

**Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of the USAID/Honduras
Health Sector II Project**

**Audit Report No. 1-522-92-001
October 18, 1991**



**INSPECTOR
GENERAL**

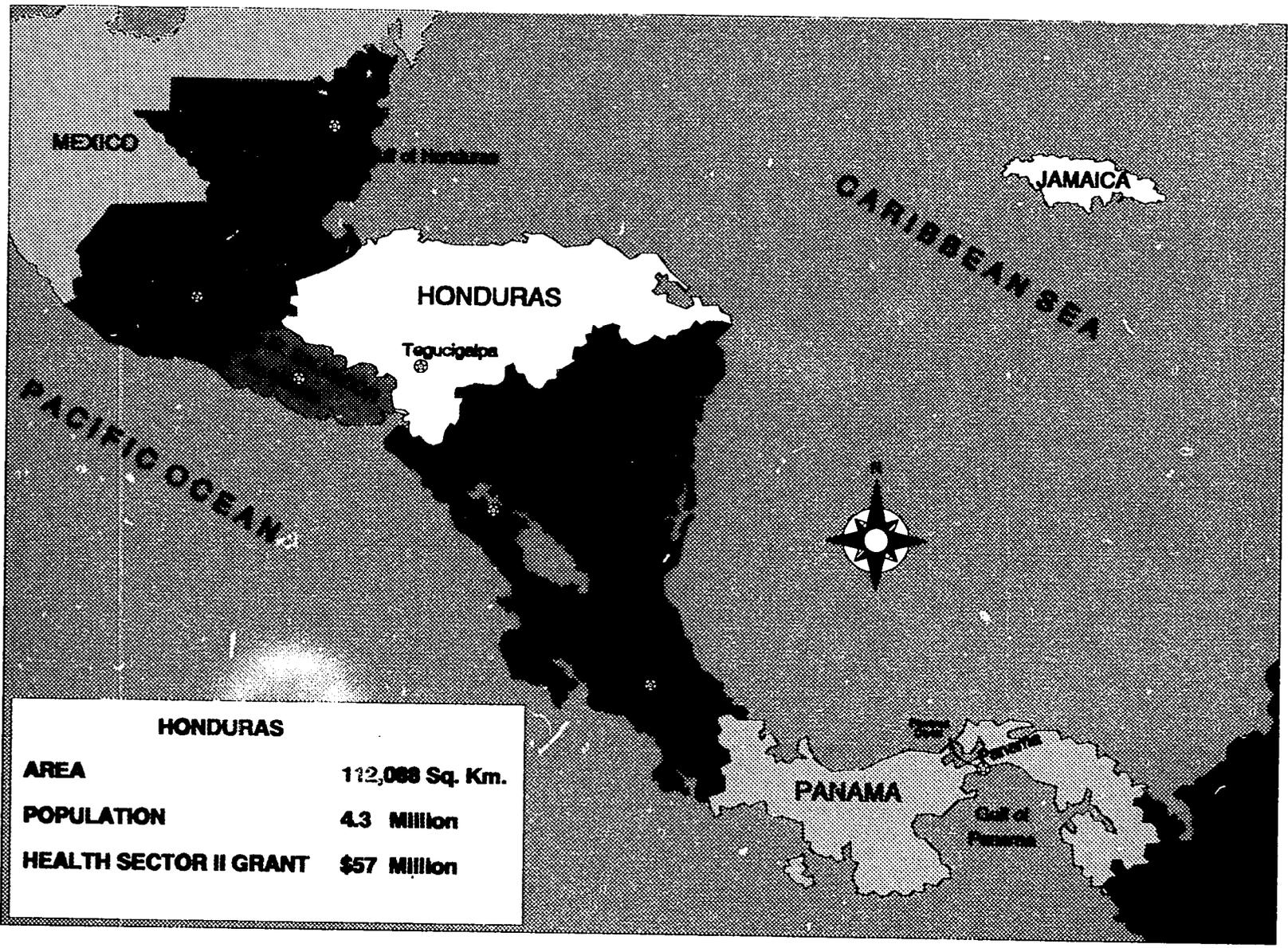
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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USAID/Honduras had systems to ensure that (1) implementation was properly monitored (2) commodities were properly obtained and effectively utilized and (3) technical assistance was adequately planned and procured. However, these systems could be enhanced by obtaining current data on planned versus actual progress, establishing precise and measurable means to monitor contractor progress, and formalizing procedures to monitor host government contributions.



HONDURAS	
AREA	112,000 Sq. Km.
POPULATION	4.3 Million
HEALTH SECTOR II GRANT	\$57 Million

AGENCY FOR INTERNATIONAL DEVELOPMENT

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October 18, 1991

MEMORANDUM

TO: D/USAID/Honduras, Marshall Brown

FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*

SUBJECT: Audit of the USAID/Honduras Health Sector II Project

Enclosed are five copies of the subject report. In preparing this report, we reviewed your comments on the draft report. A summation of your comments has been included after each finding. The Mission's comments are presented in their entirety in Appendix II. Recommendation No. 2.1 is closed upon issuance of the report. All the remaining recommendations are resolved and can be closed after we receive and review evidence that implementing actions have been satisfactorily implemented. Please respond to this report within 30 days, indicating any actions planned or already taken to implement the recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

The Health Sector II Project, USAID/Honduras Project No. 522-0216, was designed to build upon and solidify achievements made under two predecessor projects (Health Sector I and Rural Water and Sanitation projects). Its purpose is to consolidate and continue extending primary health care services placing primary emphasis on child survival interventions and rural water and sanitation services. The achievement of this purpose will be indicated by reducing the infant mortality rate and by increasing life expectancy.

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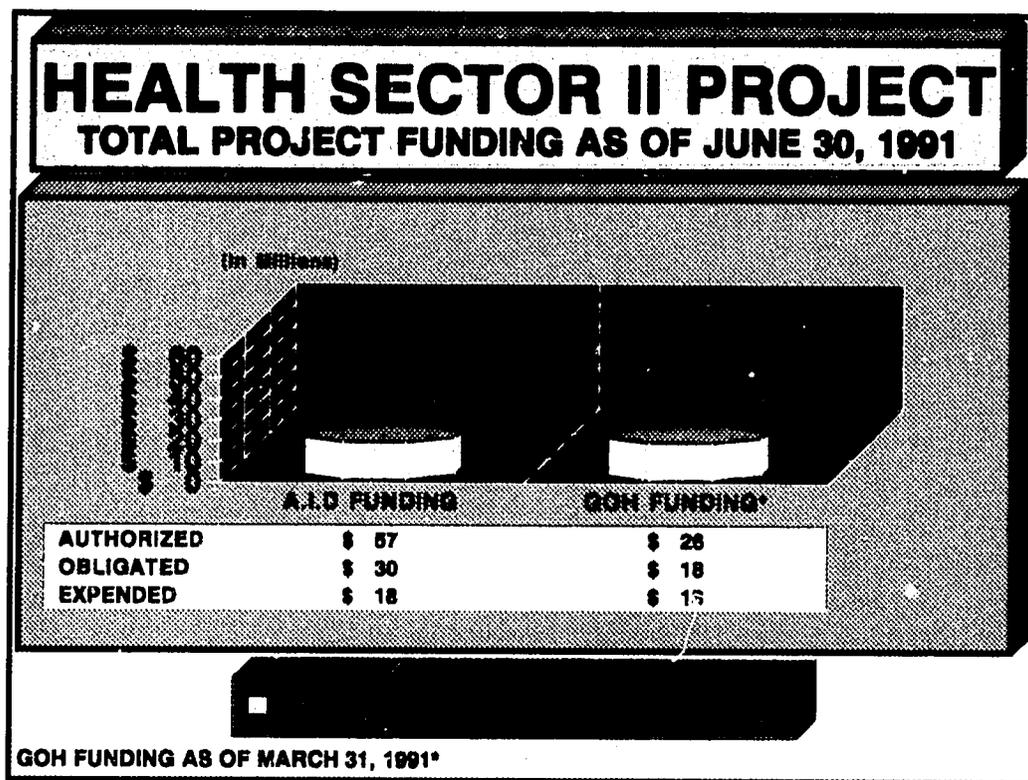
The Health Sector II Project (Project) began in June 1988 and the project assistance completion date is October 1995. The Government of Honduras (GOH) agencies responsible for implementing the Project are the Ministry of Health and the National Autonomous Water and Sewer Authority. A Project Coordination Unit was created to serve as the principal coordinating entity. USAID/Honduras' Human Resources Development Office has primary responsibility for monitoring Project implementation and progress.

Total Project funding is \$83 million, of which \$57 million was an A.I.D. grant and \$26 million was a GOH counterpart contribution. As of June 30, 1991, \$29.8 million of the grant had been obligated and \$17.9 million had been expended. As of March 31, 1991 host government contributions were reported to be \$17.6 million.

Audit Objectives

The Office of the Regional Inspector General for Audit/Tegucigalpa audited USAID/Honduras' Health Sector II Project to answer the following objectives:

- Has USAID/Honduras established a system to monitor, report and evaluate Project implementation in accordance with A.I.D. policies and procedures?
- Did USAID/Honduras follow A.I.D. procedures in (a) obtaining necessary and eligible commodities, (b) safeguarding the commodities against waste, loss and abuse, (c) using the commodities effectively and efficiently, and (d) providing an adequate accounting for the receipt, storage, and use of commodities?
- Did USAID/Honduras follow A.I.D. procedures in (a) planning for technical assistance, (b) procuring assistance at a fair price, in a timely manner, from qualified contractors, with clear scopes of work and measurable work objectives, (c) monitoring contractor performance, and (d) obligating, expending, and accounting for technical assistance funds?
- Does USAID/Honduras have a system to ensure that the Project complied with Section 110 (A) of the Foreign Assistance Act for host country contributions?



In answering these objectives, we tested whether USAID/Honduras followed applicable internal control procedures. However, the audit did not follow the Government Auditing Standards for compliance with applicable laws and regulations. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Honduras followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions regarding positive findings to the items actually tested. When we found problem areas, we performed additional work to:

- conclusively determine that USAID/Honduras was not following a procedure and policy,
- identify the cause and effect of the problems, and
- make recommendations to correct the condition and cause of the problems.

Our discussion of the scope and methodology for this audit is in Appendix I and our report on internal controls is in Appendix III.

Audit Findings

Has USAID/Honduras established a system to monitor, report and evaluate Project implementation in accordance with A.I.D. policies and procedures?

For the items tested, USAID/Honduras has established systems to monitor, report and evaluate the Project's implementation consistent with A.I.D. requirements but they could be improved by obtaining more timely information on the status of inputs.

The monitoring and reporting responsibilities of the Project Officer, Project Committee, and the host government were clearly defined and implemented. A Project Coordination Unit was formed within the Government of Honduras and it was actively involved in managing Project implementation. Project officials ensured that the host government and the technical assistance contractor performed in accordance with agreements or contracts through site visits and regularly scheduled meetings. The Project Officer's management system, for the most part, gathered data on implementation and when problems were identified prompt, corrective action was taken. Semi-annual reports were comprehensive and brought implementation problems to the attention of senior mission management. A mid-term evaluation of the Project was scheduled for the summer of 1991.

Although the management systems were in accordance with A.I.D. requirements, we feel the Mission could further improve its monitoring capability by gathering more timely information on Project inputs. This Project has an unusually high number of inputs. By obtaining a more current status on each of them, the Mission can better track actual versus planned progress and hence detect problems or delays earlier.

USAID/Honduras Did Not Have Current Information on Project Inputs Necessary to Compare Planned Versus Actual Results

The Foreign Assistance Act requires A.I.D. to establish management systems capable of comparing actual results of programs or projects with planned progress. The Project Officer's management system could not provide, in a timely manner, the status of Project inputs which are necessary to compare planned versus actual progress. The USAID's present system consists of LOTUS schedules which track procurement status but not the progress of the remaining inputs. Consequently, management does not know the current status of such Project inputs and if a problem or delay should occur with a one of those inputs there is less assurance that prompt remedial action will be taken.

Recommendation No. 1: We recommend that USAID/Honduras modify its monitoring system for the Health Sector II Project to provide up to date data for Project inputs and utilize this information to compare actual versus planned progress.

Under the Health Sector II Project Agreement, A.I.D. and the Government of Honduras agreed to provide more than 70 inputs (e.g. technical services, commodities, vehicles, construction, training, local currency costs, installation of computers, etc.) The provision and effective utilization of these inputs should produce planned outputs which will lead to the accomplishment of the Project purpose. Because Office of Inspector General audits find that numerous Project implementation problems involves delays in receiving and/or using inputs it is essential that a Project Officer has current information on their status. In this manner, prompt, corrective action can be taken when problems arise.

Section 621A (b) of the FAA requires A.I.D. to

...establish a management system that includes: the definition of objectives and programs for United States foreign assistance; the development of quantitative indicators of progress toward these objectives; the orderly consideration of alternative means for accomplishing such objectives; and the adaption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken.

A.I.D. Handbook 3, Chapter II, Project Monitoring, requires that the Project monitoring system (1) ensure the timely and coordinated provision of A.I.D.

(and other) financing and/or inputs and (2) support the borrower/grantee's efforts regarding the effective utilization of resources and accurate forecasting of future problems.

To determine whether the USAID's monitoring system could comply with these requirements we requested Project officials to provide us with the current status of the Project's inputs. This information was not readily available. However, the Mission did provide it at a later date.

The Project Officer's management system for monitoring inputs basically consisted of LOTUS schedules (electronic spreadsheets) which tracked the status of procurement. It was not designed to track the status of all the other inputs planned for the Project. The Project Officer had not developed a comprehensive system capable of providing real time information on input status which would form the basis for comparing actual to planned progress.

Without current status information on such a large number of inputs the USAID does not know exactly what is the status of the Project. Failure to closely track all inputs could lead to not detecting and correcting problems or delays as rapidly as needed to take timely corrective action. Consequently, management does not have adequate assurance that inputs are delivered on time and utilized for intended purposes; and timely action will be taken when problems or delays arise.

In our opinion, USAID/Honduras can improve the monitoring of this Project by modifying its input tracking system so that it can provide up to date comparisons between actual and planned inputs. A possible improvement is to use A.I.D. approved project management software programs which are available commercially and can provide up to date project management information. This software can be used with computer equipment currently on hand at USAID/Honduras.

Management Comments and Our Evaluation

Management agreed with this finding and the recommendation. They informed us they would either expand the use of "Harvard Project Manager" or adopt another system such as "Timeline" to track all inputs to the Project. They also planned to extend this form of Project monitoring to all projects in their portfolio.

We concur with the planned action reported by USAID/Honduras. Recommendation No. 1 is resolved.

Did USAID/Honduras follow A.I.D. procedures in (a) obtaining necessary and eligible commodities, (b) safeguarding the commodities against waste, loss and abuse, (c) using the commodities effectively and efficiently, and (d) providing an adequate accounting for the receipt, storage, and use of commodities?

For the items tested, USAID/Honduras followed A.I.D. procedures under this Project in (a) obtaining necessary and eligible commodities (b) safeguarding them against waste, loss and abuse (c) using commodities effectively and efficiently and (d) providing adequate accounting for the receipt, storage and use of commodities.

USAID/Honduras planned to purchase \$18.9 million of commodities to be used in Ministry of Health Regional Offices, rural health clinics, and water and sanitation activities. Numerous types of commodities were procured, however, major items were vehicles, motorcycles, construction materials, and medical supplies. Commodities were procured by USAID/Honduras.

We found that USAID/Honduras and the Government of Honduras had adequately assessed commodity needs and none of the commodities purchased were ineligible or restricted for A.I.D. financing. Our tests of four procurements disclosed they were properly advertised, bids were evaluated and contracts were awarded to the most responsible and responsive firm. Also, the USAID established adequate procedures to ensure that commodities were safeguarded, properly utilized and accounted for. Our field trips to four of eight regional offices did not find any significant instances where commodities were not properly utilized. USAID/Honduras hired an accounting firm to conduct inventories of all Ministry of Health warehouses to further ensure the safeguarding and accountability of commodities. Additionally, the USAID's Financial Analysis and Review section reviewed the operations of Ministry of Health warehouses.

Did USAID/Honduras follow A.I.D. procedures in (a) planning for technical assistance, (b) procuring assistance at a fair price, in a timely manner, from qualified contractors, with clear scopes of work and measurable work objectives, (c) monitoring contractor performance, and (d) obligating, expending, and accounting for technical assistance funds?

USAID/Honduras followed A.I.D. procedures when planning for technical assistance. Our comparison of methods used by the Mission to procure technical assistance to requirements in procurement regulations disclosed

that the contract with Management Sciences for Health was procured at a fair price, in a timely manner and from a qualified firm. USAID/Honduras monitored contractor performance properly through site visits and meetings. Our review of Mission procedures to control technical assistance funds showed they were adequate and that funds were obligated, expended and accounted for correctly.

However, our audit found that the utilization, monitoring and reporting of the performance of contract technicians could be improved by developing clearer and measurable performance objectives in scopes of work. More precise work requirements and timeframes for completing tasks could be incorporated into the contractor's annual work plans and periodic progress reporting.

**Contractor Work Requirements
and Project Work Plans Should be
Clearer and Measurable**

Handbook 3, Supplement A, requires that a contract scope of work be precisely defined and to facilitate monitoring should include specific indicators of progress and time frames to permit measurement of contractor's progress. The scope of work for the \$10.9 million contract with Management Sciences for Health was vague as to technicians' duties and contained no progress indicators or timeframes to complete specific tasks. We were unable to determine the cause for vagueness in the Project Implementation Order/Technical Services prepared for the contract, however, USAID/Honduras felt it was a lack of Agency emphasis in the past on preparing detailed scopes of work. As a result of a lack of precision, benchmarks or timeframes the monitoring of contractor progress toward defined objectives is difficult and A.I.D. could be in a weak position should the need arise to seek recourse against the contractor for poor performance.

Recommendation No. 2: We recommend that USAID/Honduras:

2.1 include in the scope of work for the upcoming evaluation team a requirement to study the duties and responsibilities of Management Sciences for Health technicians to determine their continued appropriateness and recommend how they should be changed and could be more precisely defined;

2.2 based upon the results of the evaluation team recommendations, meet with Government of Honduras officials to define the objectives and duties for each

technician and establish benchmarks and timeframes to measure progress against these objectives; and

2.3 develop new scopes of work and have the contract officer incorporate them into the current contract.

One of the largest A.I.D.-financed inputs to the Health Sector II Project is technical assistance. To furnish this assistance, USAID/Honduras, in January 1989, awarded a \$10.9 million A.I.D. direct contract to Management Sciences for Health (the Contractor). This contract requires the Contractor to field a team of eleven long-term advisors and 5.5 person years of short-term advisors to provide technical expertise to the Ministry of Health.

One of the most important events in the contracting cycle for technical assistance is the preparation of the Project Implementation Order/Technical Services (PIO/T). The statement of work is the core of the PIO/T. In addition to describing contract objectives and steps to accomplish them, it identifies the proposed rights and obligations of the contracting parties.

A.I.D. Handbook 3, Project Assistance, Supplement A, promulgates the following guidelines:

The statement of the work must be as precisely defined and articulated as possible if the contractor is to understand clearly the dimensions and purposes of the tasks to be undertaken. A poorly prepared statement of work is self-defeating in that it may result in delays in contracting while clarification is sought, or worse, in a contract replete with ambiguities and imprecise contractor responsibilities. Ultimately, a clear and complete statement of work may assume even added importance if there is a legal or administrative dispute as to the adequacy of the services provided, perhaps affecting a decision as to whether or not the contractor will be paid.

To make meaningful monitoring and evaluation possible, the PIO/T (and the resultant contract) should include specific indicators of progress or benchmarks which will permit measurement of the contractor's progress against the expenditures of both time and money. Provision should be made for periodic reports by the contractor to facilitate assessment of his/her actual progress. Particular care should be taken to assure that each statement of work meets these requirements.

The statements of work for the contractor technicians did not adhere to the above requirements. Specifically, for all eleven technicians, the statements of work were vague and lacked precision and specificity. They did not contain any benchmarks to measure progress. Furthermore, they did not include any timeframes for completing tasks.

Basically, each technician's statement of work was written in general terms and stated the technician was to collaborate, advise, support or participate in an activity or event. No further specifics or benchmarks were provided as to what they should do and when the tasks should be completed.

Scopes of work for the \$10.9 million contract were vague, and lacked benchmarks or timeframes for completing tasks.

As an example, which is typical of all statements of work, the contract states the Health Management and Financial Advisor will:

- Collaborate in the development of the budget expenditure and control system....
- Advise the MOH with a view to improving its capacities for financial analysis and short, medium and long range financial planning.
- Assist the MOH in the process of improving management at the operative (field) level in collaboration with regional and other advisors.
- Coordinate activities with other advisors including those from other agencies.

We believe this vagueness was a factor contributing to the inability of Ministry of Health regional health officials to tell us whether technicians were accomplishing and reporting on progress toward achieving their objectives.

We were unable to determine the cause for this condition. USAID/Honduras officials stated it was a lack of Agency emphasis in the past on preparing detailed statements of work. They felt the recent A.I.D. General Notice on Service Contracting should reinforce the need for preparing adequate statements of work. A possible cause could be that in the past contract officers may not have always returned scopes of work

which lacked specificity to the preparer for revision. The Mission's new contract officer has stated, however, that she is aware of the problem and will ensure that vague statements of work are returned to the Project Officer for revision.

As a result of inadequate statements of work, USAID/Honduras' ability to monitor and detect deficiencies in a \$10.9 million contract is curtailed. Additionally, contractor annual work plans and periodic progress reports could be much more effective if they incorporated and reported on progress achieved toward the measurable targets and timeframes in technician's statements of work. To date, USAID/Honduras and the Government of Honduras have been very satisfied with the performance of the Contractor. However, should a downturn in their work occur, USAID/Honduras will be in a weak position to seek recourse because of a lack of contract precision concerning what should have been done and in what timeframe.

Management Comments and Our Evaluation

The Mission concurred with Recommendation No. 2.1. They included in the scope of work for the evaluation team a requirement to study the duties and responsibilities of Management Sciences for Health technicians. Recommendation No. 2.1 is closed.

USAID/Honduras concurred with Recommendation No. 2.2. They reported they will fully implement the recommendation after the evaluation team completes the study specified in Recommendation No. 2.1. Recommendation No. 2.2. is resolved.

The Mission generally concurred with Recommendation No. 2.3. They reported that the Mission's Contracting Officer will review the recommendations of the evaluation team and then would consider amending the contract. This consideration would evaluate several factors to determine whether the amendment would be in the best interest of the United States Government. RIG/A/T concurs with the Mission's proposal to amend the contract if it is in the best interest of the United States Government. Recommendation No. 2.3 is resolved.

Does USAID/Honduras have a system to ensure that the Project complied with section 110 (A) of the Foreign Assistance Act for host country contributions?

USAID/Honduras did not have a system to monitor host country contributions which complies with Section 110(A) of the Foreign Assistance

Act. USAID/Honduras relied on the Project Officer to monitor contributions from the host government. For the Project, the Project Officer, when preparing his semi-annual report, telephoned the Project Coordination Unit to determine the level of Government of Honduras contributions. In September 1990, the Project Coordination Unit began to send the Mission written reports on the amounts they had contributed to the Project. However, there was no written procedures within the Mission for monitoring, receiving or verifying the level of host government contributions.

**USAID/Honduras Needs to
Establish a System to Monitor
Host Country Contributions**

Section 110(A) of the Foreign Assistance Act (FAA) requires the host government to provide at least 25 percent of the cost of the entire program, project or activity. The contribution of the host country is to be monitored by the USAID over the life of the Project. We found that USAID/Honduras had not established a written system of monitoring contributions from the Government of Honduras. Rather, an informal procedure existed whereby the respective Project Officers monitored the level of contributions. However, this procedure does not give the Mission the desired level of assurance that their program complies with Section 110(A) of the FAA and that its projects are receiving the agreed-to level of contributions.

Recommendation No. 3: We recommend that USAID/Honduras establish a formal system for monitoring host country contributions by preparing a mission order which: (1) fixes responsibility for monitoring contributions; (2) establishes procedures for receiving and recording data on contributions from the Government of Honduras; and (3) ensures that periodic verification of reported information is performed.

The successful day-to-day operations of a development assistance project are highly dependent on contributions from the host government. These contributions generally are used to pay local currency costs for such items as salaries, vehicle operations, maintenance and operational costs of facilities associated with the Project. For the Health Sector II Project the agreed-to Government of Honduras contribution was \$26 million.

To ensure that recipients of foreign assistance have a vested interest in the success of A.I.D.-financed projects, Congress requires recipient governments to provide at least 25 percent of the cost of the entire project. Section 110(A) of the FAA stipulates that:

No assistance shall be furnished by the United States Government to a country under sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied, that such country provide at least 25 per centum of the costs of the entire program, project or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an 'in-kind' basis.

A.I.D. implements this section of the FAA in Handbook 3, Appendix 2G. This Handbook provides that the contributions of A.I.D. and the host government:

Should be based upon the total cost of the Project or activity as defined in the document; e.g., Project Paper; thus, if the Project cost including A.I.D. and recipient country contributions were the equivalent of \$100, the recipient country would have to contribute at least the equivalent of \$25. The contributions by A.I.D. and by the recipient country may be made during the life of the Project as defined in the Project Paper; i.e., normally the disbursement period of the planned A.I.D. contribution.

We attempted to determine whether an adequate system had been established to ensure that the GOH provided its agreed-to-contributions. We found that when Project officials needed to determine the level of host country contributions for the purpose of preparing the semi-annual report they telephoned the Government of Honduras Project Coordination Unit to find out the information. In September 1990, the Project Coordination Unit began sending written reports to the Mission on the amount they contributed to the Project. However, the Mission was not maintaining any records or verifying the amount of Government of Honduras contributions.

The Controllers Office also had not established any system to monitor host country contributions. They suggested we contact the USAID's Development Finance Office to determine what they were doing in this area. However, this Office was not tracking these contributions either.

We attribute this condition to the failure to establish a formal mission-wide system for monitoring host country contributions. There was no written procedure specifying who was responsible for monitoring contributions; what constitutes acceptable contributions; how exchange rate fluctuations should be handled; or when and who should verify contributions.

As a result of not documenting its internal controls for host country contributions, USAID/Honduras does not have adequate assurance that its

program complies with legislative requirements. For the Health Sector II Project we visited the Government of Honduras Project Coordination Unit to determine the level of contributions and this revealed they were making their contributions to the Project. However, a \$1.6 million difference existed between their records and what the USAID was reporting in the semi-annual report.

After we brought this difference to the attention of the USAID they did a reconciliation of contributions. This disclosed that the Government of Honduras had contributed \$7.6 million more than the USAID was reporting. In responding to this reconciliation, the Director of the Project Coordination Unit told the Mission that neither they or the USAID had any systematic method of verifying the correctness of reported contributions. Furthermore, the Government of Honduras was including donations from another government as a part of their contribution to the Project. We feel these are illustrative of shortcomings which can occur when monitoring requirements are not explained in detail in a written mission order.

Toward the conclusion of our field work, A.I.D./Washington issued a world-wide cable on Cost Sharing Counterpart Contributions. This guidance stated there should be mission standards to provide auditable evidence with respect to reporting and documenting host government financial contributions. These guidelines should be incorporated into the mission order we are recommending USAID/Honduras prepare.

Management Comments and Our Evaluation

The Mission concurred with this finding and recommendation. They informed us that they were preparing a Mission Order to establish a formal system to monitor host country contributions. They also reported various other measures the Mission had been using to monitor contributions from the Government of Honduras. We agree with the reported action to prepare a Mission Order on host country contributions. Recommendation No. 3 is resolved.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Honduras' Health Sector II Project in accordance with generally accepted government audit standards except as described in the third paragraph of this section of the report. We conducted the audit from November 8, 1990 through June 27, 1991 and covered the systems and procedures relating to USAID/Honduras project management from June 30, 1988 (Project inception) through June 1991. As noted below, our field work was conducted in the offices of USAID/Honduras, Management Sciences for Health and Ministry of Health Headquarters in Tegucigalpa, Honduras. We made field visits to Ministry of Health Regional Offices throughout Honduras for the purpose of determining the adequacy of Mission monitoring.

During the implementation period covered by our audit approximately \$17.9 million of Project expenditures were incurred. This represents 31 percent of the \$57 million for this Project. Our audit of host country contributions was limited to verifying the reported amount of contributions, which according to Mission records totalled \$17.6 million as of March 31, 1991. The Government of Honduras is to contribute the equivalent of \$26 million in local currency counterpart funds.

Our audit did not follow the Government Auditing Standards for assessing compliance with applicable laws and regulations.

Methodology

The audit was made in accordance with generally accepted government audit standards except as described in the third paragraph of the Scope Section.

The methodology for each audit objective follows.

Audit Objective One

To accomplish the first audit objective we assessed the adequacy of the Mission's order for defining the Project monitoring, reporting, and evaluation system. We compared the roles and responsibilities of the Project Officer, Project Committee and other Mission officials with requirements of the mission order to determine if they had been adequately defined and implemented. Project documents and contracts were reviewed to determine whether monitoring, reporting and evaluation responsibilities of the host government and technical assistance contractor were clearly defined. We reviewed the Project's logical framework to identify inputs and outputs and then assessed the capability of the Mission's management system to compare planned versus actual progress. Through discussions and site visits we determined if the Mission's management system obtained information to analyze Project progress and identify problems and implementation issues. We analyzed semi-annual reports and site visit reports to determine whether they provided timely information to Mission management on implementation problems.

Audit Objective Two

To accomplish the second objective we reviewed the adequacy of Mission procedures to ensure that only necessary and eligible commodities were procured. We tested four of 118 procurements to determine whether they were properly advertized, bids were correctly evaluated, and contracts were awarded to the appropriate firm. Our test consisted in comparing procedures used by the Mission with those required by the Federal Procurement Regulations. Since the Missions' procedures were adequate and no discrepancies were found in these four procurement actions it was determined that no further review was necessary. We analyzed the Mission's control system for ensuring that commodities are accounted for, safeguarded and used only for approved purposes. Field trips were made to four of eight regional warehouses to review the adequacy of inventory control procedures. During these visits we physically verified commodities to test whether they were properly accounted for and were utilized for approved Project purposes.

Audit Objective Three

For the third objective, we reviewed Project files and documents to determine how technical services were determined and selected. We compared methods used by the Mission to procure technical assistance with requirements in procurement and A.I.D. regulations. We interviewed host government officials to determine whether the level of technical services was properly coordinated with them. We analyzed scopes of work

for all Management Sciences for Health technicians to determine whether they were precise, measurable and contained timeframes to complete tasks. Contractor reports were reviewed to determine if progress was reported for tasks in the work plan and statements of work. We interviewed host government officials to determine whether the contractor and the Project officer kept them informed of progress and problems with the technical services. We reviewed the adequacy of Mission procedures to control and account for technical services disbursements.

Audit Objective Four

To accomplish our fourth objective we reviewed the adequacy of USAID/Honduras' system to monitor host country contributions. This determination was made by comparing present Mission policies to control host government contributions with A.I.D. and regulatory requirements of host government contributions. We reviewed Government of Honduras records of contributions to determine whether required inputs were furnished. We compared contributions per Government of Honduras records with amounts reported in the Mission's semi-annual report.

UNITED STATES GOVERNMENT

memorandum

DATE: September 23, 1991

REPLY TO
ATTN OF: Marshall Brown, D/USAID/Honduras *Sy*

SUBJECT: Mission Response to Draft Audit Report of USAID/Honduras' Health Sector II Project

TO: Reginald Howard, RIG/A/T

We would like to thank the Office of the Regional Inspector General for Audit, Tegucigalpa for the detailed work and effort that went into this audit. The audit is a useful tool to make some systematic changes in the way we carry out our other projects. All the members of the audit team were very professional and our staff enjoyed working with them. They also did a good job keeping the USAID Audit Liaison Officer informed so he could brief Mission Management.

The Mission responses to the specific audit recommendations are as follows.

Recommendation No. 1: We recommend that USAID/Honduras modify its monitoring system for the Health Sector II Project to provide up to date data for project inputs and utilize this information to compare actual versus planned progress.

Mission Response:

The Mission concurs with this recommendation. The USAID is now using "HARVARD PROJECT MANAGER" to track many project inputs to the Health Sector II Project. The USAID will either expand the use of "HARVARD PROJECT MANAGER" or adopt another system such as "TIMELINE" to track all the inputs to the Project. We also plan to extend this form of project monitoring to all projects in our portfolio.

Based on the above, we request that you close this recommendation upon issuance of the final audit report.

Recommendation No. 2.1: We recommend that USAID/Honduras include in the scope of work for the upcoming evaluation team a requirement to study the duties and responsibilities of Management Sciences for Health technicians to determine their continued appropriateness and recommend how they should be changed and could be more precisely defined.

Mission Response: The Mission concurs with this recommendation. The scope of work for the evaluation team requires the contractor to study the duties and responsibilities of Management Sciences for Health (MSH). The evaluation team will evaluate the continued appropriateness of MSH's duties and responsibilities and recommend how they should be changed to be more precise.

We have attached a copy of the scope of work to this memorandum.

Based on the above, we request that you close this recommendation upon issuance of the final audit report.

Recommendation No. 2.2: We recommend that USAID/Honduras, based upon the results of the evaluation team recommendations, meet with Government of Honduras officials to define the objectives and duties for each technician and establish benchmarks and timeframes to measure progress against these objectives.

Mission Response: The Mission concurs with this recommendation. The Mission will fully implement this recommendation after the evaluation team completes its work as specified in the recommendation.

Based on the above, we request that you close this recommendation upon issuance of the final audit report.

Recommendation No. 2.3: We recommend that USAID/Honduras develop new scopes of work and have the contract officer incorporate them into the current contract.

Mission Response: The Mission generally concurs with this recommendation. The Contracting Officer will review the recommendations of the evaluation team. Based upon this review, the Contracting Officer will consider amending the MSH contract. The determination as to whether or not to amend the contract will be based upon a consideration of several factors, among them the nature of the evaluation team's recommendations; whether or not the proposed amendment will result in additional costs to the USG, and if so, how much; and the degree of cooperation received from GOH counterparts and the contractor. The Contracting Officer will amend the contract if she believes, after having evaluated all of the above concerns, that such an amendment is in the best interest of the USG.

The Mission believes that the scope of work used to develop the original MSH contract was not specific due to a lack of Agency

emphasis in the past on developing detailed scopes of work. On May 17, 1991, AID/W issued a General Notice entitled "Office of Federal Procurement Policy (OFPP) Policy Letter 91-2 -- Service Contracting." The Office of Management and Budget (OMB) issued this policy letter in April 1991. The purpose of this policy letter is to "...emphasize the use of performance requirements and quality standards in defining contract requirements, source selection, and quality-assurance."

Consistent with the new emphasis embodied in the above-mentioned General Notice as well as in this audit recommendation, the Mission will require all future scopes of work to be more precise, measurable and contractible.

Page 17 of the draft audit report states, "In our opinion, a possible cause (of lack of detailed scopes of work) could be that preparers of PIO/Ts have not had adequate training in writing precise, measurable and contractible scopes of work. Another cause could be that contract officers do not return scopes of work which lack specificity to the preparer for revision. The Mission's new contract officer has adopted a procedure whereby vague statements of work will be returned to the project officer to be revised."

We believe that this language should be removed for the following reasons. With respect to training, as stated above, the Mission believes that lack of specificity in the scope of work was due to a lack of Agency emphasis in the past. The Mission also believes that its project officers are capable of writing precise, measurable and contractible scopes of work without additional training. The project officer who prepared these scopes of work has over 20 years experience with the Agency and has taken the Project Implementation Course and the Management Skills Course. Furthermore, the Mission is not aware of any work that was performed during this audit that would support a conclusion that preparers of PIO/Ts lack adequate training. Based on these facts, we request that you remove this language from the report.

With respect to the statement that "...contract officers do not return scopes of work which lack specificity to the preparer for revision. The Mission's new contract officer has adopted a procedure whereby vague statements of work will be returned to the project officer to be revised.", this statement is not accurate. The current contract officer does return scopes of work which lack specificity to the preparer for revision. We believe that a more accurate statement would be, "Another cause

could be that in the past contract officers may not have always returned scopes of work which lacked specificity to the preparer for revision. The Mission's new contract officer has stated, however, that she is aware of the problem and will ensure that vague statements of work are returned to the project officer for revision."

Based on the above, we request that you close this recommendation upon issuance of the final audit report.

Recommendation No. 3: We recommend that USAID/Honduras establish a formal system for monitoring host country contributions by preparing a mission order which fixes responsibility for monitoring contributions; establishes procedures for receiving and recording data on contributions from the Government; and ensures that periodic verification or reported information is performed.

Mission Response: The Mission concurs with this recommendation and is preparing a Mission Order to establish a formal system for monitoring host country contributions. In addition, the Office of Development Finance has been tracking host country contributions made from Host Country Owned Local Currency (HCOLC) generated from USG programs. The Office of Development Finance has also requested regular information from the Budget Office of the Ministry of Finance on all GOH counterpart contributions. Finally, earlier in CY 1991, the Mission instituted a policy which requires all new projects and project amendments to require quarterly reports from the GOH of its counterpart contributions.

Based on the above, we request that you resolve this recommendation upon issuance of the final audit report and close it upon receipt of our new Mission Order.

REPORT ON INTERNAL CONTROLS

We have audited USAID/Honduras' Health Sector II Project No. 522-0216 for the period June 30, 1988 through June 27, 1991. We have issued our report thereon dated October 18, 1991.

Scope of our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives; and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the four audit objectives and not to provide assurance on the internal control structure.

General Background on Internal Controls

The management of A.I.D. including USAID/Honduras is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General

Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified significant internal policies and procedures applicable to each of the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation--and we assessed control risk. In doing this work, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/Honduras' ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

Audit Objective One

The first audit objective was to determine whether USAID/Honduras established a system to monitor, report and evaluate Project implementation. When planning and performing our audit of the Mission Project management system, we considered the applicable internal control policies cited in A.I.D. Handbook 3 and relevant provisions in contracts, Grant Agreements, and Project Implementation Letters. We classified the relevant policies and procedures into the following categories: Project monitoring, reporting and evaluation. For this Project, we concluded the

Mission controls were properly designed and consistently applied except as shown below.

Our audit noted one reportable condition related to monitoring Project implementation:

- the Mission did not have current information on the status of all project inputs hence they could not readily compare planned versus actual progress.

The Mission had not reported this material weakness in its 1989 internal control assessment.

Audit Objective Two

This objective related to whether A.I.D. procedures were followed for the procurement and utilization of Project commodities. In planning and performing our audit of commodities, we considered the applicable internal control policies and procedures contained in A.I.D. Handbooks 3, 15 and the Project Officer Guidebook. We classified the relevant policies and procedures into the following categories: procurement planning, and the accounting process for commodity arrival, storage, distribution and utilization.

Our audit did not find any reportable conditions for this objective.

Audit Objective Three

Our third audit objective pertained to the planning for technical assistance and the monitoring of technicians' performance. When planning and performing our audit of technical assistance provided under this Project, we considered the applicable internal control policies and procedures contained in A.I.D. Handbooks 3, 19, Project Paper, and Project Agreement. We classified the relevant policies and procedures into the following categories: planning for technical services needs, procuring assistance, monitoring contractor performance, and accounting for contract funds. For the Health Sector II Project we concluded the controls were properly designed and consistently applied except as shown below.

We noted one reportable condition:

- the scopes of work for technicians were vague, lacked indicators to measure contractor performance and did not contain timeframes for completing tasks.

The Mission had not reported this material weakness in its 1989 internal control assessment. It should be noted that the internal control assessments do not have a specific internal control technique for this area.

Audit Objective Four

The final audit objective pertained to counterpart contributions to be made to the Project by the Government of Honduras. In planning and performing our audit of counterpart contributions, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 19. We classified the relevant policies and procedures into the following categories: monitoring and reporting of host country contributions. Our assessment showed the Mission's controls were not properly designed.

Our audit noted one reportable condition:

- USAID/Honduras did not establish a system to monitor contributions of the host government which would satisfy the requirements of Section 110(A) of the Foreign Assistance Act.

The Mission had not reported this material weakness in its 1989 internal control assessment. It should be noted that the internal control assessments do not have a specific internal control technique for this area.

A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities--in amounts that would be material in relation to the financial reports on Project funds being audited--may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe, the reportable conditions described under audit objectives one, three, and four are material weaknesses.

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