNDED UNDER THE
USAID/HONDURAS LOCAL CURRENCY PROGRAM 1/
(U.S. \$)**

<u>Project Title</u>	<u>Amounts per MFPC</u>		<u>Amount per Implementing Agency Disbursed</u>	<u>Programmed Local Currency Not Accounted For</u>	<u>Funding Source</u>
	<u>Programmed</u>	<u>Disbursed</u>			
<i>Projects Funded with Local Currency Programmed as Non-project Support:</i>					
1. Road Construction & Supervision; San Nicolas to Pito Solo	\$ 1,550,000	\$ 1,550,000	\$ 1,275,000	\$275,000	ESF (0323) ESF (0357)
2. Road Construction & Supervision; Siguatepeque to Esperanza to Marcala	1,535,900	1,535,900	1,531,832	4,068	ESF (0323) ESF (0357)
3. Road Paving; La Paz to Tutule to Marcala	1,450,000	1,450,000	1,838,600 2/	0	ESF (0357)
4. SANAA Counterpart; 4 Cities Project	1,300,000	1,300,000	1,300,000	0	ESF (0357)
5. National Cadastre Project	1,000,000	1,000,000	975,000	25,000	ESF (0357)
6. School Construction; Esteban Guardiola: CY 1987	350,000	350,000	299,975	50,025	ESF (0323)
CY 1988	400,000	400,000	366,897	33,103	ESF (0357)
7. Building Construction; Jose Trinidad Reyes: CY 1987	250,000	250,000	275,000 2/	0	ESF (0323)
CY 1988	500,000	500,000	487,663	12,337	ESF (0357)
8. Rural Sanitation; SANAA-CARE- Comunidad	500,000	500,000	344,073	155,927	ESF (0323)
9. Access Road at Roatan Airport	500,000	500,000	1,000,000 2/	0	ESF (0357)
10. Continuation of Roatan Airport Widening	500,000	500,000	500,000	0	ESF (0357)

28

C. C. C. C.

**SUMMARY RESULTS OF ACCOUNTABILITY REVIEW
OF SELECTED PROJECTS FUNDED UNDER THE
USAID/HONDURAS LOCAL CURRENCY PROGRAM 1/**

(U.S. \$)

<u>Project Title</u>	<u>Amounts per MFPC</u>		<u>Amount per Implementing Agency Disbursed</u>	<u>Programmed Local Currency Not Accounted For</u>	<u>Funding Source</u>
	<u>Programmed</u>	<u>Disbursed</u>			
11. Building Construction; San Francisco de la Paz: CY 1987	50,000	50,000	50,000	0	ESF (0323)
CY 1988	250,000	250,000	186,810	63,190	ESF (0357)
12. Laboratory Services	251,350	251,350	246,258	5,092	ESF (0357)
13. Improvements to Airports	205,000	202,220	199,099	3,121	ESF (0323)
14. Maintenance of Airports	200,000	200,000	178,356	21,644	ESF (0357)
15. Agricultural Development of the Choluteca River Basin	79,850	79,850	79,239	611	ESF (0357)
16. Project Norms of Cattle Control	<u>44,150</u>	<u>44,150</u>	<u>26,690</u>	<u>17,460</u>	ESF (0357)
Subtotal	<u>\$10,916,250</u>	<u>\$10,913,470</u>	<u>\$11,160,492</u>	<u>\$666,578</u>	

Projects Funded with Local Currency Programmed as Project Support:

1. Rural Roads II - Construction	\$ 2,065,589	\$ 1,842,177	\$ 1,807,315	\$ 34,862	ESF (0323)
2. Primary Education Efficiency	1,447,369	1,183,612	1,293,058	(109,446)	ESF (0323)
3. Health Sector I	1,361,020	1,240,673	1,184,027	56,646	ESF (0323)
4. PRASAR-SANAA	730,809	717,258	699,590	17,668	ESF (0323)
5. Bovine Production & Animal Health	680,800	637,250	630,303	6,947	PL 480
6. Rural Roads II - Maintenance	500,000	496,437	576,094 3/	n/a	ESF (0323)
7. Rural Development; La Paz/Intibuca	398,000	395,636	377,247	18,389	PL 480

**SUMMARY RESULTS OF ACCOUNTABILITY REVIEW
OF SELECTED PROJECTS FUNDED UNDER THE
USAID/HONDURAS LOCAL CURRENCY PROGRAM 1/**

(U.S. \$)

Project Title	<u>Amounts per MFPC</u>		Amount per Implementing Agency	Programmed Local Currency Not Accounted For	Funding Source
	<u>Programmed</u>	<u>Disbursed</u>	<u>Disbursed</u>		
8. Mediterranean Fly Prevention	300,000	293,068	292,298	770	PL 480
9. Environmental Protection	300,000	293,764	234,336	59,428	PL 480
10. Integral Rural Development; Yoro	285,000	283,128	285,000	(1,872)	PL 480
11. Aquaculture	155,350	153,614	145,409	8,205	PL 480
12. Artificial Insemination	132,400	126,024	125,921	103	PL 480
13. El Carao Project	<u>60,000</u>	<u>58,785</u>	<u>57,683</u>	<u>1,102</u>	PL 480
Subtotal	<u>\$ 8,416,337</u>	<u>\$ 7,721,426</u>	<u>\$ 7,708,281</u>	<u>\$ 92,802</u>	
Totals for All Projects	<u>\$19,332,587</u>	<u>\$18,634,896</u>	<u>\$18,868,773</u>	<u>\$759,380</u>	

1/ The audited amounts contained in this exhibit were based on a review of fiscal records and related support maintained by the following Government of Honduras entities: the Ministry of Finance and Public Credit, the Ministry of Natural Resources, the Ministry of Health, the Ministry of Education, the Secretary for Communications, Public Works, and Transportation, the Executive Directorate of Cadastre, and the National Autonomous Service for Water and Sanitation.

2/ The implementing agency had more funds budgeted and expended than was programmed with local currency funds for these projects. Thus, for these projects we accepted the full amount programmed as supported.

3/ Two sources of budgeted funds were comingled at the implementing agency. Total undisbursed funds for both funds totaled \$41,456. Since funds were comingled it was not possible to determine the amount of ESF (522-0323) undisbursed funds.

**SUMMARY OF ISSUES IDENTIFIED IN
USAID/HONDURAS, OFFICE OF THE CONTROLLER,
FINANCIAL ANALYSIS REVIEW SECTION REPORTS
REQUIRING RESOLUTION PER RIG/A/T AUDIT RECOMMENDATION NO. 4.a.**

<u>RIG/A/T Recommended Action</u>	<u>USAID/Honduras Provided Status of Recommendation as of August 17, 1989</u>
1. Require the transfer of \$447,074 to one of the ESF separate accounts approved by A.I.D. (FARS Report No. 89-02, Recommendation No. 2)	Recommendation remains open as the Central Bank of Honduras has not received sufficient information from the corresponding U.S. bank to reconcile the separate account. Central Bank is sending staff to inspect the U.S. bank's records.
2. Require the presentation of eligible documentation to A.I.D. to justify the disbursement of ESF totaling \$15,290,465. (FARS Report No. 89-02, Recommendation No. 3)	Reports from the Central Bank have been received showing the use of the \$15,290,465. Documentation has been reviewed and a report will be issued to close this recommendation.
3. Require the return of L. 1,596 (\$798) to the Ministry of Finance and Public Credit. (FARS Report No. 88-68, Recommendation No. 3)	Implementing agency has issued a check for L. 1,596 and recommendation has been closed.
4. Require the refund of L. 79,941 (\$39,971) to a P.L. 480, Title I project. (FARS Report No. 88-55, Recommendation No. 1)	Mission requested the Ministry of Finance and Public Credit to submit support for the use of the L. 79,941 on July 10, 1989.
5. Require the return of L. 542,211 (\$271,106) in P.L. 480, Title I funds, or evidence of approval of said funds. (FARS Report No. 88-40, Recommendation No. 4)	Support for L. 277,451 submitted to the Ministry of Finance and Public Credit from the implementing agency, leaving a balance of L. 264,760 to be accounted for. Mission will follow-up with Ministry to determine if these costs have been accepted.
6. Require the refund of L. 40,941 (\$20,471) to a P.L. 480, Title I project. (FARS Report No. 88-35, Recommendation No. 1)	Mission has requested the Ministry of Natural Resources to furnish information on the use of the unaccounted balance of L. 40,941.

**SUMMARY OF ISSUES IDENTIFIED IN
USAID/HONDURAS, OFFICE OF THE CONTROLLER,
FINANCIAL ANALYSIS REVIEW SECTION REPORTS
REQUIRING RESOLUTION PER RIG/A/T AUDIT RECOMMENDATION NO. 4.a.**

<u>RIG/A/T Recommended Action</u>	<u>USAID/Honduras Provided Status of Recommendation as of August 17, 1989</u>
7. Require the segregation of L. 2 million (\$1 million) in P.L. 480, Title I funds. (FARS Report No. 88-30, Recommendation No. 1)	Mission has informed Ministry of Finance and Public Credit that the trust fund must be deposited in a separate account. To date, no response has been received. Mission will continue to follow-up.
8. Require justification for, or the return of L. 46,166 (\$23,083) in P.L. 480, Title I funds. (FARS Report No. 88-25, Recommendation No. 1.a)	Mission closed this recommendation on April 11, 1989.
9. Reopen Recommendation No. 1 of FARS Report No. 88-51 which called for a L. 665,000 (\$332,500) refund by a GOH ministry. Documentation submitted by the ministry to close the recommendation included several duplications, shotgun purchases and other questionable procurement actions.	Mission has reviewed documentation once again and found no duplicate charges. Purchased shotguns are being used by ministry watchmen. Mission does not believe there are any questionable items in the documentation submitted to the Mission.
10. Take action, as appropriate, to ensure that vehicles are returned to the appropriate GOH ministry. (FARS Report No. 88-31, Recommendation No. 2)	Recommendation calls for the identification of project vehicles and the use of GOH vehicle plates. Mission is currently awaiting support from GOH regarding its legal position. Return of vehicle is a separate issue outside of the FARS report. Mission formally requested return of vehicle on May 25, 1989. Mission will follow-up to ensure vehicle is returned.

memorandum

DATE: November 16, 1989.

REPLY TO
ATTN OF: George Wachtentein, AMD

SUBJECT: Draft Audit Report of USAID/Honduras' Accounting for Local Currency Program Funds

TO: Coinage Gothard, RIG

APPENDIX 1
Page 1 of 19

Following are our comments on the subject draft report:

Executive Summary

The Mission takes exception to the draft report's conclusion that the Government of Honduras did not fully account for the use of local currency program funds. The Mission's Office of the Controller verified the use of L50 million, which was questioned by the audit, by examining the Government of Honduras budgetary and accounting procedures and records. Therefore, we do not believe that the local currency disbursements should be suspended as the Government's records show the proper use and accounting of the L.50 million.

Local Currency Disbursements for Public Sector Activities Were Not Accounted for As Required

The Mission disagrees with draft Audit Report Recommendation No. 1 that USAID/Honduras suspend disbursement of local currency funds until it provides evidence that the GOH can adequately account for local currency funds from the special account to the intended recipient for the following reasons. First, the GOH has adequate accounting procedures and records which show the local currency was used as mutually programmed by the GOH and the Mission. Second, LC countersigned programming PILS represent formal agreements of the GOH and the USAID/Honduras on the use of funds on either a project or sectoral level, and an accounting base against which the GOH and Mission can and do track disbursement.

By the way of explanation, it should be noted that the GOH has a budget system which considers that estimated expenditures for central and decentralized government projects/activities are financed with general receipts which are deposited in treasury accounts, including transfers of local currency from the ESF Special Account. The annual GOH budget includes an estimate of the receipts which will be deposited in the GOH

- 2 -

treasury to pay for obligations incurred during the budget cycle. The use of the transfers from the Special Account, however, are traceable through the budgetary system which is used to account for GOH funds. Attached is a schedule (Attachment I) showing the sectoral programming of L50 million in December 1988 to 69 projects/activities in the sectors mutually agreed upon by AID and the GOH and how the amount was expended. Attachment I shows that in some projects the expenditures exceed the programmed amounts. In other projects, the expenditures were less than the programmed amounts. There are some projects which spent the same amount that was programmed. The overall result is that the GOH spent L3,135,000 more than was programmed in the various sectors. The source of the expenditures information was obtained from the accounting records in the GOH's Directorate of the Budget and the implementing agencies. There is no doubt that the GOH has the budgetary and accounting systems to account for local currency funds from the special account to the intended recipients.

On page 8 the draft report refers to the local currency guidance which is to be followed in programming local currency. The Mission followed LAC Bureau guidance (STATE 313159, September 24, 1988) which state that "A.I.D. should ensure that documentation exists demonstrating local currency was transferred (or disbursed) to the appropriate budget account. The Mission need not trace funds to specific budgetary or end-use items since A.I.D.'s development goal is a level of overall financial support to program or institution."

The Mission agrees with Recommendation No. 1 in that it should assure itself that the GOH can adequately account for local currency funds from the special account to the intended recipient ("intended recipient" meaning implementing agency under project programming and Ministry under sectoral programming). The Mission is reviewing the possibility of programming funds early in the calendar year. USAID/Honduras has analyzed all categories of assistance allowed for in the current A.I.D. Policy guidance procedures including general budgetary support and has concluded that while from a mechanical point of view general budgetary support may be attractive, that sectoral and project categories allow for a better way of ensuring the resources are used toward development objectives and for assuring LC assistance funds are used appropriately. Based on the Mission's certification on the adequacy of the GOH budgetary and accounting system, including its implementing agencies, the Mission will establish new disbursement procedures with the GOH that will comply with this traceability requirement.

We believe the GOH's budgetary procedures and accounting records show the use of the local currency that was programmed on a reimbursement basis. We do not agree with the report's statement the funds could not be tracked to the appropriate GOH Ministry, implementing agencies or project account. Attachment I shows that ESF funds can be traced to the

intended recipient through the GOH budget system. We ask that the recommendation be closed as the Mission has shown that the GOH can account for local currency transfers.

USAID/Honduras Needed to Expand its Certification of Government of Honduras Accounting Systems

Recommendation number 2 requests the Mission to determine if the GOH's entities carrying out the program have adequate accounting systems to properly account for local currency transfers. The Mission's Office of the Controller has evaluated the Government of Honduras budgetary and accounting procedures for accounting for budget allocations and expenditures. Attachment II shows the steps which are taken for preparing an order to pay its review and approval process and recording the expenditure in the accounting records. CONT/FARS reviewed 69 implementing agencies which had been programmed local currency to determine if they were complying with GOH's procedures. We found the implementing agencies have adequate budgetary and accounting systems to account for funds and are complying with GOH legal budgetary and accounting requirements. CONT/FARS has certified to the adequacy of the GOH for funds procedures (see attachment III). We request that you close the recommendation on the basis that the Mission has certified the GOH maintains adequate records and procedures to account for local currency.

On page 15 the report states the local currency was not accounted for. The conclusion is not correct as the GOH's budget and accounting systems show the local currency transfers (L50 million) were used in 69 sectorial project/activities (see attachment I). The overall budget results were that the GOH spent more than was programmed.

On pages 16 and 17 the report discusses the lack of accounting reconciliations between the implementing agencies and the Ministry of Finance and Public Credit (Directorate of Public Credit). It should be noted the implementing agencies, through their Ministry's administrative offices, reconcile their budgetary accounts with the Directorate of the Budget. The legislative decree on GOH budget and accounting procedures make the Directorate of Budget responsible for managing the national budget. We don't believe it is necessary to reconcile programmed amounts with the Directorate of Public Credit.

USAID/Honduras Needs to Ensure that All Local Currency Program Activities Were Appropriately Audited.

We do not agree with your conclusion that because financial reviews performed by CONT/FARS are not audits, there was less than reasonable assurance that proper fiscal control existed over ESF and PL-480 Titles I

17

and III local currency funds. On the contrary, the Mission has been given reasonable assurance that local currency funds have been properly controlled and accounted for by the financial reviews which were performed by CONT/FARS. The financial reviews assure the Mission that any organization receiving A.I.D. funds has adequate accounting and internal control systems prior to receiving funds. The periodic examinations which are performed also determine the extent of achieving objectives and goals, compliance with A.I.D. regulations and agreements' requirements, identify implementation problems, examine expenditures to verify they were used for project purposes and insure accounting and internal controls are effective to safeguard projects' funds and property and minimize waste, abuse and mismanagement.

The Mission has no objection to having audits performed by external auditors. The external audits complement the Mission's financial reviews. Local external auditors have performed audits of organizations using local currency and prepared reports on the result of their work. We found the external audit reports do not give the Mission and audited organizations assurance that funds have been properly used. The scope of work of the external auditors is limited to selective tests to enable the auditors to express an opinion on whether the financial statements present fairly the financial situation of the organization. The external auditors' scope of work does not include determining the progress toward achieving objectives, the effective use of funds or if the organization will reach self-sufficiency.

Attached (see attachment IV) is a schedule (universe) showing the current Development Assistance and private sector organizations/activities which have been audited by external auditors and the entities which have not been audited. In addition, periodic financial reviews have been performed by CONT/FARS of the organizations. It can be concluded that the Mission is carrying out extensive oversight through both internal Mission reviews and external audits. Further, projects/activities of prior years were also monitored by performing external audits and CONT/FARS financial reviews. The Mission plans to continue to require audits of local currency and development assistance in accordance with A.I.D. agreements.

Concerning Recommendation 3(a), we have identified the current private sector entities which have been audited by external auditors. In addition, self-audits (financial reviews) have been performed by CONT/FARS of practically all private sector project/activities. On the public sector activities funded with PL-480 Title I and III and Section 416 there has been no A.I.D. requirement for independent audits by external auditors. However, 19 internal self-audits were performed during the past two fiscal years by CONT/FARS of Title I and III and Section 416 projects. These reviews, in our opinion, complied with the standards of OMB Circular A-110 and A.I.D. HB 13 calling for prudent

management of A.I.D. funds. Concerning future audits, the Mission will continue to require private sector organizations to contract external auditors. In addition, CONT/FARS will continue to schedule and perform self-audits of all private sector organizations and activities in accordance with HB 13. The Mission will also perform financial reviews of public sector activities when required and approved by the GOH. External audits will be made, as required by agreements, of projects/activities financed with appropriated funds.

We request that Recommendation number 3(a) be closed based on the above comments.

Recommendation 3(b) has been complied with. The Mission's management procedures require that all private sector recipients of local currency to be periodically examined by CONT/FARS and external auditors when required by project agreements. Generally, all private sector recipients are being examined annually or every two years. Recipients of A.I.D. assistance have been provided with standard audit guidance, Attachment "C", Audit Requirements. The attachment was sent with our response to RAF number 4. In addition, the Mission has provided some implementing agencies an expanded audit scope of work for use by external auditors. We ask that this recommendation be closed.

Recommendation number 3(c) has been carried out. CONT/FARS has procedures in place to ensure copies of all external audit reports are received by the Mission, reviewed by appropriate Mission staff and open recommendation of the audit report are followed up. The tracking system shows the entities that require external audits and the audits which are performed by independent external auditors. Please close the recommendation.

USAID/Honduras Needed to Improve its Management of Outstanding Financial Review Recommendations

Regarding recommendation number 4(a) which calls for resolving the issues raised in financial reports prepared by CONT/FARS, the Mission has continued to seek prompt resolution and corrective action on recommendations. It should be noted the Mission has to follow up on 150 to 175 open recommendation each month. Some of the recommendations are difficult to close on a timely basis for many reasons. The recommendations in Financial Reports number 89-02, 88-68, 88-40, 88-25, and 88-31 have been closed. We did not reopen recommendation number 1 in Financial Report number 88-51 because the expenditures are proper.

1. Report No. 89-02, recommendation No. 2

The financial report's recommendation requested the Central Bank to transfer the amount of \$447,074 from a Central Bank account to an

AID approved account. However, the Central Bank has used the funds to finance eligible transactions under the ESF Agreement. The Mission considers the recommendation closed and will formally advise the Central Bank the recommendation is no longer outstanding.

2. Report No. 89-02, recommendation number 3.

The recommendation requested the Central Bank to furnish the Mission with information on the disbursement from the separate bank account of \$15,290,465 which were partially supported with documentation. The Central Bank subsequently reported to the Mission there was documentation supporting the amount in their files. Mission Financial Analysts have examined the Central Bank commercial documents and records supporting the disbursement of the \$15,290,465. The commercial transactions were found to be eligible for AID financing. The Mission considers the recommendation closed.

3. Financial Report No. 88-68, recommendation No. 3.

The recommendation was closed on September 6, 1989.

4. Financial Report No. 88-55, recommendation No. 1.

On September 30, 1989 the Mission requested the Ministry of Finance to submit a detailed report on the expenditures which were not properly documented.

5. Financial report No. 88-40, recommendation No. 4.

On November 13, 1989 the recommendation was closed on the basis that the Ministry of Finance approved the reprogramming of the remaining funds.

6. Financial Report No. 88-35, recommendation No. 1.

The Mission has requested the Ministry of Finance to furnish a list of the expenditures in order for CONT/FARS to verify them.

7. Financial Report No. 88-30, recommendation No. 1.

On September 28, 1989 the Ministry of Finance was informed by the Mission the recommendation remains open and again requested that corrective action be taken.

8. Financial Report No. 88-25, recommendation No. 1(a).

The recommendation was closed on the basis of documentation which was submitted to the Mission on April 6, 1989.

20

9. Financial Report No. 88-51, recommendation No. 1.

The RIG asked the Mission to reopen the recommendation because supporting documentation was questionable. CONT/FARS, staff examined the documentation and found the expenditures were proper.

10. Financial Report No. 88-31, recommendation No. 2.

On October 19, 1989 the Ministry of Natural Resources advised the Mission vehicle was returned. CONT/FARS personnel verified the vehicle was being used by the Ministry. The recommendation has been closed.

Concerning recommendation number 4(b), the Chief of the Financial Analysis and Review Section is the designated control officer who is responsible for following up on outstanding recommendations. He reviews the monthly status reports which are prepared by CONT/FARS and notes the status of the open recommendations and the follow-up action that has been taken in the current month by the Mission staff. If no follow-up action has been taken during the month, a formal communication is immediately sent to the implementing agency, reminding the organization corrective action is required to close the open recommendation(s).

We believe the Missions follow-up system of preparing monthly status reports on open recommendations is effective and provides management with information on the compliance of CONT/FARS recommendations. The Mission has complied with the recommendation as the Chief of the Financial and Analysis Section is responsible for ensuring follow-up action on open recommendations. We request that you close the recommendations.

Other Pertinent Matters

The draft report discusses two transactions which could have been paid twice for the same office supplies. We have examined the documentation supporting the questioned amounts and find the transactions are proper and have no relation to each other. The documents totalling \$1,263 were purchased on February 11, 1988 from SANAA. The documents totalling \$5,268 were purchased by PRASAR/SANAA on October 17, 1988 and delivered to the SANAA warehouse.

39

DETALLE DE EJECUCION FINANCIERA DE PROYECTOS DEL SECTOR PUBLICO
APOYADOS CON FONDOS DE LA A.I.D.
DURANTE EL AÑO DE 1988
(Miles de Leptiras)

CLAVE PAD	NOMBRE DE LA ACTIVIDAD	VALOR TRANSFERIDO POR LA A.I.D.	GASTOS REALES DEL PERIODO	DIFERENCIA	MONTO PRESUPUESTO	GASTOS REALES DEL PERIODO	DIFERENCIA
-----	-----	-----	-----	-----	-----	-----	-----
SECTORES SOCIALES							
EDUCACION							
17690	Const. edificios escolares mediante Prog. de Ayuda Mutua "Esteban Guardiola"	800.0	734.9	65.1	800.0	734.9	65.1
17700	Const. edificios escolares mediante Prog. de Ayuda Mutua "Pospilio Ortega"	200.0	195.3	4.7	200.0	195.3	4.7
17730	Const. edificio Inst. San Fco. de La Paz, Olancho	500.0	393.6	106.4	500.0	393.6	106.4
17760	Const. edificio Inst. Jose Trinidad Reyes, S.P.S.	1,000.0	975.3	24.7	1,000.0	975.3	24.7
17790	Const. edificio Inst. Sta. Cruz del Oro, Yoro	600.0	570.3	29.7	600.0	570.3	29.7
	Proy. Inst. Nacional de Investigacion y Capacitacion Educ., Convenio Gobierno del Japon	254.5	103.9 1/	150.6	254.5	103.9 1/	150.6
1693u	Proy. Des. Rural Integ. Subregion Marcala-Goascoran, Sub-prog. Maestros y Des.	141.1	141.1	0.0	141.1	141.1	0.0
16940	Proy. Des. Rural Integ. Subregion de Yoro	24.0	24.0	0.0	24.0	24.0	0.0
SALUD							
22510	Proy. de pozos y acueductos rurales PROFAR en los Depts. de Cortes y Yoro, Contraparte a la donacion Gobierno Federal Suizo	302.7	214.2	88.5	302.7	214.2	88.5
22530	Const. de pozos, letrinas y pequenos acueductos Proy. Marcala-Goascoran, Contraparte de donacion de la Confederacion Suiza	314.2	157.1	157.1	314.2	157.1	157.1
22550	Const. de pozos, letrinas y pequenos acueductos Proy. Des. Rural Integ. de Santa Barbara, PRORESBA	43.0	34.9	8.1	43.0	34.9	8.1
22580	Const. de pozos, acueductos, letrinas, pozos septicos y rehabilitacion de acueductos en los Deptos. de Chol. y Valle, contraparte prestamo Gobierno de Alemania KFW	130.0	85.2	44.8	130.0	85.2	44.8
23060	Aporte al SANAA para el estudio y construccion de acueductos rurales (SANAA, Comunidad, Presid. de la Rep.)	100.0	92.8	7.2	100.0	92.8	7.2
23070	Aporte al SANAA para proy. de asist. tecnica	100.0	70.3	29.7	100.0	70.3	29.7
23090	Aporte al SANAA para el mejoramiento de acueductos de la ciudad de Choluteca	250.0	70.0	180.0	250.0	70.0	180.0
22570	Const. de pozos, letrinas, Proy. Des. Rural Integ. de la Subregion de Yoro ORI-YGRD	145.0	145.0	0.0	145.0	145.0	0.0
46850	Pago del Gobierno Central al SANAA segun Convenio Intl	679.6	679.6	0.0	679.6	679.6	0.0

1/ Esta cantidad esta desglosada en las claves PAD y valores siguientes:

1693u	L. 47.2
17760	3.3
18570	28.0
19590	23.4

L.197.9

40

CLAVE PAD	NOMBRE DE LA ACTIVIDAD	VALOR TRANSFERIDO POR LA A.I.D.	GASTOS REALES DEL PERIODO	DIFERENCIA	MONTO PRESUPUESTO	GASTOS REALES DEL PERIODO	DIFERENCIA
OTROS							
00110	Aportes de capital para aldeas y municipios	2,000.0	2,240.7	(240.7)	2,000.0	2,240.7	(240.7)
26210	Programas de bienestar social ejecutados por la JMBS	8,986.8	8,986.8	0.0	8,986.8	8,986.8	0.0
	Proyectos de mejoramiento de centros	2,400.0	1,852.6 2/	547.4	2,400.0	1,852.6 2/	547.4
27250	Aportes de capital para el Prov. Viviendas Comunidad Suyapa	1,200.0	1,200.0	0.0	1,200.0	1,200.0	0.0
INFRAESTRUCTURA							
COMUNICACIONES							
26540	Const. oficinas de talleres en Sub-districtos de la Esperanza y Danti	100.0	15.9	84.1	100.0	15.9	84.1
26660	Const. edific. y talleres en alfofco mayor zona sur	70.0	19.0	51.0	70.0	19.0	51.0
27210	Plan Maestro Vial	357.6	312.7	44.9	357.6	312.7	44.9
28790	Ampliacion y mejoramiento por contrato - Aeropuerto Toncontin	125.7	118.0	7.7	125.7	118.0	7.7
30230	Continuacion Diseno Final Caminos de Acceso	1,000.0	997.9	2.1	1,000.0	997.9	2.1
30300	Const. carretera Sn. Fco. de la Paz-Gualaco, contraparte prestamo Astaldi, SPA	2,400.0	2,339.1	60.9	2,400.0	2,339.1	60.9
30470	Reconst. y mantenimiento caminos vecinales	250.0	244.4	5.6	250.0	244.4	5.6
30490	Supervision y construccion de caminos	340.0	329.8	10.2	340.0	329.8	10.2
30550	Const. puentes prefabricados de madera	383.2	377.9	5.3	383.2	377.9	5.3
30580	Reconst. carretera Callejones-Pueblo Nuevo, Copan	50.0	49.8	0.2	50.0	49.8	0.2
30600	Reconst. vados sobre Rio Texiguat, sobre Rio Morolica	75.0	62.8	12.2	75.0	62.8	12.2
30830	Prog. caminos por mano de obra - contraparte donacion Prog. Mundial de Alimentos	450.0	430.6	19.4	450.0	430.6	19.4
30860	Inicio const. caminos por mano de obra - COHAAT contraparte nacional	150.0	144.4	5.6	150.0	144.4	5.6
30890	Proy. Des. Rural Integrado de Sta. Barbara PRODESBA	600.0	763.8	36.2	600.0	763.8	36.2
31350	Cont., asistencia tecnica a varias municipalidades del pais	140.0	89.5	50.5	89.5	89.5	0.0
31370	Revision y actualizacion plan regulador desarrollo urbano de Julicalpa y Catacaas, Olancho	40.0	23.5	16.5	24.2	23.5	0.7
31380	Elab. plan regulador crecimiento y desarrollo urbano de las Islas de la Bahia	80.0	29.2	50.8	31.2	29.2	2.0
31390	Elab. guia desarrollo urbano de la Lina, Cortes	40.0	23.4	16.6	23.4	23.4	0.0
31800	Reaad. terminal aerea Aeropuerto Ramon Villeda M.	350.0	340.9	9.1	345.4	340.9	4.5

2/ Este cantidad se desglosa en las Claves PAD y los valores siguientes:

07040	L. 97.5
07050	243.8
07060	437.5
07070	195.0
07080	195.0
07090	195.0
07100	195.0
07110	243.8
TOTAL	L. 1,852.6

CLAVE PAD	NOMBRE DE LA ACTIVIDAD	VALOR TRANSFERIDO POR LA A.I.D.	GASTOS REALES DEL PERIODO	DIFERENCIA	MONTO PRESUPUESTO	GASTOS REALES DEL PERIODO	DIFERENCIA
32110	Superv. y mantenimiento de obras hidraulicas	500.0	493.4	6.6	500.0	493.4	6.6
32120	Obras de proteccion contra inundaciones, erosion y sedimentacion Litoral Atlantico	1,000.0	829.3	170.7	977.0	829.3	147.7
28370	Fortalecimiento de los serv. de navegacion aerea	204.0	204.0	0.0	204.0	204.0	0.0
28770	Mejoramiento y des. de la Aviacion Civil SOFREAVIA II Etapa, contraparte nacional	300.0	421.7	(121.7)	430.0	421.7	8.3
30320	Rehabilitacion y supervicion carretera del sur, tramo La Venta-Jicaro Galan Contraparte Prestamo FIV	1,000.0	1,541.3	(541.3)	1,550.0	1,541.3	8.7
30370	Pavimentacion carretera La Paz-Tutule-Marcala, contraparte prestamo Hazama-Mitsui	2,900.0	3,677.2	(777.2)	3,692.3	3,677.2	15.1
30460	Const. carretera Santa Rosa-Gracias	500.0	964.1	(464.1)	1,000.0	964.1	35.9
30510	Const. caminos de acceso Jocon-Puentecito	100.0	399.4	(299.4)	400.0	399.4	0.6
30570	Const. puente sobre Rio Ulua, Sta. Barbara	130.0	134.2	(4.2)	130.0	134.2	(4.2)
30770	Proyecto Marcala-Goascoran	300.0	300.0	0.0	300.0	300.0	0.0
31360	Const. obras de infraestructura en varias localidades del pais	200.0	371.0	(171.0)	374.9	371.0	3.9
32310	Continuacion ampliacion aeropuerto de Roatan	1,000.0	1,000.0	0.0	1,000.0	1,000.0	0.0
32320	Carretera de acceso aeropuerto de Roatan	1,000.0	2,000.0	(1,000.0)	4,340.3	2,000.0	2,340.3
30290	Const. y superv. carretera Siguatepeque-La Esperanza-Marcala	1,571.8	3,063.7	(1,491.9)	3,071.8	3,063.7	8.1
30340	Const. y superv. pavimentacion carretera desvio a San Nicolas-Pilo Solo	1,550.0	2,550.0	(1,000.0)	2,550.0	2,550.0	0.0
32140	Obras de control de inundaciones, erosion y sedimentacion en cuenca y zona arqueologica en Ruinas y Rio de Copan	865.0	499.3	365.7	500.0	499.3	0.7
32180	Const. de obras de control de inundaciones, levantamiento aerofotogrametrico cuenca Choloma, Cortes	350.0	143.2	206.8	205.0	143.2	141.8
32260	Continuacion elaboracion manual de aeropuertos	15.0	5.2	9.8	15.0	5.2	9.8
32270	Estudio y diseno nuevo Aeropuerto Toncontin	100.0	43.4	56.6	86.6	43.4	43.2
32290	Supervision, const. de aeropuertos	428.0	406.5	21.5	428.0	406.5	21.5
32300	Mantenimiento de aeropuertos	400.0	356.7	43.3	400.0	356.7	43.3
ENERGIA							
26560	Const. lineas de transmision de energia electrica para conectar las instalaciones del Sub-Distrito No.1, Danli a la ENEE	30.0	23.4	6.6	30.0	23.4	6.6
SECTORES PRODUCTIVOS							
AGRICULTURA							
32540/							
32550	Proy. de arroz, convenio con el Gobierno Chino	71.0	67.1	3.9	69.7	67.1	2.6
34410	Diseno final del Proy. de Desarrollo Agricola de la Cuenca del Rio Choluteca	159.7	158.0	1.7	158.7	158.0	0.7
39330	Proyecto de Catastro Nacional	2,000.0	1,950.0	50.0	2,000.0	1,950.0	50.0
37930	Aporte para Proyectos de Reforma Agraria	3,749.1	3,749.1	0.0	3,749.1	3,749.1	0.0

CLAVE PAD	NOMBRE DE LA ACTIVIDAD	VALOR TRANSFERIDO POR LA A.I.D.	GASTOS REALES DEL PERIODO	DIFERENCIA	MONTO PRESUPUESTO	GASTOS REALES DEL PERIODO	DIFERENCIA
3/	Proyecto Normas y Control Pecuario	88.3	53.4	34.9	88.9	53.4	15.5
4/	Servicio de laboratorio	592.7	478.0	24.7	498.0	478.0	20.0
INDUSTRIA							
07010	Prog. de asist. pequeno productor a traves del COI	1,613.0	1,572.7	40.3	1,613.0	1,572.7	40.3
GRAN TOTAL		50,000.0	53,135.5	(3,135.5)	57,658.4	53,135.5	4,522.9

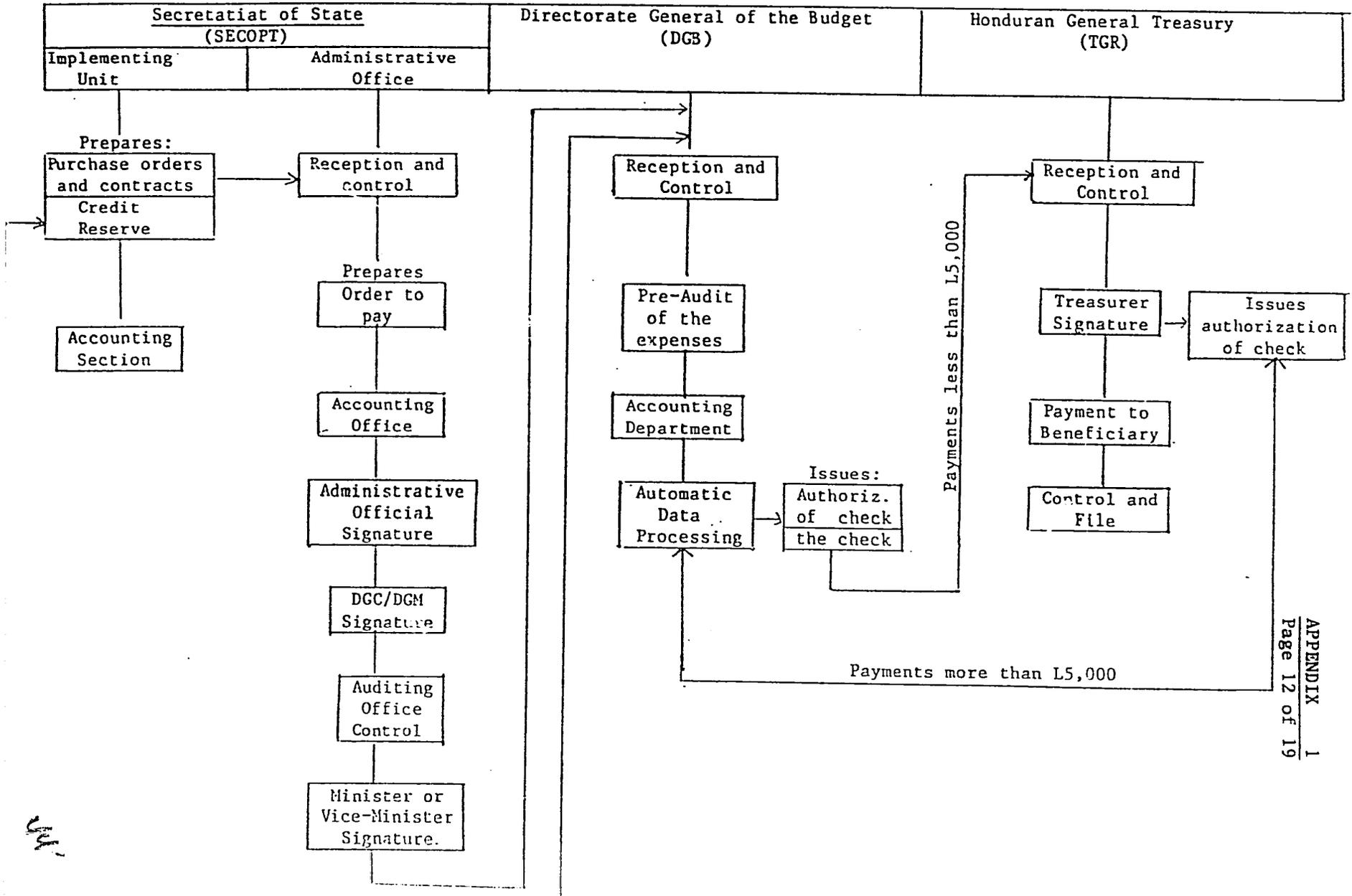
3/ Este cantidad se desglosa en las Claves PAD
y los valores siguientes:

36050	L. .2
36060	.4
36070	11.5
36080	1.3
36090	.7
36100	1.1
36110	.2
36160	1.3
36170	.2
36180	1.0
36200	1.0
36230	.07
36240	6.1
36240	5.0
36270	20.8
36290	1.9
36350	.2
36370	.6
36380	4.0
TOTAL	L. 57.9

4/ Este cantidad se desglosa en las Claves PAD
y los valores siguientes:

36350	L. 46.7
36400	25.1
36410	13.0
36420	38.4
36430	51.1
36440	322.8
TOTAL	L. 477.3

GOH - DISBURSEMENTS MECHANISM
(COUNTERPART FUNDS)



DOCUMENTOS Y PROCEDIMIENTOS NECESARIOS PARA
JUSTIFICAR LOS GASTOS ATRIBUIBLES AL PRESUPUESTO
DE FONDOS NACIONALES

I. DOCUMENTOS

1. Cuota. Es la parte de las asignaciones presupuestarias a erogarse durante un período determinado conforme a las condiciones financieras y la situación estacional de las recaudaciones fiscales.
2. Orden de Compra. Es el documento administrativo emitido por las dependencias del poder ejecutivo, a efectos de realizar toda compra de artículos, materiales, servicios y demás suministros, previo el cumplimiento de los requisitos legales.
3. Reserva de Crédito. Es un documento administrativo, por el cual el Gobierno a través de sus diversas Dependencias, prevé el pago de compromisos que por su naturaleza, no se cumplen de inmediato y que se hacen efectivo a posteriori, al realizarse o cumplirse los requisitos y obligaciones previstas.
4. Orden de Pago. Es el documento administrativo, mediante el cual las distintas Unidades Ejecutoras de Programas del Gobierno Central, ordenan la cancelación de los bienes y servicios recibidos con cargo a sus respectivas asignaciones presupuestarias.

II. PROCEDIMIENTOS

1. La cuota trimestral para cada dependencia del Gobierno Central es autorizada y hecha disponible.
2. Las dependencias del Gobierno Central, emiten la Reserva de Crédito para comprometer los fondos necesarios antes de emitir las Ordenes de Pago para cancelar los bienes y servicios recibidos.
3. La Reserva de Crédito es aprobada por el la Dirección General de Presupuesto (DGP) del Gobierno Central y devuelta a la dependencia que la emitió.
4. Las Ordenes de Pago son emitidas ya sea por las Direcciones Generales o Secciones Administrativas de cada Secretaría de Estado.
5. Previo a su envío a la DGP, las Ordenes de Pago contabilizadas por las dependencias que emitieron las mismas y revisadas por los auditores internos de las Secretarías de Estado. Posterior a la contabilización y revisión, las Ordenes de Pago son firmadas por el Ministro de la Secretaría de Estado respectiva.

6. Las Ordenes de Pago son enviadas a la DGP para revisión, contabilización y emisión del cheque respectivo.
7. Los cheques emitidos son enviados a la Tesorería General de la República (TGR) del Gobierno Central para firma del Tesorero.
8. Los cheques son pagados a los beneficiarios o entregados a las dependencias que emitieron las Ordenes de Pago, cuando las mismas tienen una Oficina de Pagaduría tal como el Ministerio de Salud Pública.

III. REGISTROS CONTABLES

1. A nivel de las agencias o dependencias de las diversas Secretarías de Estado

Las agencias o dependencias que emiten Reservas de Crédito u Ordenes de Pago y las Secciones Administrativas de la Secretaría de Estado, mantienen el Mayor de Asignaciones Presupuestarias, en el que consta el presupuesto aprobado/modificado; los compromisos no pagados; los pagos efectuados y los saldos disponibles para cada rubro presupuestario.

2. A nivel de la Dirección General de Presupuesto

La Dirección General de Presupuesto ha desarrollado e implementado un sistema computarizado de contabilidad presupuestaria para todas las Secretarías de Estado del Gobierno Central. Todas las dependencias que emiten Reservas de Crédito, Ordenes de Compra y Ordenes de Pago, tienen acceso a reporte del estado de sus respectivos presupuestos.

Certification on Government of Honduras
Accounting Systems

The Administrative procedures for the budgeting and accounting for public funds are established by a legislative decree from the National Congress approving the annual budget. The decree describes the general conditions of the budget which include the procedures and documents to incur obligations and expenditures. The budget guidelines require the administrative offices (including implementing agencies) of the various Ministries to maintain budget and accounting records for all financial transactions to control their annual budget. The accounting records are to be maintained in accordance with the General Manual on Budgetary Control and General Accounting and instructions of the General Accounting Office of Honduras.

We have evaluated the GOH's budgetary and accounting controls to determine if the GOH entities are complying with budget procedures and maintaining accounting records showing the annual budget, quarterly allocations, expenditures and available balance. We tested 64 GOH entities in the sectors of education, health, communications and agriculture (see attachments). We certify the GOH entities are maintaining records showing the status of their budget and consistently complying with the administrative procedures governing the reporting, accounting and controlling of public funds.

In the future CONT/FARS will review public sector implementing agencies which are programmed local currency prior to the disbursing of funds.



Reyes G. Herrera
Financial Analyst
Office of the Controller

Attachment IV

PROJECTS AUDITED (ESF Local Currency)
(Private Sector Funds)

NAME OF PROJECT	PROJECT NO. 522-	PACD	PRIVATE AUDIT FIRM	REPORT AUDIT DATE	PERIOD		RECOMMENDATIONS FOLLOW UP BY F/A	FARS CONTROL REPORT No.
					FROM	THRU		
Escuela Agricola Panamericana (EAP)	0134							
Rural Technologies (Credit Lines)	0157	N/A	Fortin Lagos y Asociados	07/31/87	01/01/87	12/31/87	MTP	N/A
Partners of the Americas	0168	05/31/89						
Small Farmer Coffee Improv. (Credit Lines)	0176	05/26/90	Price Waterhouse(Non Fed.Audit)	03/13/89	01/01/85	12/31/87	RR	N/A
ANDI	0205	05/31/89	Morales, Palao, Willoa, & Asoc.	07/18/88	06/01/87	05/31/88	CN	N/A
FIDE	0207	12/31/90	Peat, Marwick, Mitchell & Co.	03/21/89	01/01/88	12/31/88	RR	01-89
FEPROEXAAH	0207	12/31/90	Mendieta y Asociados	DRAFT	07/01/88	06/30/89	RR	N/A
Export Investment/Working Capital Fund	0207	N/A						
FIDE (Special debt restructuring fund)	0207.1	12/31/90	Peat, Marwick, Mitchell & Co.	03/21/89	01/01/88	12/31/88	RR	01-89
Small Farmer Livestock Develop.	0209	09/30/90	Internal Audit	04/27/89	01/01/88	12/31/88	MTP	11-89 1/
Escuela Agricola Panamericana	0222							
Small Business Development II	0241	09/30/93						
FHIA (EAP)	0249	08/30/94	Price Waterhouse	01/26/89	01/01/88	12/31/88	RR	02-89
Small Farmer Organization Strengthening	0252	09/30/93	Peat, Marwick, Mitchell & Co.	02/04/88	06/01/87	12/31/87	N/A	2/
FIDE	0253	12/31/85	Peat, Marwick, Mitchell & Co.	03/21/89	01/01/88	12/31/88	RR	01-89
CADERH	0257	05/30/92	Price Waterhouse	12/05/86	08/01/85	07/31/86	RR	N/A
Int'l Executive Service Corps (IESC)	0258	12/31/88	Rivera Melara y Asociados	05/15/89	01/01/89	04/30/89	RR	03-89
FEPROEXAAH	0260	12/31/84	Price Waterhouse					
FUNADEH	0263	05/30/88	Price Waterhouse	03/21/87	01/01/86	12/31/86	MTP	N/A
Irrigation Development (Credit Lines)	0268	09/30/93						
AVANCE	0273.01	03/04/92	Mendieta y Asociados	04/27/89	01/01/88	12/31/88	MTP	12-89

1/ 688 Report
 2/ 100 - PACD (first six months of operation)
 3/ 100 - PACD

NAME OF PROJECT	PROJECT No. 522-	PACD	PRIVATE AUDIT FIRM	REPORT AUDIT DATE	PERIOD		RECOMMENDATIONS FOLLOW UP BY F/A	FARS CONTROL REPORT No.
					FROM	THRU		
AHDEJUMUR	0276	03/21/88	Tovar López y Asociados	07/15/87	01/01/86	03/31/87	CT	N/A
FOPRIDEH (PVO's Assistance)	0280	03/31/89	Price Waterhouse	09/13/89	03/29/85	12/31/88	MTP	10-89
ASHONPLAFA	0286	07/31/89	Peat, Marwick, Mitchell & Co.	03/12/88	01/01/87	12/31/87	AC	N/A
Privatization of State owned Enterprises (Credit Funds)	0289	10/01/89	Morales, Palao, William y Asoc.	08/31/88	10/01/86	08/31/88	MTP	08-89
Inst'l. Develop. Cámara de Com. e Industrias de Cortés	0302	08/13/89	Peat, Marwick, Mitchell & Co.	01/07/89	01/01/88	12/31/88	CT	06-89
FUHRIL	0305	03/31/89	Price Waterhouse	04/09/87	12/01/85	12/31/86	CN	N/A
Herzandad Integrated Development Program (OPG)	0306	09/30/89						
FOPRIDEH (Proalma II)	0313	02/13/89	Price Waterhouse	09/13/89	03/29/85	12/31/88	MTP	10-89
AITEC (Microenterprise Development)	0319.1	07/30/88	Mendieta y Asociados	04/20/88	01/01/87	12/31/87	MTP	N/A
Universidad de San Pedro Sula (OPG)	0320	06/29/89						
INVA (Prog. Desplazados)/Coop. Apaguiz	0326							
Cooperative Housing Foundation (CHF)	0332	09/01/89						
American Inst. for free Labor (AIFLD): Anach	0337	05/26/91						
Agricultural Land Sale Fund	N/A	N/A						
Employment Generation Program	N/A	N/A						
Emergency Assistance Fund	N/A							
Housing Support credit	HG-008	03/31/90						
COPEN	N/A							

A.I.D. PROJECTS AUDITED (D A. FUNDS)

<u>NAME OF PROJECT</u>	<u>PROJECT NO. 522-</u>	<u>PACD</u>	<u>PRIVATE AUDIT FIRM</u>	<u>REPORT AUDIT DATE</u>	<u>PERIOD</u>		<u>RECOMMENDATIONS FOLLOW UP BY F/A</u>	<u>FARS CONTROL REPORT No.</u>
					<u>FROM</u>	<u>THRU</u>		
Health Sector I	0153	12/31/88	Price Waterhouse	06/01/87	01/01/85	06/30/86	RR	N/A
Rural Technologies	0157	12/31/88	Fortin Lagos y Asociados	07/31/87	01/01/86	12/31/86	MTP	N/A
Rural Water & Sanitation	0166	12/31/88	Fortin Lagos y Asociados	05/18/89	01/01/88	12/31/88	CT	04-89
Natural Resources Management	0168	05/31/89						
Rural Housing	0171	03/31/87	Fortin Lagos y Asociados	04/10/87	01/01/86	12/31/86	EM	N/A
Small Farmer Titling Project	0173	08/29/89	Fortin Lagos y Asociados	06/03/88	01/01/87	12/31/87	EM	N/A
Small Farmer Coffee Improvement	0176	05/26/90	Price Waterhouse(Non Fed Aud)	03/13/89	01/01/85	12/31/87	RR	N/A
Small Business Development	0205	05/31/89	Morales, Palao, William & Asoc.	07/18/88	06/01/87	05/31/88	CN	N/A
Shelter for the Urban Poor II	0206	07/01/87						
Export Development & Services (FIDE MOE)	0207	12/31/90	Peat Marwick, Mitchell & Co	03/21/89	01/01/88	12/31/88	RR	01-89
Export Development & Service (FEPROEXAAH)	0207	12/31/90	Mendieta y Asociados	DRAFT	07/01/88	06/30/89	RR	N/A
Small Farmer Livestock Development	0209	09/30/90	Internal Audit	04/27/89	01/01/88	12/31/88	MTP	11-89 1/
Rural Roads II	0214	31/12/89						
Health Sector II	0216	10/01/95						
Small Business Development II	0241	09/30/93						
ANDI	0241.01	07/28/93						
ASEPADE	0241.02	07/31/93						
FUNADEH	0241.03	07/28/93						
Forestry Development	0246	12/31/94						
Honduran Agricultural Research Foundation (FHIA)	0249	08/30/94	Price Waterhouse	01/26/89	01/01/88	12/31/88	RR	02-89
Small Farmer Organization Strengthening	0252	09/30/93	Peat, Marwick, Mitchell & Co.	02/04/88	06/01/87	12/31/87	N/A	N/A
Council Human Resources Devel. (CADERH) OPG	0257	05/30/92	Price Waterhouse	12/05/86	08/01/85	07/31/86	RR	N/A

NAME OF PROJECT	PROJECT NO. 522-	PACD	PRIVATE AUDIT FIRM	REPORT AUDIT DATE	PERIOD		RECOMMENDATIONS FOLLOW UP BY F/A	FARS CONTROL REPORT No.
					FROM	THRU		
FUNADEH	0263	05/30/88	Price Waterhouse	03/21/87	01/01/86	12/31/86	MTP	N/A
FOPRIDEH Institutional Strengthening	0266	03/28/90	Price Waterhouse	09/13/89	03/29/85	12/31/88	RGH	10-89
Irrigation Development	0268	09/30/93						
Primary Education Efficiency	0273	07/30/94						
Assoc. Socio-Economic Prom. & Dev. (AVANCE)	0273.01	03/04/92	Mendieta y Asociados	04/27/89	01/01/88	12/31/88	MTP	12-89
Mosquitia Relief Program	0278	12/31/87					RR	
Mosquitia Relief (SECOPT)	0278.01	12/31/87					RR	
Mosquitia Health care System	0278.02	10/31/88					RR	
Mosquitia Relief and Development	0278.04	12/31/87					RR	
Private Sector Population Program	0286	07/31/89	Feat,Marwick, Mitchell & Co.	03/12/88	01/01/87	12/31/87	AC	N/A
Privatization of State owned Enterprises	0289	10/01/89	Morales,Palao,Williams y Asoc.	08/31/88	10/01/86	08/31/88	MTP	08-89
Land Use and Productivity Enhancement	0292	02/08/97						
Strengthening Democratic Institutions	0296	08/31/92						
FUHRIL Institutional Strengthening	0305	03/31/89	Price Waterhouse	04/09/87	12/01/85	12/31/86	CN	N/A
Shelter Sector Program	0324.01	03/31/90						
Policy Analysis and Implementation (GOH)	0325	08/31/94						
Policy Analysis and Impl.Coop. Agree. (COIEP)	0325.01	09/09/92	Mendieta y Asociados	08/21/89	01/01/89	06/30/89	MTP	07-89
Honduras Peace Scholarship	0329	11/30/93						
Assistance to the Controller General	0338	08/31/90						
International Executive Service Corps	0361	03/31/91					CN	
Integrated Pest Management	0362	12/31/89						
Cortez Chamber of Commerce	0363	03/07/92						

1/ Fondo de Desarrollo Financiero - FACACH (first six months of operations)

LIST OF REPORT RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	5
<p>We recommend that USAID/Honduras suspend disbursements of local currency for public sector projects, sectoral support, and general budgetary support until it can provide evidence that the Government of Honduras can adequately account for local currency funds from the special account to the intended recipient.</p>	
<u>Recommendation No.2</u>	9
<p>We recommend that USAID/Honduras make a determination that the technical and administrative capabilities of the Government of Honduras' implementing agencies are satisfactory prior to the programming of any additional local currency for general budgetary or sectoral support.</p>	
<u>Recommendation No. 3</u>	14
<p>We recommend that USAID/Honduras:</p> <ol style="list-style-type: none">a. identify the universe of recipients of Economic Support Fund and Public Law Titles I and III local currency; determine which ones have not been independently audited; and, establish a plan to have them audited;b. institute procedures to ensure that periodic independent audits are performed on recipients of local currency made available by the Economic Support Fund and Public Law 480 programs and that standard audit guidance is sent to all recipient organizations; and	

- 2 -

APPENDIX 3

REPORT DISTRIBUTION

	<u>No. of Copies</u>
U.S. Ambassador to Honduras	1
Director, USAID/Honduras	5
AA/LAC	1
LAC/CAP/H	1
AA/M	2
GC	1
LAC/CONT	1
LAC/DP	1
LAC/DR	1
LAC/GC	1
RLA	1
AA/XA	2
LEG	1
AA/FVA	1
FVA/FFP	1
FVA/FFP/LAC	1
AA/PFM	1
PFM/FM/FP	2
XA/PR	1
PPC/CDIE	3
IG	1
AIG/A	1
IG/PPO	2
IG/LC	1
IG/RM/C&R	12
IG/I	1
RIG/I/T	1
Other RIG/As	1