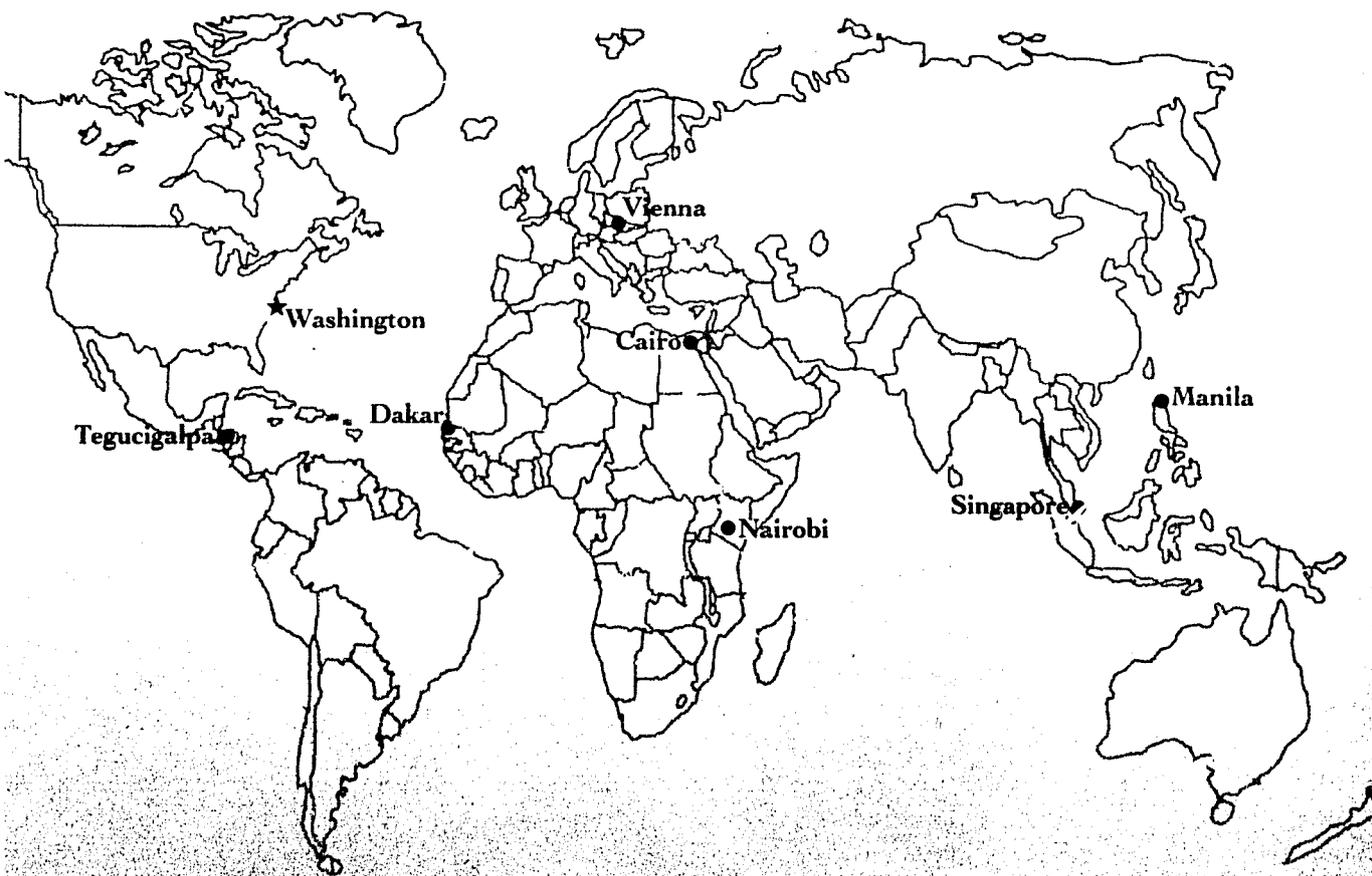


**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Honduras'
Land Use and Productivity Enhancement Project
Managed by the Secretariat of Natural Resources
February 9, 1989 to September 30, 1991**

**Audit Report No. 1-522-92-55-N
September 18, 1992**



**Contractor information contained in
this report may be privileged. The
restrictions of 18 USC 1905 should
be considered before any information
is released to the public.**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

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U. S. MAILING ADDRESS:
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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL

AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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32-9987 - 32-3120
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September 18, 1992

MEMORANDUM

TO: D/USAID/Honduras, Marshall Brown

FROM: RIG/A/T Lou Mundy



SUBJECT: Audit of USAID/Honduras' Land Use and Productivity Enhancement Project, Managed by the Secretariat of Natural Resources, February 9, 1989 to September 30, 1991

This report presents the results of a financial audit of the Land Use and Productivity Enhancement Project (Project), USAID/Honduras Project No. 522-0292, managed by the Secretariat of Natural Resources (Secretariat) for the period February 9, 1989 to September 30, 1991. The audit firm of Price Waterhouse prepared the report dated August 31, 1992.

The purpose of the Project is to improve hillside agricultural production and productivity on a sustainable basis, including the management and effective protection of Honduran natural resources on which that production depends. The Project is scheduled for completion in February 1997 and has a total budget of \$50.0 million, including A.I.D. grant funds of \$36.0 million and \$14.0 million provided by the Government of Honduras. During the audit period the Secretariat received \$1.7 million of A.I.D. grant funds and expended \$1.5 million of this amount. The Government of Honduras also provided counterpart funds totaling the equivalent of \$741,578 during this period.

The objectives of the audit were to determine whether: (1) the Secretariat's fund accountability statements for A.I.D. grant funds and for Government of Honduras counterpart funds present fairly, in all material respects, the Project's financial activities for the period audited, (2) the Secretariat's internal control structure was adequate to manage Project operations, and (3) the Secretariat had complied with Project Agreement terms and applicable laws and regulations. The scope of the audit included an examination of Secretariat activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

The auditors concluded that, except for questionable costs of \$146,908, the fund accountability statement for A.I.D. grant funds under the Project presents fairly, in all material respects, the Secretariat's receipts and expenditures for the period audited. Similarly, the auditors concluded that, except for questionable costs of \$50,976, the fund

accountability statement for Government of Honduras counterpart funds presents fairly, in all material respects, the Project's receipts and expenditures for the period audited.

The auditors identified two material weaknesses in the Secretariat's internal control structure for Project activities. Price Waterhouse reported that the Secretariat: (1) did not have an effective internal control structure and accounting system in the areas of procurement, inventory and fixed asset custody, payrolls, and per diem payments; and (2) lacked a reconciliation process for Project funds received.

With respect to the Secretariat's compliance with agreement terms and applicable laws and regulations, Price Waterhouse found six material instances of noncompliance. The auditors found that: (1) purchases were made without properly supported written bids, (2) transactions regarding inventories were not properly documented, (3) consumption of spare parts exceeded normal expected usage, (4) personnel were contracted without required approvals, (5) per diem expenditures were not properly supported, and (6) purchases were split to avoid requirements for formal public bids.

The report was discussed with the Secretariat's management officials who expressed general agreement with its contents. Management's comments are included as an annex to the Price Waterhouse report.

We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Honduras resolve the questionable costs of \$146,908 (\$89,804 questioned and \$57,104 unsupported) identified in the Price Waterhouse audit report dated August 31, 1992, and recover from the Secretariat of Natural Resources all amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Honduras resolve the questionable counterpart contribution costs of L275,270 (equivalent to \$50,976) identified in the Price Waterhouse audit report dated August 31, 1992, and provide evidence that all amounts determined to be unallowable have been made available to the Project by the Government of Honduras.

Recommendation No. 3

We recommend that USAID/Honduras obtain evidence that the Secretariat of Natural Resources has established procedures to: (1) implement an effective internal control structure and accounting system in the areas of procurement, inventory and fixed asset custody, payrolls, and per diem payments; (2) require periodic reconciliations of Project funds received; (3) require properly supported written bids

for all purchases; (4) assure that all inventory transactions are properly documented; (5) control consumption of spare parts; (6) assure that required approvals are obtained when contracting for personnel; (7) require proper support for per diem expenditures; and (8) assure that formal public bids are obtained when required.

Recommendation No. 1 can be resolved when the Mission determines the amount of recovery and can be closed upon the recovery of funds, offset of funds, or issuance of a Bill for Collection. Recommendation No. 2 can be resolved when the Mission determines the amount of unallowable counterpart contributions and can be closed when the Mission presents acceptable evidence that all amounts determined to be unallowable have been made available to the Project by the Government of Honduras. Recommendation No. 3 can be resolved when the Mission presents an acceptable firm plan of action to correct the reported deficiencies and can be closed when the Mission presents acceptable evidence that the required procedures have been established.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT OF
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT OF
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

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Price Waterhouse



August 31, 1992

Mr. Reginald Howard
Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, Honduras, C.A.

Dear Mr. Howard:

This report presents the results of our financial audit of the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292 managed by the Secretariat of Natural Resources for the period February 9, 1989 to September 30, 1991.

BACKGROUND

On February 9, 1989, the Government of Honduras, acting through the Ministry of Finance and Public Credit, signed an Agreement with A.I.D. to meet the costs of carrying out Project No. 522-0292, Land Use and Productivity Enhancement (LUPE). The Project completion date is February 8, 1997.

The total estimated Project cost was US\$50,000,000. A.I.D. was to provide grant funds in increments up to US\$36,000,000 and the Government of Honduras was to fund US\$14,000,000 of Project costs. At September 30, 1991 the Mission had obligated US\$11,690,400 through various Project Agreement Amendments. The audit covered disbursements of L6,813,424 (\$1,518,644).

The general goal of the Project is to improve the socio-economic well-being of the Honduran family. The specific purpose of the Project is to improve hillside agricultural production and productivity on a sustainable basis, including the management and effective protection of Honduran natural resources on which production depends. The Project has the following two subcomponents:

1. Sustained Production Enhancement - This term implies improvements in both agricultural practices and natural resources management. The main activities of this subcomponent are:
 - (a) Improved Cropping System - This activity deals with hillside farming activities, such as soil and water conservation, production of basic grains, crop



diversification, family and community gardens and agroforestry.

- (b) Improved Animal System - This activity addresses range management, animal stock and agroforestry activities of hillside farmers.
- (c) Project Credit and Incentive Program - This program was established as a fiduciary account in the National Agricultural Development Bank (Banco Nacional de Desarrollo Agrícola - BANADESA) under the Natural Resources Management Project (Proyecto Manejo de Recursos Naturales - PMRN), to provide small loans and incentives to the PMNR participants. This subcomponent was never implemented and, therefore, not audited.

- 2. Post-Harvest Interventions - This activity deals with post-harvest processing, fuel wood conservation (improved stoves), improved grain storage and marketing.

The Project activities also include establishing an administrative, planning, monitoring and evaluation system.

The Secretariat of Natural Resources is responsible for implementing the Project. A LUPE Project Unit was established as a special activity with the rank and status of a General Directorate of the Secretariat of Natural Resources. The Executive Director of the unit reports directly to the Minister of Natural Resources. The LUPE Project Unit includes financial, personnel and logistics management which support the implementation of the Project activities.

LUPE consists of a Central Office in Tegucigalpa containing the Project Executive Director, the Project Administrator, administrative staff, the Project Planning, Monitoring and Evaluation Unit (Unidad de Planificación, Monitoreo y Evaluación del Proyecto - UPME) and a core group of national and expatriate technical specialists. LUPE also supports a cadre of national technical specialists at the regional level. A Project Implementation Committee (Comité Ejecutivo del Proyecto - CEP) assists the Executive Director and central staff in Project management. At the field level, LUPE consists of extension agencies composed of multi-disciplinary teams.

The CEP was established to facilitate communication and coordinate activities among various entities involved in implementing LUPE. The CEP includes the Minister of Natural Resources (or his representative), who is the CEP Chairman. The other voting members are the Director General of Agriculture of the Ministry of Natural Resources, the LUPE Project Executive Director, the Chief of Party of the Expatriate Technical Assistance Team, the A.I.D. Project Coordinator, the A.I.D. Project Liaison Officer, the two Project Subdirectors, and the Project Administrator.



The National Agricultural Development Bank (BANADESA), which administers the fiduciary account for the credit component of the Project, is an autonomous governmental institution incorporated in Tegucigalpa, Honduras, by Decree No. 903 dated March 24, 1980, with indefinite life. The principal objective of the Bank is to provide financial resources for development of production and productivity in agriculture, cattle-raising and other agrarian activities. The Bank coordinates its assistance with the development policy of the Government of Honduras. In addition, the Bank conducts all types of banking activities.

OBJECTIVES AND SCOPE OF THE AUDIT

We were engaged to conduct a financial audit of the Land Use and Productivity Enhancement Project managed by the LUPE Project Unit of the Secretariat of Natural Resources for the period from February 9, 1989 to September 30, 1991.

Our audit was performed in accordance with generally accepted auditing standards and the Government Auditing Standards of the U.S. Comptroller General (1988 Revision) and accordingly included the review of documentation, accounting records, internal control structure and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The fund accountability statements of A.I.D. Grant funds and Counterpart funds present fairly, in all material respects, the Project's receipts and expenditures for the period from February 9, 1989 to September 30, 1991, in accordance with the term of the respective Grant Agreement.
2. The internal control structure of the LUPE Project Unit of the Secretariat of Natural Resources is adequate to manage the Project's operations.
3. The LUPE Project Unit of the Secretariat of Natural Resources complied with Agreement terms, and applicable laws and regulations.

In the course of our audit we were alert to the possible existence of errors or irregularities in accordance with the Statements on Auditing Standards Nos. 53 and 54 of the American Institute of Certified Public Accountants, and to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts.

The major audit procedures performed during our work in order to meet the stated audit objectives were the following:

1. Receipts

- (a) We confirmed directly with USAID/Honduras and with the Ministry of Finance and Public Credit, the grant funds



and counterpart funds, respectively, provided to the Project as of September 30, 1991.

- (b) We confirmed directly with the custodian banks, the bank account balances of the rotating funds as of September 30, 1991.
- (c) We reviewed the bank account reconciliations as of September 30, 1991 and, selectively, the rotating fund reconciliations for the period under review.

2. Procurement

- (a) We conducted a detailed evaluation of the Project's procurement procedures for tires, spare parts, fuel, and office supplies purchased during the period under review.
- (b) We obtained information regarding the Project's suppliers and selectively determined their existence by visiting their commercial locations.
- (c) On a test basis, we reviewed purchases amounting to L1,705,455 (approximately 62% of total purchases) made by the Project during the period under review, to determine their authenticity and proper calculation and valuation. As part of this process we:
 - Visited 11 suppliers normally used by the Project to obtain independent quotations of the same products purchased by the Project.
 - Compared the prices in the independent quotations obtained by us with the prices paid for purchases by the Project.
 - Reviewed, for the purchases selected, the Project's warehouse receiving records and determined the amount of purchases not received as of September 30, 1991.
 - Reviewed, for the selected purchases, the endorsement of checks paid by the banks.

3. Fixed Assets

- (a) We conducted an evaluation of control procedures used by the Project during the period under review to manage and safeguard fixed assets.
- (b) On a selective basis we identified Project fixed assets through physical inspections.



- (c) We traced the total cost of fixed assets determined through physical inventories made by the Project in 1989 and 1991 to the amounts reported to A.I.D. and to balances in the accounting records.
- (d) On a selective basis we reviewed supporting documentation of fixed assets purchased directly by A.I.D. For vehicles directly acquired by A.I.D., we selectively examined the supporting documentation forwarded to the Project to determine its completeness and traced costs to the accounting records.
- (e) We examined the usage of spare parts and tires for vehicle maintenance during the period under review.

4. Inventories

- (a) We conducted an evaluation of the control procedures and custody of inventories used by the Project during the period under review.
- (b) On a selective basis we reviewed supporting documentation for incoming and outgoing movements of inventories.

5. Payroll and Per Diem

- (a) We conducted an evaluation of control procedures used by the Project during the period under review for administering personnel, preparation and payment of payrolls, and payment of per diem.
- (b) On a selective basis we reviewed payrolls paid during the period amounting to L1,961,439 (27% of total payrolls) and traced the name and salary of employees included in such payrolls to the A.I.D. Project Implementation Letters approving the hiring of such employees.
- (c) From the payrolls selected for testing, we selected 63 employees and examined their respective labor contracts, the hiring agreements signed by the President of the Republic of Honduras, the personnel files, and compared the signatures of each employee to the signatures in the payroll envelopes.
- (d) For the 63 selected employees, we compared the endorsements of payroll checks with the employees' signatures in the personnel files and payroll envelopes.
- (e) In combination with our field visits to the Project regional offices, we selectively tested the physical existence of employees included in payrolls.



- (f) We observed the payment process of a payroll for employees of the Project Central Office.
- (g) On a test basis we examined the payrolls for per diem paid to employees for trips to the Project regional offices, and made tests of their authenticity and reasonableness.

7. Accounting System and Reporting

- (a) We conducted an evaluation of the accounting system and records used by the Project during the period under review, to determine whether the system was sufficient to provide Project financial information (the fund accountability statement) in accordance with the budget classifications defined in the Project Agreement budget.
- (b) We reviewed the quarterly progress reports issued by the Project to ascertain that the contents were in accordance with Agreement terms.

8. Field Visits

- (a) In February 1992, we made field visits to 30 of the 40 regional offices of the Project (75% of the total).
- (b) In the regional offices visited we identified Project employees receiving salaries from the grant funds.
- (c) We conducted physical inspections of fixed assets assigned to the regional offices visited.
- (d) We selectively visited 49 Project beneficiaries and made inquiries as to technical assistance, training, and supplies received from the Project.
- (e) We selectively observed the cultivated plots of the Project beneficiaries.

RESULTS OF AUDIT

Fund Accountability Statements

As described in Note 5 to fund accountability statements, our testing identified questionable costs totaling L1,068,575. These costs arose from internal control structure weaknesses and instances of material noncompliance as described in separate reports included in the following sections of this document. Management has not revised the fund accountability statements for the total effect of the internal control weaknesses and material noncompliance matters noted by us. Accordingly the total possible effect of these matters on the accompanying fund accountability statements is not known.



In our opinion, except for the effects on the fund accountability statements of the matters described in the preceding paragraph, the fund accountability statements of A.I.D. Grant funds and counterpart funds of the Land Use and Productivity Enhancement, USAID/Honduras Project No.522-0292 present fairly, in all material respects, Project's receipts and expenditures for the period from February 9, 1989 to September 30, 1991, in accordance with the terms of the respective Grant Agreement with A.I.D.

Internal Control Structure

In planning and performing our audit of the fund accountability statements of A.I.D. Grant funds and Counterpart funds of the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292 managed by the LUPE Project Unit of the Secretariat of Natural Resources from February 9, 1989 to September 30, 1991, we consider the Unit's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on the internal control structure.

In the course of our audit we noted the following findings that we consider material weaknesses under generally accepted auditing standards and the Government Auditing Standards of the U.S. Comptroller General (1988 Revision):

1. During the period reviewed the internal control structure was not adequate to manage Project operations (Finding 1).
2. The grant funds provided by USAID/Honduras to the Project were not reconciled with the amounts recorded in the Project books (Finding 3).

Findings 2, 4 and 5 of the internal control section of this report are considered reportable conditions under the auditing standards mentioned above.

Compliance with Agreement Terms and Applicable Laws and Regulations

As part of obtaining reasonable assurance about whether the fund accountability statements of the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292 managed by the LUPE Project Unit of the Secretariat of Natural Resources from February 9, 1989 to September 30, 1991, are free of material misstatement, we performed tests of the LUPE Project Unit's compliance with Agreement terms and applicable laws and regulations. The result of our tests disclosed the following material instances of noncompliance, the effects of which have not been corrected in the Project fund accountability statements:

1. Certain of the procurement procedures used by the Project during the period from February 9, 1989 to September 30, 1991, for purchasing sundry materials and supplies were not in



accordance with A.I.D. regulations and Project implementation letters.

2. Project inventory records and internal controls do not provide sufficient evidence to support inventory transactions, and do not reduce to a relatively low level the risk that errors or irregularities in material amounts may occur and not be detected in the normal course of operations.
3. Consumption of tires and spare parts exceed normal expected usage.
4. The Project has contracted personnel not approved by A.I.D., and certain employees receive salaries other than those approved by A.I.D.
5. Per diem costs were not supported with liquidation reports and reports of activities carried out during the trips.
6. The procurement regulations related to purchases of goods and services contained in the Procurement Law of the Government of Honduras were not observed.

MANAGEMENT COMMENTS

The Office of the Regional Inspector General in Tegucigalpa, Honduras, reviewed the draft of this report and is generally in agreement with the contents of this report. Their comments and suggested changes to the draft have been included in the final report.

The entire text of the LUPE Project Unit's management comments is included in Appendix I. Those comments exclusively refer to actions taken by the LUPE Project Unit to implement the recommendations of this report.


Price Waterhouse

Price Waterhouse



AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT OF
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

FUND ACCOUNTABILITY STATEMENTS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statements of A.I.D. Grant funds and counterpart funds of the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292 managed by the LUPE Project Unit of the Secretariat of Natural Resources from February 9, 1989 to September 30, 1991. These fund accountability statements are the responsibility of the LUPE Project Unit's management. Our responsibility is to express an opinion on these fund accountability statements based on our audits.

Except as indicated in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provide a reasonable basis for our opinion.

We do not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of the Government Auditing Standards because no such quality review program is offered by professional organizations in Honduras. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate en the Price Waterhouse World Firm worldwide internal quality control program which requires that Price Waterhouse - Honduras Office be subjected, every three years, to an extensive quality control review by audit partners and managers from other Price Waterhouse World Firm offices.

The accompanying fund accountability statements were prepared for the purpose of complying with Section B.5 (ii), Part C of the Project Implementation Letter No. 1 of the Grant Agreement No. 522-0292 between the U.S. Agency for International Development and the Government of Honduras as discussed in Note 1, and are not intended to be a presentation in conformity with generally accepted accounting principles.



The accompanying fund accountability statement of A.I.D Grant funds referred to above does not include disbursements made directly by A.I.D. for expatriate technical assistance amounting to L6,412,295 (\$1,086,470), and acquisitions of fixed assets and inventories amounting to L8,086,263 (\$1,649,107).

As described in Note 5 to fund accountability statements, our testing identified questionable costs totaling L1,068,575. These costs arose from internal control structure weaknesses and instances of material noncompliance as described in separate reports included in the following sections of this document. Management has not revised the fund accountability statements for the total effect of the internal control weaknesses and material noncompliance matters noted by us. Accordingly the total possible effect of these matters on the accompanying fund accountability statements is not known.

In our opinion, except for the effects on the fund accountability statements of the matters described in the preceding paragraph, the fund accountability statements of A.I.D. Grant funds and counterpart funds of the Land Use and Productivity Enhancement, USAID/Honduras, Project No.522-0292 present fairly, in all material respects, the Project's receipts and expenditures for the period from February 9, 1989 to September 30, 1991, in accordance with the terms of the respective Grant Agreement with A.I.D.

This report is intended solely for the use of the U.S. Agency for International Development and the Secretariat of Natural Resources. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

March 30, 1992

AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT FOR
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

FUND ACCOUNTABILITY STATEMENT
A.I.D. GRANT FUNDS
(Expressed in Lempiras - Note 1)

	<u>BUDGET</u> <u>(NOTE 3)</u>	<u>ACTUAL</u>	<u>AVAILABLE</u> <u>(OVER)</u> <u>UNDER</u> <u>BUDGET</u>	<u>QUESTIONABLE COSTS</u> <u>QUESTIONED</u> <u>(NOTE 5)</u>	<u>UNSUPPORTED</u>
RECEIPTS:					
Grant Agreement AID 522-00292	<u>L14,262,982</u>	<u>L7,712,981</u>	<u>L6,550,001</u>		
DISBURSEMENTS:					
Wages of manual laborers	26,000	- 0 -	26,000		
Sundry personal professional and technical services	6,699,200	5,125,357	1,573,843		L133,200
Per diem and other travel ex- penses within the country	618,400	136,538	481,862		136,538
Per diem and other travel ex- penses in other countries	150,000	- 0 -	150,000		
Insurance premiums	220,000	59,905	160,095		
Contracted studies and tech- nical advice	700,000	- 0 -	700,000		
Sundry non-professional services	645,500	152,847	492,653		38,624
Fuel and lubricants	775,000	377,571	397,429		
Sundry materials and supplies	1,295,000	929,930	365,070	470,358	
Machinery and equipment	1,183,882	- 0 -	1,152,606	14,585	
Local scholarships	250,000	- 0 -	250,000		
Foreign scholarships	1,000,000	- 0 -	1,000,000		
Capital contributions and transfers to autonomous entities (BANADESA)	<u>600,000</u>	<u>- 0 -</u>	<u>600,000</u>		
TOTAL DISBURSEMENTS	<u>L14,262,982</u>	<u>6,813,424</u>	<u>7,449,558</u>	<u>L484,943</u>	<u>L308,362</u>
Excess of receipts over disbursements (Note 4)		<u>L 899,557</u>	<u>L (899,557)</u>		

**AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292**

**MANAGED BY THE SECRETARIAT FOR
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991**

**FUND ACCOUNTABILITY STATEMENT
COUNTERPART FUNDS
(Expressed in Lempiras - Note 1)**

	<u>BUDGET (NOTE 3)</u>	<u>ACTUAL</u>	<u>AVAILABLE (OVER) UNDER BUDGET</u>	<u>QUESTIONABLE COSTS</u>	
				<u>QUESTIONED</u>	<u>UNSUPPORTED (NOTE 5)</u>
RECEIPTS:					
Counterpart funds Government of Honduras	<u>L 4,725,760</u>	<u>L3,327,101</u>	<u>L1,398,659</u>		
DISBURSEMENTS:					
Wages of manual laborers	42,915	27,907	15,008		
Sundry personal professional and technical services	3,116,960	1,990,456	1,126,504	L106,950	
Per diem and other travel ex- penses within the country	253,200	168,320	84,880		L168,320
Rental of buildings	517,260	364,143	153,117		
Sundry non-professional services	170,299	156,623	13,676		
Fuel and lubricants	202,893	199,841	3,052		
Sundry materials and supplies	422,233	419,811	2,422		
TOTAL DISBURSEMENTS	<u>L 4,725,760</u>	<u>L3,327,101</u>	<u>L1,398,659</u>	<u>L106,950</u>	<u>L168,320</u>

AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT OF
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES:

The fund accountability statements of A.I.D. Grant funds and Counterpart funds of the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292 managed by the LUPE Project Unit of the Secretariat of Natural Resources from February 9, 1989 to September 30, 1991, were prepared for the purpose of complying with Section B.5 (ii), Part C of the Project Implementation Letter No. 1 of the Grant Agreement between the U.S. Agency for International Development and the Government of Honduras. The significant accounting policies adopted by the LUPE Project Unit of the Secretariat of Natural Resources to manage the Project are summarized as follows:

Basis of accounting -

The LUPE Project Unit of the Secretariat of Natural Resources uses the system of budgetary execution of the Government of Honduras to report the Project's operations. The classification of budget line items in this system differ substantially from the classification of the Grant Agreement budget line items. The cash basis is used in this system to record receipts and disbursements, which are recognized when they are received or disbursed, respectively.

Exchange rate -

The records of the Project are kept in Honduran Lempiras, the official currency. The official exchange rate of two Lempiras for one United States Dollar remained constant for many years. In March 1990 the Government of Honduras approved an interbank exchange market for most foreign exchange transactions. As of September 30, 1991, the exchange rate in this market was L5.40 to US\$1.00.

NOTE 2 - HISTORY AND OPERATIONS OF THE PROJECT:

On February 9, 1989, the Government of Honduras, acting through the Ministry of Finance and Public Credit, signed an Agreement with A.I.D. to meet the costs of carrying out Project No. 522-0292, Land Use and Productivity Enhancement (LUPE). The Project completion date was scheduled for January 31, 1996, and then changed to February 8, 1997.

The total estimated Project cost was US\$50,000,000. A.I.D. was to provide grant funds in increments up to US\$36,000,000 and the Government of Honduras was to fund US\$14,000,000 of Project costs. At September 30, 1991 the Mission had obligated US\$11,690,400 through various Project Agreement Amendments. The audit covered disbursements of L6,813,424 (\$1,518,644).

The general goal of the Project is to improve the socio-economic well-being of the Honduran family. The specific purpose of the Project is to improve hillside agricultural production and productivity on a sustainable basis, including the management and effective protection of Honduran natural resources on which production depends. The Project has the following two subcomponents:

1. Sustained Production Enhancement - This term implies improvement in both agricultural practices and natural resources management. The main activities of this subcomponent are:
 - (a) Improved Cropping System - This activity deals with hillside farming activities, such as soil and water conservation, production of basic grains, crop diversification, family and community gardens and agroforestry.
 - (b) Improved Animal System - This activity addresses range management, animal stock and agroforestry activities of hillside farmers.
 - (c) Project Credit and Incentive Program - This program was established as a fiduciary account in the National Agricultural Development Bank (Banco Nacional de Desarrollo Agrícola - BANADESA) under the Natural Resources Management Project (Proyecto Manejo de Recursos Naturales - PMRN), to provide small loans and incentives to the PMRN participants. This subcomponent was never implemented and, therefore, not audited.
2. Post-Harvest Interventions - This activity deals with post-harvest processing, fuel wood conservation (improved stoves), improved grain storage and marketing.

The National Agricultural Development Bank (BANADESA), which administers the fiduciary account for the credit component of the Project, is an autonomous governmental institution incorporated in Tegucigalpa, Honduras, by Decree No. 903 dated March 24, 1980, with indefinite life. The principal objective of the Bank is to provide financial resources for development of production and productivity in agriculture, cattle-raising and other agrarian activities. The Bank coordinates its assistance with the development policy of the Government of Honduras. In addition, the Bank conducts all types of banking activities.

NOTE 3 - BUDGET:

The Project budget does not include disbursements amounting to L14,498,558 (\$2,735,577) made directly by A.I.D. for expatriate technical assistance amounting to L6,412,295 (\$1,086,470), and acquisitions of fixed assets and inventories amounting to L8,086,263 (\$1,649,107).

The disbursement categories of the budget of A.I.D. Grant funds and counterpart funds, as presented in the accompanying fund accountability statements were approved by A.I.D. through Project Implementation Letters.

Counterpart funds of L5,449,000 were jointly programmed by A.I.D. and the Government of Honduras to be contributed to the LUPE Project as counterpart funds, for the period February 9, 1989 to September 30, 1991. As shown in the fund accountability statement of Counterpart funds, contributions of the Government of Honduras during this same period amount to L3,327,101.

NOTE 4 - EXCESS OF RECEIPTS OVER DISBURSEMENTS:

Excess of the Project receipts over disbursements, as of September 30, 1991, is represented by net assets on the books of the Project as follows:

	<u>LEMPIRAS</u>
Assets:	
Banks	L 50,038
Costs questioned by A.I.D.	181,395
Reimbursements in process	652,602
Other	<u>33,345</u>
Total assets	<u>L917,380</u>
Liabilities:	
Salary reimbursements not deposited	10,008
Other	<u>7,815</u>
Total liabilities	<u>17,823</u>
Net assets	<u>L899,557</u>

NOTE 5 - QUESTIONABLE COSTS:

Questioned and unsupported Project costs, as of September 30, 1991, are as shown on the following pages. Amounts in parenthesis represent the U.S. dollar equivalent at the official rate of exchange of L5.40 to US\$1.00. All questioned costs from A.I.D. funds were reimbursed to the Project by A.I.D.

QUESTIONABLE COSTS
QUESTIONED UNSUPPORTED

A.I.D. funds -

I. Sundry personal professional and technical services:

a) Salaries paid to 3 employees whose labor contracts were not signed by the Minister for Natural Resources and/or by the employee. L133,200
(\$24,667)

II. Per diem and other travel expenses within the country:

a) Per diem paid for trips to field offices for which no evidence of the trips nor reports of activities performed during the trips exist. 136,538
(\$25,285)

III. Sundry non-professional services:

a) Cost of coffee-breaks and refreshments provided to employees during seminars held at the National School of Forestry Sciences in Siguatepeque, for which no service contract was signed. 38,624
(\$7,153)

IV. Sundry materials and supplies:

a) Purchases with no evidence of being received by the Project warehouse 470,358
(\$87,103)

V. Machinery and equipment

a) Cost of furniture and equipment transferred to the Center for Tropical Agricultural Research without previous approval by A.I.D.

	3,076	
	(\$570)	
Carried forward	<u>L473,434</u>	<u>L308,362</u>
	(\$87,673)	(\$57,105)

QUESTIONABLE COSTS
QUESTIONED UNSUPPORTED

Brought forward	L473,434 (\$87,673)	L308,362 (\$57,105)
b) Cost of equipment that was not located nor evidence of transfer to another agency exists	1,509 (\$279)	
c) Cost of tires and spare parts used in vehicles not property of the Project	10,000 (\$1,852)	
Total A.I.D. funds	<u>L484,943</u> <u>(\$89,804)</u>	<u>L308,362</u> <u>(\$57,105)</u>
<u>Counterpart funds -</u>		
I. <u>Sundry personal professional and technical services:</u>		
a) Salaries paid to 2 employees in excess of salary approved by A.I.D.	L 7,200 (\$1,333)	
b) Salaries paid to 5 employees not authorized by A.I.D.	L 45,750 (\$8,472)	
c) Salaries paid for 9 months to the former Project Executive Director, not approved by A.I.D.	54,000 (\$10,000)	
II. <u>Per diem and other travel expenses within the country:</u>		
a) Per diem paid for trips to field offices for which no evidence of the trips nor reports of activities performed during the trips exist.		L168,320 (\$31,170)
Total Counterpart funds	<u>L106,950</u> <u>(\$19,805)</u>	<u>L168,320</u> <u>(\$31,170)</u>
Total funds	<u>L591,893</u> <u>(\$109,609)</u>	<u>L476,682</u> <u>(\$88,275)</u>

Price Waterhouse



AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT OF
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We Have audited the fund accountability statements of A.I.D. Grant funds and Counterpart funds of the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292 managed by the LUPE Project Unit of the Secretariat of Natural Resources from February 9, 1989 to September 30, 1991, and have issued our report thereon dated March 30, 1992.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the fund accountability statements, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

In planning and performing our audit of the fund accountability statements of A.I.D. Grant funds and Counterpart funds of the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292 managed by the LUPE Project Unit of the Secretariat of Natural Resources from February 9, 1989 to September 30, 1991, we consider the Unit's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on the internal control structure.

The management of the LUPE Project Unit of the Secretariat of Natural Resources is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statements in accordance with generally accepted accounting principles and agreement terms. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur



and not be detected. Also, Projection of any evaluation of the structure to future periods is subject to the risk that procedures might become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Accounting process
- Budgetary process
- Procurement system
- Payroll and per diem procedures
- Receipts and disbursements
- Fixed assets system

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted the following matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statements.

1. During the period reviewed the internal control structure was not adequate to manage Project operations (Finding 1).
2. The grant funds provided by USAID/Honduras to the Project were not reconciled with the amounts recorded in the Project books (Finding 3).

Findings 2, 4 and 5 of this internal control section are considered reportable conditions under the auditing standards mentioned above.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure 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 fund accountability statements 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 the internal control structure would not necessarily disclose all matters in the internal control structure 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 that the reportable conditions described in findings No. 1 and 3 are material weaknesses.

This report is intended solely for the use of the U.S. Agency for International Development and the Secretariat of Natural Resources. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

March 30, 1992

AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT OF
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

INTERNAL CONTROL STRUCTURE

FINDINGS

1. During the Period Reviewed the Internal Control Structure was not Adequate to Manage Project Operations.

Condition:

An adequate internal control structure to manage the Project operations does not exist, as is evidenced by the lack of adequate controls in the following areas:

- (a) Procurement process.
- (b) Management and custody of inventories.
- (c) Management and custody of fixed assets.
- (d) Payrolls.
- (e) Per diem payments.

Criteria:

Section 5.1, Article 5 of the Grant Agreement, and section B.2.a.1 of Annex I to the Agreement, require the Cooperating Country to establish an administrative mechanism that guarantees the timely implementation of the Project, including detailed procedures for financial management, procurement, transportation, and administrative systems within 120 days after the first Project disbursement.

Cause:

Project management did not opportunely develop and implement an adequate internal control structure and accounting systems nor did it establish an appropriate control environment over Project activities.

Effect:

Due to the lack of an appropriate internal control structure to manage Project operations, material instances of

noncompliance with Agreement terms and applicable laws and regulations occurred and created certain questioned or unsupported transactions which materially effect the fund accountability statements.

Recommendation:

The Project should develop and implement an adequate internal control structure and an accounting systems to comply with Agreement terms and A.I.D. regulations. Additionally, the Project management should study the convenience of creating an Internal Audit Department or require external concurrent audits of Project transactions in order to develop an appropriate control environment.

2. Certain Labor Contracts were not Signed by the Minister Of Natural Resources.

Condition:

Labor contracts for eight of the 63 employees selected were not signed by the Minister of Natural Resources and/or by the employee. Five of these employees were not approved by A.I.D. (see finding 4 of the compliance section of this report). However, the Hiring Agreement signed by the President of the Republic for those employees does exist and is filed at the Project. Most of these employees were contracted in October and November 1989. Total salaries paid as of September 30, 1991 to employees approved by A.I.D. whose contracts were not signed amounted to L133,200.

Criteria:

Labor contracts should be signed by the Minister of Natural Resources because the Secretariat of Natural Resources is the lead implementing agency for the LUPE Project.

Cause:

The Project did not have a specific procedure to ensure that all labor contracts are properly signed and approved.

Effect:

The lack of signatures on labor contracts of either contracting party could nullify the contracts.

Recommendation:

Project management should establish specific procedures to control personnel-related activities. Additionally, the Personnel Department should periodically prepare complete lists of all Project employees indicating the status of the

signature and approval requirements and these lists should be reviewed and approved by the Project management.

3. The Grant Funds Provided By USAID/Honduras to the Project Were Not Reconciled With the Amounts Recorded in the Project Books.

Condition:

As of September 30, 1991, A.I.D. had reimbursed Project costs of L7,712,981, including a rotating fund of L1,000,000. Except for this rotating fund, during the period from February 9, 1989 to September 30, 1991, reimbursements made by A.I.D. were not reconciled with the amount of L7,819,521 recorded in books. The difference of L106,540 between the amount reimbursed and the amount recorded in the Project books is due to a duplicated journal entry.

Criteria:

Sound internal control procedures require that information received from creditors and other sources be periodically reconciled with the information in the accounting records.

Cause:

The Project management did not opportunely establish specific accounting procedures for conducting periodic reconciliations of funds received from all sources.

Effect:

The lack of reconciliations of funds received from A.I.D. with the information recorded in the Project accounting books could prevent the timely detection of differences between the two.

Recommendation:

Project management should establish an accounting procedure for conducting monthly reconciliations of funds received from all sources, and assign responsibility for the timely review of these reconciliations.

4. In The Choluteca Extension Agency, Certain Office Furniture and Equipment was Transferred to Another Entity Without Approval by A.I.D. Other Equipment was Broken or Could not be Found at Agency.

Condition:

As part of the procedures performed during our field visits to the Choluteca extension agency, we conducted physical inspections of fixed assets assigned to this agency and observed the following:

- (a) Certain office furniture and equipment with a total cost of L3,076 was transferred to the Center for Tropical Agriculture Research and Education (Centro Agronómico Tropical de Investigación y Enseñanza - CATIE), without prior approval by A.I.D.
- (b) Certain office furniture and equipment of the agency, with a total cost of L2,547, is at present broken and has not been written-off from the Project accounting records. Other equipment assigned to the agency, with a total cost of L1,509, was not located nor did we find evidence of transfer to another agency.
- (c) We observed four Project vehicles that were not in functioning order. Three of them were involved in accidents more than six months ago and one is without tires. These vehicles have not been repaired.

The accompanying Schedule A presents details of the assets mentioned in (a) and (b) above, and Exhibit I includes photographs of the vehicles mentioned in (c).

Criteria:

Part C., 1, Article B.a. of Project Implementation Letter No. 1, states that all materials, supplies, equipment, tools, vehicles, and services financed with the Grant funds are to be used exclusively for Project activities and objectives unless otherwise agreed to in writing by A.I.D.

In addition, Article C., Section C.1.b of Annex I to the Grant Agreement establishes that the LUPE Project Administrator will seek to ensure optional use of all Project resources.

Cause:

Project management did not have a specific method of informing all employees about the restricted use of Project assets nor did it opportunely implement appropriate policies and procedures for assets use and disposition. In addition, Project management has not repaired non-functioning vehicles on a timely basis.

Effect:

Inappropriate use of Project assets is a violation of the Agreement terms.

Recommendation:

Project management should provide instructions in writing to all employees with respect to the limitations in the use of

Project assets and establish policies and procedures for asset repair or disposition. These assets should only be used in Project related activities as established in the Grant Agreement.

5. In Some Project Extension Agencies, the Technical Assistance to the Project Beneficiaries Is not Being Provided on a Sustained Basis.

Condition:

Four beneficiaries of 49 interviewed during our field visits to the extension agencies, orally informed us that they were visited by the extension workers only one time to give them instructions related to soil conservation techniques and that after that occasion they have not been visited again. These beneficiaries are the following:

<u>Beneficiary</u>	<u>Last visit</u>	<u>Agency</u>
José Elías Galindo	April 1991	Marale
Milgian Tróchez	June 1991	Salamá
Julio Ramos	June 1991	Minas de Oro
Martín Cáceres Saucedo	August 1991	Zamorano

The accompanying exhibit II include photographs of these beneficiaries.

Criteria:

Point c. of Section A.2 of Annex I, Amplified Project Description, of the Grant Agreement states that the focus of extension at the community level will be to promote practical "hands-on" skills training that will enable LUPE participants to adopt and implement Project-generated technologies.

Cause:

In most agencies visited, approximately 30% of the technical filing cards of Project beneficiaries were incomplete, making it difficult to program follow-up technical assistance to the beneficiaries.

Effect:

Promotion of technical skills and training of a high percentage of Project beneficiaries could be not properly met, with the related effect of possible distrust of Project goals and objectives among the beneficiaries.

Recommendation:

The technical filing cards of Project beneficiaries should be updated since these constitute the basis for programming field activities. In addition, Project management should establish a monitoring system of the technical activities of the cadre of extension-workers, in order to meet Project goals on a sustained basis.

Price Waterhouse



AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT OF
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of A.I.D. Grant fund and counterpart fund of the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292 managed by the LUPE Project Unit of the Secretariat of Natural Resources from February 9, 1989 to September 30, 1991, and have issued our report thereon dated March 30, 1992.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the fund accountability statements, we conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with Agreement terms and laws and regulations applicable to the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292, is the responsibility of the LUPE Project Unit of the Secretariat of Natural Resources management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the LUPE Project Unit's compliance with the terms of the Agreement and certain provisions of laws and regulations. However, the objective of our audit of the fund accountability statements was not to provide an opinion on overall compliance with such terms and provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from these failures or violations is material to the fund accountability statements. The results of our tests of compliance disclosed the following material instances of noncompliance.



1. Certain of the procurement procedures used by the Project during the period from February 9, 1989 to September 30, 1991, for purchasing sundry materials and supplies were not in accordance with A.I.D. regulations and Project implementation letters.
2. Project inventory records and internal controls do not provide sufficient evidence to support inventory transactions, and do not reduce to a relatively low level the risk that error or irregularities in material amounts may occur and not be detected in the normal course of operations.
3. Consumption of tires and spare parts exceed normal expected usage.
4. The Project has contracted personnel not approved by A.I.D., and certain employees receive salaries other than those approved by A.I.D.
5. Per diem costs were not supported with liquidation reports and reports of activities carried out during the trips.
6. The procurement regulations related to purchases of goods and services contained in the Procurement Law of the Government of Honduras were not observed.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statements of the Land Use and Productivity Enhancement (LUPE), USAID/Honduras Project No. 522-0292 are presented fairly, in all material respects, in conformity with Agreement terms, and this report does affect our report dated March 30, 1992 on those fund accountability statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the terms tested, the LUPE Project Unit complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested nothing came to our attention that caused us to believe that the LUPE Project unit had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the U.S. Agency for International Development and the Secretariat of Natural Resources. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Pricewaterhouse

March 30, 1992

AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT OF
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

COMPLIANCE WITH AGREEMENTS TERMS AND
APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. Certain Procurement Procedures Used by the Project During the Period From February 9, 1989 to September 30, 1991, for Purchasing Sundry Materials and Supplies Were not in Accordance with A.I.D. Regulations and Project Implementation Letters.

Condition:

The Project's established procedure is to obtain at least three written bids from suppliers for all purchases made directly by the Project. The bid forms are provided to suppliers by the Project and include quantities and descriptions of the goods to be purchased. On these forms the suppliers must present their proposed unitary and total prices. In our review of 104 of 505 purchase orders (L1,705,445 of L2,765,331) issued by the Project during the period, we found evidence that the bids received by the Project were not properly supported.

Criteria:

Part C.2., Article C. point d. of the Project Implementation Letter No. 1 establishes the proper procurement procedures to be followed by Project management. In addition, Project officials responsible for procurement should only accept properly supported bids.

Cause:

The Project lacked an adequate control environment and audit and supervision functions.

Effect:

Cost of purchases made directly by the Project could be materially overstated by the acceptance of bids which are not properly supported.

Recommendation:

Project management should establish mechanisms for regular audit and supervision of Project procurement practices in order to minimize instances of noncompliance with the procurement regulations stated in the Grant Agreement and Project Implementation Letters.

2. Project Inventory Records and Internal Controls do not Provide Sufficient Evidence to Support Inventory Transactions, and do not Reduce to a Relatively Low Level the Risk That Errors or Irregularities in Material Amounts May Occur and not be Detected in the Normal Course of Operations.

Condition:

During the period from February 9, 1989 to September 30, 1991, The Project did not maintain adequate inventory records and controls to ensure that all purchases were completely received and in the agreed upon condition. Controls not instituted were: (a) physical inventories were not taken to determine and investigate shortages or overages; (b) inventory control accounts in the general ledger were not reconciled with the detailed inventory records; and (c) an appropriate segregation of duties was not established, the same persons in charge of purchases received the goods purchased.

During the course of our audit we noted that, of the L1,705,445 in purchases examined by us (62% of total purchases of L2,765,331), the inventory records did not show evidence that approximately L470,000 of these purchases (27%) were actually received by the Project (i.e. missing charges in inventory records, lack of evidence of receipt by warehouse personnel). The shortages noted follow:

1989	L 84,000
1990	87,000
1991	<u>299,000</u>
Possible shortages detected	<u>L470,000</u>
Projection of possible shortages	<u>L758,000</u>

Additionally, we found that purchases of tires of approximately L191,670 made in March and April 1991 were received in July, September, October, and December 1991. The accompanying Schedule B presents a detail of these purchases of tires. We also observed that fuel purchases are paid using pro-forma invoices prior to delivery of the product. We believe that this procedure significantly weakens controls over fuel inventories.

Criteria:

Section 2.4 of A.I.D. Handbook 11, chapter 4, requires maintenance of accounts and records adequate to demonstrate the allowability and allocability of costs charged to a Project. In addition, Section B.5.(ii), Article B of Part C of Project Implementation Letter No. 1. requires that Project audits ensure that proper accounting practices are being employed, that proper bookkeeping procedures are being observed, and that expenditures of Project monies are properly made.

Cause:

Project management did not develop and establish effective procedures related to procurement, and inventory control and custody, nor did it require periodic physical inventories.

Effect:

The Project could have paid L758,000 for purchases of materials and supplies not received.

Recommendation:

Project management should: (1) immediately develop and implement effective procedures related to procurement, and inventory control and custody; and (2) require the execution of a complete physical inventory as soon as possible. In addition, a complete reconstruction of inventory transactions and records is needed to establish theoretical quantities and amounts with which the results of the physical inventories can be compared to further establish and investigate shortages.

3. Consumption of Tires and Spare Parts Exceed Normal Expected Usage.

Condition:

Our tests of usage of tires and spare parts for Project vehicle maintenance disclosed that there were many withdrawals of these items from inventory that exceeded reasonable needs. During our review of vehicle maintenance for the period, we observed the following:

- (a) For 21 out of 141 Project vehicles, replacement parts such as tires, batteries, shock absorbers, ignitions and clutch disks, were installed with a frequency that appeared to us to be in excess of reasonable needs. The excess cost noted was approximately L17,500.
- (b) Project spare parts were used for maintenance and repair of 10 vehicles which are the property of the Secretariat

of Natural Resources. The total cost of spare parts and tires was approximately L10,000. Project management did not request approval by A.I.D. to provide these items to the Secretariat of Natural Resources.

The accompanying Schedules C and D present details of these matters.

Criteria:

Section B.3, Article B of Project Implementation Letter No. 1, states that all materials, supplies, equipment, tools, vehicles, and services financed with Grant funds are to be used exclusively for Project activities and objectives unless otherwise agreed to in writing by A.I.D.

Cause:

Project management did not establish specific procedures and controls for the management and use of inventories of spare parts according to A.I.D. regulations.

Effect:

The costs identified in our selective tests of spare parts that are considered unallowable or unsupported due to unreasonable usage totaled L27,500. Usage of parts for vehicles not belonging to the Project is an instance of noncompliance with Agreement terms.

Recommendation:

Project management should immediately implement appropriate written procedures to control management and use of inventories of spare parts and closely supervise such procedures. Additionally, management should request reimbursement of the cost of the parts used in vehicles not belonging to the Project.

4. The Project Has Contracted Personnel not Approved by A.I.D. Certain Employees Receive Salaries Other Than Those Approved by A.I.D.

Condition:

In our audit of payrolls we noted the following:

- (a) Five employees are not included in the lists of employees approved by A.I.D. in Project Implementation Letters. Total salaries paid to these employees amount to L45,750.
- (b) Two employees have received salaries in excess of those approved by A.I.D. Amounts paid in excess as of

September 30, 1991 totaled L21,500. In November 1991, one of these employees reimbursed the Project for the total excess of the amount received.

The accompanying Schedules E and F present details of the above matters.

Criteria:

Project Implementation Letters No. 12 of January 18, 1990, No. 16 of January 14, 1991, and No. 24 of August 1, 1991, specify the employees and salary amounts approved for the Project.

Cause:

The Project did not have a specific procedure to ensure that all labor contracts are properly signed and approved.

Effect:

Payroll costs include questioned costs of L45,750 of salaries paid to employees not approved by A.I.D., and L7,200 of salaries paid in excess which have not been reimbursed as of September 30, 1991.

Recommendation:

The Personnel Department should periodically prepare a complete list of all Project employees indicating the status of the signatures and approval requirements and this list should be reviewed and approved by the Project management. In addition, Project management should be requested to exclude the salary costs of these employees from the fund accountability statements.

5. Per Diem Costs Are not Supported With Liquidation Reports and Reports of Activities Carried Out During the Trips.

Condition:

In our selective review of per diem disbursements made during the period from February 9, 1989 to September 30, 1991, we noted the following:

- (a) In many cases, the payments of per diem to employees for travel to field offices were substantially delayed, some by several months.
- (b) In none of the cases reviewed did we find evidence of preparation of trip reports, and in some cases expense liquidation reports were not prepared.

Criteria:

Regulations for Per Diem and Other Travel Expenses for Officers and Employees of the Government of Honduras published in Resolution No. 636 of November 14, 1977 in force as of September 30, 1991, state:

- (a) Article 13 - Per diem and travel expenses within the country should be paid in advance.
- (b) Article 15 - The officer or employee that concludes a trip and returns to his office or department will have three business days for turning in to the corresponding Administrative Section a report of the trip and a liquidation of per diem in the respective format.

In addition, A.I.D. regulations require that per diem costs should be properly supported.

Cause:

Project management did not opportunely designate a Project official with the responsibility for adequately supervising the compliance with per diem regulations.

Effect:

Total per diem expenses as of September 30, 1991, amount to L304,858 (L136,538 financed with A.I.D. Grant funds and L168,320 financed with Counterpart funds). This amount cannot be properly supported due to the lack trip reports and expense liquidations. This matter is also an instance of noncompliance with Honduran laws.

Recommendation:

Project management should assign a responsible official with the responsibility for adequately supervising per diem payments in order to ensure proper compliance with current per diem laws and regulations.

- 6. The Procurement Regulations Related to Purchases of Goods and Services Contained in the Procurement Law of the Government of Honduras Were not Observed.

Condition:

During our review of procurement procedures used by the Project during the period audited, we observed 17 purchases of over L30,000 each totalling L1,385,626, for which the formal public bids required by the Honduran Procurement Law were not prepared. It is evident in the purchase orders that, to bypass this legal requirement, the purchases were divided into

amounts lower than L30,000. The accompanying Schedule G present a detail of these purchases.

Criteria:

In accordance with Articles 5, 38 and 56 of the Procurement Law of the Government of Honduras, and with Article 7 of the General Budget of Income and Expenses of the Republic of Honduras, a formal Public Bid is required for purchases of over L30,000, and a Private Bid for purchases of lower amounts.

In addition, A.I.D. procurement regulations establish the required procedures for purchases.

Cause:

The Project management wanted to accelerate the procurement process by avoiding a more time-consuming public bid.

Effect:

The present procurement practice weakens the internal control on purchases and preclude free and open competition of suppliers.

Recommendation:

Project management should immediately suspend this practice which violates Honduras Law and A.I.D. regulations.

AUDIT OF THE
LAND USE AND PRODUCTIVITY ENHANCEMENT
USAID/HONDURAS PROJECT No. 522-0292

MANAGED BY THE SECRETARIAT OF
NATURAL RESOURCES DURING THE PERIOD
FROM FEBRUARY 9, 1989 TO SEPTEMBER 30, 1991

LIST OF RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE

Recommendation 1:

The Project should develop and implement an adequate internal control structure and an accounting systems to comply with Agreement terms and A.I.D. regulations. Additionally, the Project management should study the convenience of creating an Internal Audit Department or require external concurrent audits of Project transactions in order to develop an appropriate control environment.

Recommendation 2:

Project management should establish specific procedures to control personnel-related activities. Additionally, the Personnel Department should periodically prepare complete lists of all Project employees indicating the status of the signature and approval requirements and these lists should be reviewed and approved by the Project management.

Recommendation 3:

Project management should establish an accounting procedure for conducting monthly reconciliations of funds received from all sources, and assign responsibility for the timely review of these reconciliations.

Recommendation 4:

Project management should provide instructions in writing to all employees with respect to the limitations in the use of Project assets and establish policies and procedures for asset repair or disposition. These assets should only be used in Project related activities as established in the Grant Agreement.

Recommendation 5:

The technical filing cards of Project beneficiaries should be updated since these constitute the basis for programming field activities. In addition, Project management should establish a monitoring system of the technical activities of the cadre of

extension-workers, in order to meet Project goals on a sustained basis.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Recommendation 1:

Project management should establish mechanisms for regular audit and supervision of Project procurement practices in order to minimize instances of noncompliance with the procurement regulations stated in the Grant Agreement and Project Implementation Letters.

Recommendation 2:

Project management should: (1) immediately develop and implement effective procedures related to procurement, and inventory control and custody; and (2) require the execution of a complete physical inventory as soon as possible. In addition, a complete reconstruction of inventory transactions and records is needed to establish theoretical quantities and amounts with which the results of the physical inventories can be compared to further establish and investigate shortages.

Recommendation 3:

Project management should immediately implement appropriate written procedures to control management and use of inventories of spare parts and closely supervise such procedures. Additionally, management should request reimbursement of the cost of the parts used in vehicles not belonging to the Project.

Recommendation 4:

The Personnel Department should periodically prepare a complete list of all Project employees indicating the status of the signatures and approval requirements and this list should be reviewed and approved by the Project management.

In addition, Project management should be requested to exclude the salary costs of these employees from the fund accountability statements.

Recommendation 5:

Project management should assign a responsible official with the responsibility for adequately supervising per diem payments in order to ensure proper compliance with current per diem laws and regulations.

Recommendation 6:

Project management should immediately suspend this practice which violates Honduras Law and A.I.D. regulations.

SCHEDULE A

LAND USE AND PRODUCTIVITY ENHANCEMENT (LUPE)

FIXED ASSETS

I. ASSETS TRANSFERRED TO CATIE

1	Metal and wood desk with 5 lateral and one central drawers	5A-2255	L	425.00
1	Secretarial desk metal base with 3 lateral and one central drawers	5A-4869		375.00
3	Folding work tables, metal base	5A-8141		193.95
		5A-8114		193.95
		5A-8142		193.95
1	Revolving secretarial chair, metal base with rollers, upholstered with brown fabric	5A-8291		665.00
1	Filing cabinet, ivory color, with 5 drawers.	5A-8550		824.84
1	Galaxy pedestal fan, white and gray color, 3 vanes, 110 volts	IC-8187		204.39
				<u>L3,076.08</u>

II ASSETS BROKEN

1	Olympia manual typewriter machine white and gray, serial number 7-4987622	IA-485		L1,340.00
1	Whirlpool air conditioner, serial No. E22410337	IC-4099		1,206.80
				<u>L2,546.80</u>

III ASSETS NOT FOUND AT THE AGENCY

1	Whirlpool air conditioner, serial No. E22410339	IC-4097		L1,206.80
1	Coleman kerosene lamp, green	IC-8571		302.40
				<u>L1,509.20</u>

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SCHEDULE B

LAND USE AND PRODUCTIVITY ENHANCEMENT (LUPE)

**DETAIL OF PURCHASES OF TIRES RECEIVED BY LUPE
IN LATE DATES
SUPPLIER: REDI**

PURCHASE ORDER		DESCRIPTION	COST	DATE RECEIVED
NUMBER	DATE			
8525	03- 11- 91	48 TIRES H78- 15 LT SEMITRACKTORS	L27,120.00	09/30/91
8526	03- 11- 91	48 TIRES H78- 15 LT SEMITRACKTORS	27,120.00	09/30/91
8527	03- 11- 91	48 TIRES H78- 15 LT SEMITRACKTORS	27,120.00	09/27/91
8528	03- 11- 91	40 TIRES H78- 15 LT	22,600.00	09/27/91
8530	03- 11- 91	40 TIRES H78- 15 LT	9,040.00	07/19/91
8531	03- 11- 91	48 TIRES H78- 15 LT SEMITRACKTORS	27,120.00	07/19/91
8532	03- 11- 91	40 TIRES H78- 15 LT	22,600.00	07/19/91
8547	04- 09- 91	48 TIRES H78- 15 LT SEMITRACKTORS	3,025.00	07/19/91
		5 TIRES P225- 75 R- 15 LT WITH VALVES	3,325.00	12/16/91
8529	03- 11- 91	40 TIRES H78- 15 LT	22,600.00	10/01/91
			L191,670.00	

LAND USE AND PRODUCTIVITY ENHANCEMENT (LUPE)

ef

FIXED ASSETS
DETAIL OF SPARE PARTS USED IN PROJECT VEHICLES

DESCRIPTION	INVENTORY NUMBER	LICENSE PLATE NUMBER	SPARE PART REQUEST DATE	SPARE PART DESCRIPTION	QUANTITY	UNIT COST	TOTAL	QUESTIONED COSTS
FORD RANGER- PICK UP	2A- 1481	N- 1470	04- 30- 90	TIRES	2	L407.50	L815.12	
			06- 11- 90	TIRES	2	L407.56	815.12	
			06- 29- 30	TIRES	2	L406.04	812.08	L812.08
FORD RANGER PICK- UP	2A- 1485	N- 1474	5- 16- 90	BATTERIES	2	L300.00	600.00	300.00
			01- 31- 91	BATTERY	1	L300.00	300.00	300.00
JEEP CJ- 8 STATION WAGON	2A- 1075	N- 1553	03- 09- 90	SHOCK ABSORBERS	4	L100.28	401.12	
			03- 09- 90	SHOCK ABSORBERS	4	L100.28	401.12	401.12
			10- 29- 90	BATTERY	1	L300.00	300.00	
			01- 07- 91	BATTERY	1	L300.00	300.00	300.00
JEEP CJ- 8 STATION WAGON	2A- 1330	N- 3179	06- 03- 91	SHOCK ABSORBERS	2	L145.00	290.00	
			06- 05- 91	SHOCK ABSORBERS	2	L145.00	290.00	
			09- 30- 91	SHOCK ABSORBERS	2	L145.00	290.00	290.00
JEEP CJ- 8 STATION WAGON	2A- 1329	N- 3181	05- 21- 90	SHOCK ABSORBERS	4	L99.40	397.60	
			08- 23- 90	SHOCK ABSORBERS	4	L128.40	513.60	513.60
FORD RANGER PICK- UP	2A- 1494	N- 3420	07- 23- 90	SHOCK ABSORBERS	4	L101.97	407.88	
			10- 15- 90	SHOCK ABSORBERS	4	L125.64	502.56	502.56
FORD RANGER PICK- UP	2A- 1495	N- 3421	03- 30- 90	SHOCK ABSORBERS	2	L100.28	200.56	
			09- 28- 90	SHOCK ABSORBERS	4	L125.64	502.56	251.28
			12- 10- 90	SHOCK ABSORBERS	2	L140.00	280.00	280.00
			10- 04- 90	BATTERY	1	L300.00	300.00	
			04- 16- 91	BATTERY	1	L300.00	300.00	300.00
CARRIED FORWARD							L9,019.32	L4,250.64

SCHEDULE C
(Page 2 of 3)

DESCRIPTION	INVENTORY NUMBER	LICENSE PLATE NUMBER	SPARE PART REQUEST DATE	SPARE PART DESCRIPTION	QUANTITY	UNIT COST	TOTAL	QUESTIONED COSTS
BROUGHT FORWARD							L9,019.32	L4,250.64
FORD F-350 TRUCK	2A-1498	N-3424	09-10-90	TIRES	2	L438.62	877.24	
			10-04-91	TIRES	6	L420.00	2,520.00	1,680.00
FORD F-350 TRUCK	2A-1499	N-3426	10-15-90	CLUTCH DISCK	1	L220.00	220.00	
			01-08-91	CLUTCH DISCK	1	L265.00	265.00	265.00
			07-31-90	TIRES	1	L408.08	408.08	
			10-15-90	TIRES	2	L438.62	877.24	
			12-10-90	TIRES	2	L438.62	877.24	438.62
			03-08-91	TIRES	2	L420.00	840.00	840.00
JEEP CJ-5	2A-848	N-3874	04-18-90	BATTERY	1	L300.00	300.00	
			10-29-90	BATTERY	1	L300.00	300.00	300.00
JEEP CJ-8 STATION WAGON	2A-1207	N-4468	03-29-90	SHOCK ABSORBERS	4	L100.28	401.12	
			01-16-91	SHOCK ABSORBERS	2	L145.00	290.00	290.00
			0108-91	SHOCK ABSORBERS	4	L145.00	580.00	580.00
			03-19-90	BATTERY	1	L300.00	300.00	
			01-16-91	BATTERY	1	L300.00	300.00	300.00
JEEP COMANCHE PICK-UP	2A-1719	N-5595	09-10-90	BATTERY	1	L300.00	300.00	
			11-04-91	BATTERY	1	L300.00	300.00	300.00
JEEP WANGLER	2A-1832	N-5887	10-24-90	IGNITION	1	L294.00	294.00	
			08-29-91	IGNITION	1	L1,132.00	1,132.00	1,132.00
JEEP WANGLER	2A-1835	N-5889	08-27-90	BATTERY	1	L300.00	300.00	
			10-15-90	BATTERY	1	L300.00	300.00	300.00
JEEP WANGLER	2A-1840	N-5894	10-15-90	BATTERY	1	L300.00	300.00	
			01-07-91	BATTERY	1	L300.00	300.00	300.00
JEEP WANGLER	2A-1845	N-5899	06-28-91	BATTERY	1	L300.00	300.00	
			11-04-91	BATTERY	1	L300.00	300.00	300.00
CARRIED FORWARD							L22,201.24	L11,276.26

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DESCRIPTION	INVENTORY NUMBER	LICENSE PLATE NUMBER	SPARE PART REQUEST DATE	SPARE PART DESCRIPTION	QUANTITY	UNIT COST	TOTAL	QUESTIONED COSTS
BROUGHT FORWARD							L22,201.24	L11,276.26
JEEP WANGLER	2A- 1847	N- 5901	09- 10- 90	IGNITION	1	L294.00	294.00	
			10- 15- 90	IGNITION	1	L294.00	294.00	294.00
JEEP CJ- 8 STATION WAGON	2A- 1074	N- 6515	03- 09- 90	SHOCK ABSORBERS	4	L100.28	401.12	
			09- 30- 91	SHOCK ABSORBERS	4	L145.00	580.00	580.00
			11- 22- 91	SHOCK ABSORBERS	2	L145.00	290.00	290.00
JEEP COMANCHE PICK-UP	2A- 2159	N- 7200	11- 19- 90	TIRES	4	L438.62	1,754.48	
			02- 27- 91	TIRES	2	L420.00	840.00	840.00
			07- 30- 91	TIRES	2	L420.00	840.00	840.00
JEEP COMANCHE PICK-UP	2A- 2186	N- 7328	04- 08- 91	TIRES	3	L420.00	1,260.00	
			06- 12- 91	TIRES	2	L420.00	840.00	420.00
			11- 28- 91	TIRES	4	L420.00	1,680.00	1,680.00
JEEP COMANCHE PICK-UP	2A- 2189	N- 7330	03- 22- 91	TIRES	2	L420.00	840.00	
			10- 14- 91	TIRES	2	L420.00	840.00	
			11- 18- 91	TIRES	2	L420.00	840.00	840.00
			11- 12- 91	TIRES	1	L420.00	420.00	420.00
TOTAL							L34,214.84	L17,490.26

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SCHEDULE D

LAND USE AND PRODUCTIVITY ENHANCEMENT (LUPE)
FIXED ASSETS
DETAIL OF SPARE PARTS USED IN VEHICLES OF THE S.R.N.

DESCRIPTION	LICENSE PLATE NUMBER	SPARE PART REQUEST DATE	SPARE PART DESCRIPTION	QUANTITY	UNIT COST	TOTAL
JEEP MITSUBISHI MONTERO	N-3168	06-20-90	TIRES H- 78- 15 LT	2	L420.00	L840.00
		08-13-90	TIRES H- 78- 15-LT	2	L420.00	840.00
JEEP MITSUBISHI MONTERO	N-1889	08-29-90	TIRES H- 78- 15-LT	4	L240.00	1,680.00
JEEP MITSUBISHI MONTERO	N-6543	02-27-91	TIRES H- 78- 15-LT	4	L240.00	1,680.00
JEEP MITSUBISHI MONTERO	N-5100	07-30-91	TIRES H- 78- 15-LT	2	L420.00	840.00
JEEP MITSUBISHI MONTERO	N-5731	07-30-91	TIRES H- 78- 15-LT	2	L420.00	840.00
JEEP MITSUBISHI MONTERO, RED		12-13-89	CYLINDERSHEAD	1	L975.00	975.00
ENGINE SERIAL No. L 4D56- BY 1246			ADMISSION VALVE	1	L75.68	75.68
			CYLINDER HEAD GASKET	1	L450.00	450.00
			TIMING BELT	1	L65.00	65.00
			LEVER AXLE	1	L245.00	245.00
			HOUSING GASKET	1	L107.32	107.32
			PISTON RINGS SET	1	L98.80	98.80
			CONNECTING ROD CAPS SET	1	L95.00	95.00
			SHOCK ABSORBERS	4	L125.64	502.56
JEEP MITSUBISHI MONTERO		12-21-89	CYLINDER HEAD GASKET	1	L450.00	450.00
JEEP MITSUBISHI MONTERO		12-04-89	BEDPLATE CAPS SET	1	L500.00	500.00
TOTAL						L9,970.30

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SCHEDULE E

LAND USE AND PRODUCTIVITY ENHANCEMENT (LUPE)

**PAYROLLS
SALARIES QUESTIONED BECAUSE OF LACK OF APPROVAL
BY A.I.D. OR LACK OF SIGNATURES IN THE CONTRACTS**

EMPLOYEE NAME	HIRING AGREEMENT NUMBER	TERM		SALARY	MONTHS PAID AS OF SEPTEMBER 1991	TOTAL	SIGNATURES MISSING IN CONTRACT		QUESTIONED AMOUNTS BECAUSE OF MISSING SIGNATURES	FUNDS NOT APPROVED BY A.I.D.
		FROM	TO				MINISTER	EMPLOYEE		
Lucila Betanco	2741-89	10/01/89	09/30/91	L450.00	24	L10,800.00	X		L10,800.00	
Rigoberto Romero Meza	1210-90	08/16/90	08/15/92	L6,000.00	14	81,000.00	X	X	81,000.00	
Elías Sosa Martínez	2809-89	11/01/89	10/31/91	L1,600.00	23	41,400.00	X	X	41,400.00	
Ranulfo Medina Ramos	83-90	10/01/89	09/30/91	L600.00	21	12,600.00	X	X		L12,600.00
Juan Oseguera Trejo	86-90	10/01/89	10/30/91	L500.00	21	10,500.00	X	X		10,500.00
Raúl Cáceres	84-90	10/01/89	09/30/91	L500.00	21	10,500.00		X		10,500.00
José de Jesus Espino	87-90	10/01/89	09/30/91	L450.00	21	9,450.00	X	X		9,450.00
Juan Angel Aguilar	85-90	10/01/89	09/38/91	L450.00	6	2,700.00	X	X		2,700.00
						L178,950.00			L133,200.00	L45,750.00

LAND USE AND PRODUCTIVITY ENHANCEMENT (LUPE)

**DETAIL OF PURCHASES HIGHER THAN L30,000
DIVIDED IN LOWER AMOUNTS**

SUPPLIER	DATE	PURCHASE ORDER NUMBER	PAYMENT ORDER NUMBER	PURCHASE AMOUNT	TOTAL BY SUPPLIER
YEAR 1989					
REDI	11/21/89	12053	19043	L1,840.00	
REDI	11/21/89	12054	19039	L3,360.00	
REDI	11/21/89	12055	19044	L8,400.00	
REDI	11/21/89	12056	19045	L3,360.00	
REDI	11/21/89	12057	19040	L5,040.00	
REDI	11/21/89	12058	19046	L5,040.00	
REDI	11/21/89	12059	19047	L8,400.00	
REDI	11/21/89	12060	19048	L6,720.00	
REDI	11/21/89	12061	19049	L8,400.00	
REDI	11/21/89	12062	19050	L3,360.00	
REDI	11/21/89	12063	19051	L6,720.00	
REDI	11/21/89	12064	19052	L5,040.00	
REDI	11/21/89	12065	19053	L5,040.00	L70,720.00
DIPPSA	11/20/89	12006	18983	L9,880.00	
DIPPSA	11/20/89	12007		L2,420.00	
DIPPSA	11/20/89	12008	18984	L2,099.50	
DIPPSA	11/20/89	12009	18985	L6,175.00	
DIPPSA	11/20/89	12010	18986	L363.00	
DIPPSA	11/20/89	12031	18987	L2,778.16	
DIPPSA	11/20/89	12043	18988	L8,617.83	L32,333.49
SUB- TOTAL 1989					L103,053.49
YEAR 1990					
COMERCIAL DIRZ	11/01/90	8734	14330	L14,986.50	
COMERCIAL DIRZ	11/01/90	8735	14331	L2,693.00	
COMERCIAL DIRZ	11/01/90	8736	14332	L13,440.00	
COMERCIAL DIRZ	11/01/90	8737	14333	L12,339.50	
COMERCIAL DIRZ	11/01/90	8738	14334	L11,250.00	
COMERCIAL DIRZ	11/01/90	8739	14335	L11,313.00	
COMERCIAL DIRZ	11/01/90	8741	14337	L11,845.90	
COMERCIAL DIRZ	11/01/90	8742	14338	L14,837.60	
COMERCIAL DIRZ	11/05/90	8743	14339	L10,765.00	
COMERCIAL DIRZ	11/01/90	8744	14340	L11,102.00	
COMERCIAL DIRZ	11/05/90	8745		L6,455.50	
COMERCIAL DIRZ	11/05/90	8747	14341	L9,440.00	L130,468.00
AGROPECUARIA CALDERON	06/14/90	8531	13978	L11,053.00	
AGROPECUARIA CALDERON	06/15/90	8540	13979	L7,464.00	
AGROPECUARIA CALDERON	06/14/90	8560	13986	L12,815.00	
AGROPECUARIA CALDERON	06/14/90	8582	13996	L9,740.00	L41,072.00

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SCHEDULE G
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SUPPLIER	DATE	PURCHASE ORDER NUMBER	PAYMENT ORDER NUMBER	PURCHASE AMOUNT	TOTAL BY SUPPLIER
HONDURAS OVERSEAS	10/09/90	8711	14318	L1,179.50	
HONDURAS OVERSEAS	10/16/90	8721	14323	L9,520.00	
HONDURAS OVERSEAS	10/19/90	8722	14324	L11,689.65	
HONDURAS OVERSEAS	10/16/90	8723	14325	L12,390.00	
HONDURAS OVERSEAS	10/19/90	8724	14326	L12,936.00	
HONDURAS OVERSEAS	10/17/90	8725	14327	L4,438.00	L52,153.15
FERRETERIA CONES	06/15/90	8532	14069	L6,448.00	
FERRETERIA CONES	06/15/90	8534	14070	L3,060.00	
FERRETERIA CONES	06/15/90	8536	14115	L1,417.00	
FERRETERIA CONES	06/15/90	8538	14110	L6,089.50	
FERRETERIA CONES	06/15/90	8642	14075	L5,356.00	
FERRETERIA CONES	06/18/90	8644	14051	L3,653.00	
FERRETERIA CONES	06/18/90	8646	14078	L11,760.00	
FERRETERIA CONES	06/18/90	8649	14153	L9,375.00	
FERRETERIA CONES	06/18/90	8651	14080	L936.00	L48,094.50
DIPPSA	06/19/90	8605	14065	L9,291.90	
DIPPSA	06/15/90	8606	14066	L9,695.00	
DIPPSA	06/14/90	8608	14067	L9,291.90	
DIPPSA	06/18/90	8653	14055	L14,996.64	
DIPPSA	06/18/90	8654	14056	L13,968.99	
DIPPSA	06/18/90	8655	14057	L10,174.50	
DIPPSA	06/18/90	8656	14058	L9,950.00	
DIPPSA	06/18/90	8657	14059	L14,995.36	
DIPPSA	06/18/90	8658	14060	L14,995.36	
DIPPSA	06/18/90	8659	14061	L14,995.36	L122,355.01
ESSO STANDARD OIL	09/11/90	8693		L13,968.09	
ESSO STANDARD OIL	09/09/90	8715	14358	L14,994.72	
ESSO STANDARD OIL	09/29/90	8732	14360	L13,962.78	L42,925.59
SHELL CABAÑAS	09/19/90	8703	14378	L14,996.64	
SHELL CABAÑAS	09/19/90	8704	14353	L14,999.76	
SHELL CABAÑAS	09/19/90	8705	14352	L14,955.70	
SHELL CABAÑAS	09/19/90	8712	14355	L14,955.70	L59,907.80
SUB- TOTAL 1989					L496,976.05
YEAR 1991					
HONDURAS OVERSEAS	04/02/91	8542	13975	L24,014.20	
HONDURAS OVERSEAS	04/03/91	8543	13976	L7,301.00	L31,315.20
AGROPECUARIA CALDERON	05/14/91	8568	14007	L16,392.00	
AGROPECUARIA CALDERON	05/14/91	8569	14008	L29,543.00	
AGROPECUARIA CALDERON	05/14/91	8570	14009	L29,767.00	
AGROPECUARIA CALDERON	05/14/91	8571	14010	L25,372.00	
AGROPECUARIA CALDERON	07/25/91	8609	14125	L29,445.00	
AGROPECUARIA CALDERON	07/25/91	8610	14126	L25,360.00	L155,879.00
REDI	03/11/90	8525	14103	L27,120.00	
REDI	03/11/90	8526	14131	L27,120.00	
REDI	03/11/90	8527	14104	L27,120.00	
REDI	03/11/90	8528	14058	L22,600.00	
REDI	03/11/90	8529	14132	L22,600.00	L126,560.00

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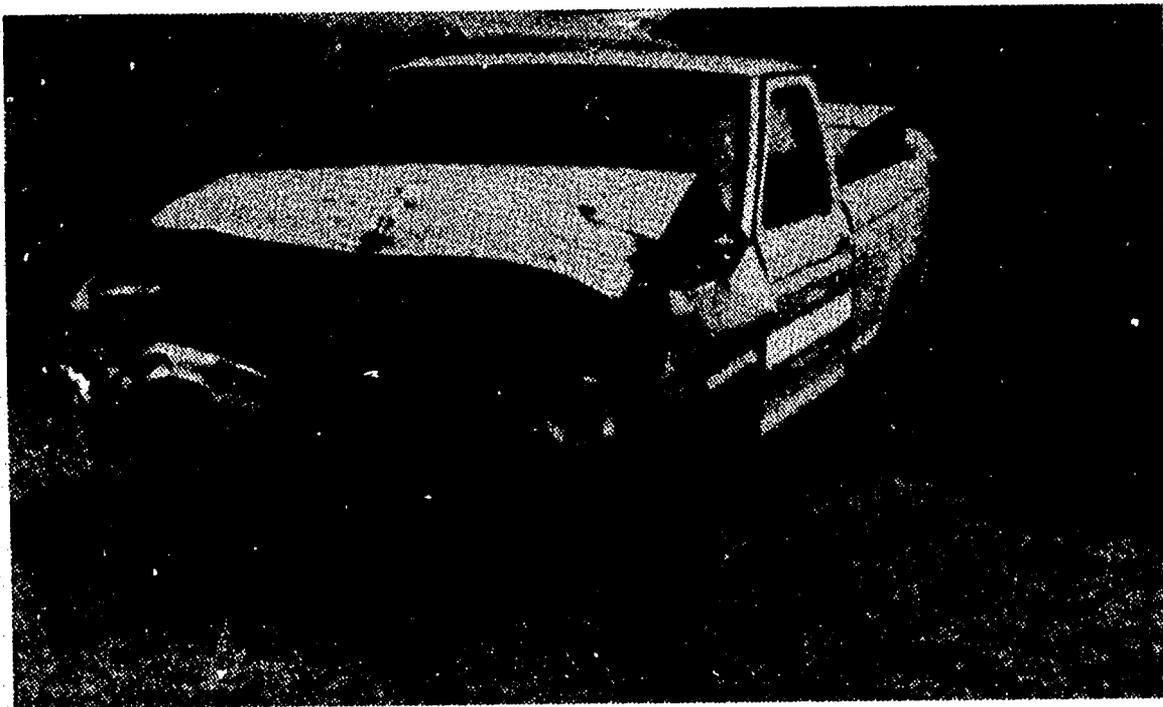
SCHEDULE G
(Page 3 of 3)

SUPPLIER	DATE	PURCHASE ORDER NUMBER	PAYMENT ORDER NUMBER	PURCHASE AMOUNT	TOTAL BY SUPPLIER
REDI	03/11/90	8530	14933	L9,040.00	L135,600.00
REDI	03/11/90	8531	13944	L27,120.00	
REDI	03/11/90	8532	13924	L22,600.00	L185,320.00
SHELL CABAÑAS	02/19/91	8514	13925	L29,997.88	
SHELL CABAÑAS	02/19/91	8515	13920	L29,994.68	
SHELL CABAÑAS	05/13/91	8568	14030	L29,999.06	
SHELL CABAÑAS	07/24/91	8580	14111	L29,999.06	
SHELL CABAÑAS	05/13/91	8599	14019	L29,999.06	
SHELL CABAÑAS	07/24/91	8599	14117	L29,999.06	L179,988.80
DIPPSA	02/19/91	8516	13921	L14,997.34	
DIPPSA	02/19/91	8518	13922	L15,016.08	
DIPPSA	07/24/91	8600	14118	L14,999.53	
DIPPSA	07/24/91	8604	14134	L29,993.06	
DIPPSA	07/24/91	8605	14121	L29,830.00	L104,836.01
ESSO STANDAR	07/24/91	8601	14119	L29,993.06	
ESSO STANDAR	07/24/91	8602	14133	L14,260.14	
ESSO STANDAR	07/24/91	8603	14120	L14,260.14	
ESSO STANDAR	07/24/91	8607	14123	L5,180.00	
ESSO STANDAR	07/24/91	8608	14124	L28,880.00	L92,573.34
SUB- TOTAL 1991					L1,012,072.35
GRAND TOTAL					L1,349,941.89

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Vehicles assigned to the Cholulteca Extension Agency which have been damaged and out of service for over six months.



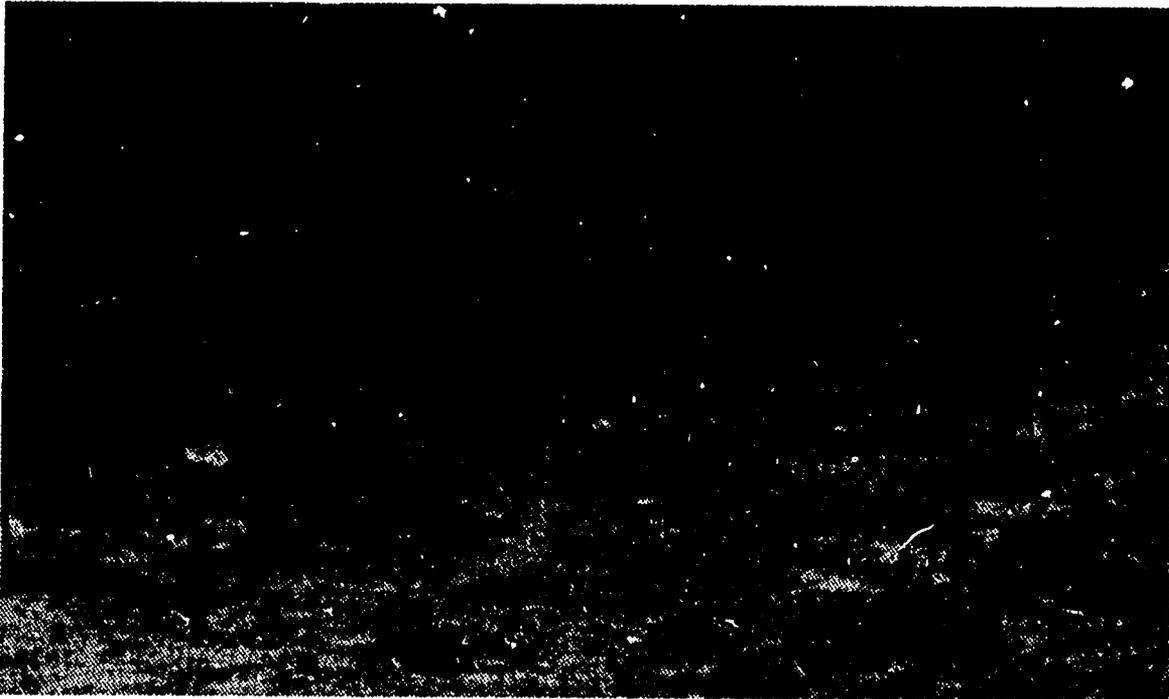


Vehicle assigned to the Choloteca Extension Agency which is out of service and has not been repaired due to lack of replacement parts.

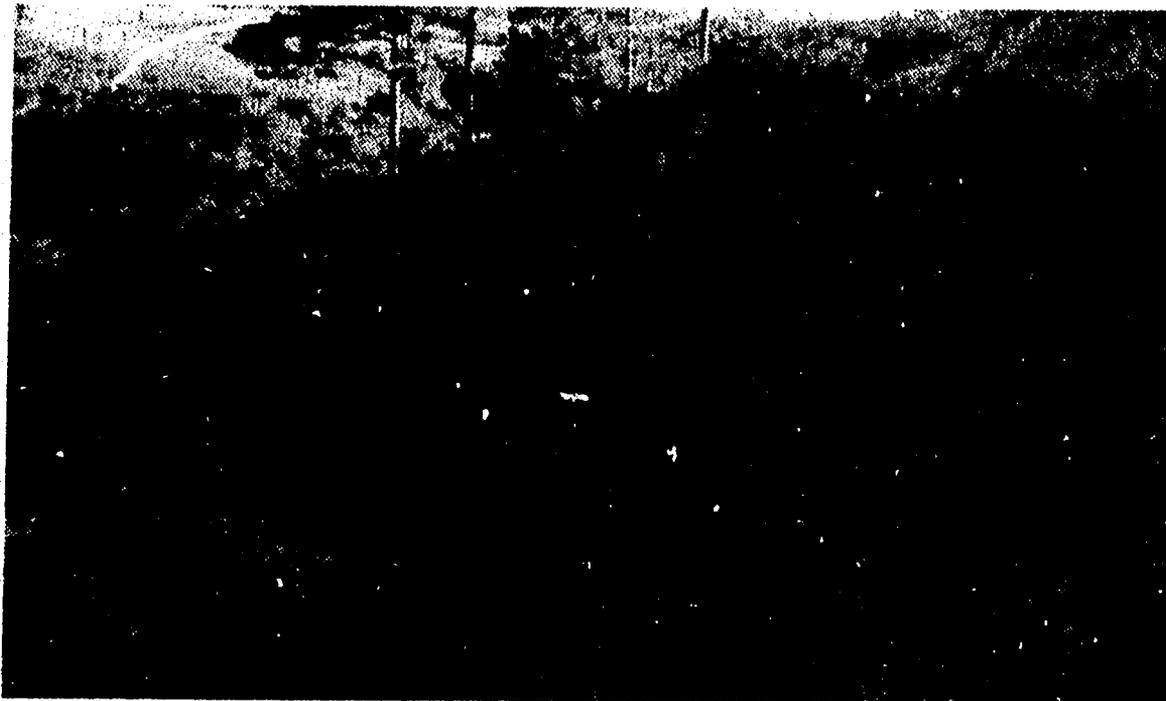


Vehicle assigned to the Choloteca Extension Agency which was damage over six months ago and has been out of service since.

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Property lot owned by Mr. José Elías Galindo, beneficiary of the Marale Extension Agency, which has been visited by project extension workers only once.



Property lot owned by Mr. Martín Cáceres Saucedo, beneficiary of the Zamorano Extension Agency, which has been visited by project extension workers only once.

ANNEX I - MANAGEMENT COMMENTS



SECRETARIA DE RECURSOS NATURALES
*Proyecto Mejoramiento del Uso y
Productividad de la Tierra (L.U.P.E.)
Convenio -AID No. 522-0292*



NOTA LUPE-057-92

Tegucigalpa, M.D.C.
Agosto 10, 1992

Señor
REYNALDO RODRIGUEZ
Price Waterhouse
Presente

Estimado Señor Rodríguez:

Nos place remitir a usted, algunos comentarios al Informe de Auditoría presentado por su prestigiada Firma, el cual corresponde a la Intervención del período: 9 de febrero de 1989 al 30 de septiembre de 1991.

Aunque nuestra gestión no corresponde a tal período, hemos estimado conveniente aportar los comentarios que se anexan a la presente, con el propósito de tomar medidas correctivas del caso, encaminadas al mejoramiento general de la administración del Proyecto LUPE.

Esperamos que dicha información sea de utilidad en la formulación final del Informe en referencia.

Sin otro particular, aprovecho para saludarlo con muestras de consideración y estima.

Atentamente,


JORGE A. QUIÑONEZ A.
Director Ejecutivo



cc: Ing. Mario Nufio Gamero/Ministro de Recursos Naturales
Dr. Francisco Matamoros/Viceministro de Agricultura y Ganadería
Ing. Miguel A. Sánchez T./Sub-Director de Operaciones
Sr. John L. Jordan/USAID
Sr. Peter Hearne/USAID
Lic. Leonel G. Claros/Oficial de Finanzas
Lic. Ricardo García Barahona/Oficial Administrativo
Archivo

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OBSERVACIONES

1.- Las recomendaciones de la página 25 "El Proyecto debe desarrollar e implementar una estructura de control interno y sistemas contables adecuados para cumplir con los términos del Convenio y con las regulaciones de la USAID"; en este sentido la recomendación debe ser exclusiva del informe, ya que la administración del Proyecto con la Asistencia Técnica de ARD, contrató un Especialista en Contabilidad y Finanzas para el diseño e implementación de un sistema integrado. Asimismo la nueva estructura organizacional contempla el funcionamiento de la auditoría interna del Proyecto.

2.- En la Página 26, el informe indica que la administración del Proyecto debe establecer procedimientos específicos para el control de las actividades relacionadas con el personal; la administración es de la opinión que esta recomendación debe excluirse del borrador del informe, ya que se han tomado las acciones correctivas. Asimismo consideramos prudente señalar que todo el personal del Proyecto tiene su Contrato aprobado por Acuerdo del Poder Ejecutivo, sin cumplir con este requisito legal, el empleado no puede tomar posesión del puesto, ni devengar el salario correspondiente.

En la misma página se recomienda que la administración debe establecer un procedimiento contable para las conciliaciones mensuales de los fondos recibidos, en este caso, también se solicita eliminar el informe esta recomendación, tomando en cuenta los comentarios del ítem 1.

3.- El informe recomienda en la página 28, que la administración del Proyecto debe proporcionar instrucciones estrictas a todos los empleados respecto a las limitaciones en el uso de los activos del Proyecto. En este sentido, la administración ha tomado las medidas del caso, entre ellas ha mecanizado el control de inventarios de activos fijos del Proyecto y en relación al inciso a), página 27, no existió ningún tipo de "Transferencia de Equipo a la oficina del CATIE", por parte de la Regional del Sur, Cholulteca, este equipo forma parte de los inventarios del Proyecto LUPE y en la actualidad está en las oficinas de dicha Regional.

En lo relativo al inciso b), se están haciendo los trámites para los descargos correspondientes, y en cuanto al inciso c), todos los vehículos del Proyecto están sometidos a supervisión en talleres contratados por las Compañías Aseguradoras y en el taller del Proyecto, por lo que la Administración del Proyecto, considera que las recomendaciones anteriores deben excluirse del Informe.

4.- Lo referente a la recomendación de la página 34 del Informe; la Administración con su nueva estructura organizacional está tomando las medidas apropiadas para darle cumplimiento, esta recomendación también debería ser excluida del Informe.

5.- En el caso de las recomendaciones que presenta el Informe de Auditoría en las páginas 35, 36 y 37 relacionadas con el establecimiento de procedimientos; las nuevas autoridades del Proyecto están tomando acciones de carácter urgente para dar cumplimiento a las mismas.



- 6.- **La recomendación de la página 39 del Informe, referente a los fondos de contraparte que fueron solicitados en base a un año; se debe considerar que estos fondos son distribuidos por el Ministerio de Hacienda y Crédito Público en base a las necesidades del Proyecto, de acuerdo a la disponibilidad de fondos; por lo que consideramos que esta recomendación debe ser excluida del Informe.**
- 7.- **En relación a la Recomendación de la página 34, párrafo 1, relacionadas con deficiencias en los procedimientos para adquisición de Bienes y Servicios la Administración actual está tomando medidas para evitar actos dolosos en la escogencia de los proveedores mediante un proceso transparente en la adjudicación de ordenes de compra, yendo aún más de lo estipulado en los Manuales y Reglamentos existentes.**
- 8.- **En relación a la Recomendación de la página 39, párrafo segundo, referente a los costos de los viáticos que no fueron soportados, la Administración también ha tomado medidas determinantes para que se cumplan todos los requisitos establecidos en el Reglamento de Viáticos y otros gastos de viaje.**
- 9.- **La recomendación de la página 29, está siendo aplicada por el personal de la Unidad de Planificación, Monitoreo y Evaluación al Proyecto desde hace 5 meses aproximadamente, mediante la revisión y comprobación de la ficha de productores en el campo alcanzándose un 75%, del total de las Agencias de Extensión.**

Asimismo, inmediatamente después de las evaluaciones trimestrales se forman equipos integrados por Especialistas y Supervisores para hacer la comprobación de campo de las presentaciones trimestrales de las Agencias de Extensión.

- 10.- Recomendación de la página 41. Siendo LUPE un proyecto de Extensión el cual, se ha hecho cargo de la mayoría de las Agencias de Extensión de la Secretaría de Recursos Naturales, en el área de influencia del mismo, está en la obligación de proveer asistencia técnica a todos aquellos beneficiarios que así lo soliciten, incluyendo aquellos agricultores que se encuentran arriba del rango de 3 a 5 hectáreas, independientemente de que sean fincas con terrenos fuera del promedio del 15% de pendientes.**

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