

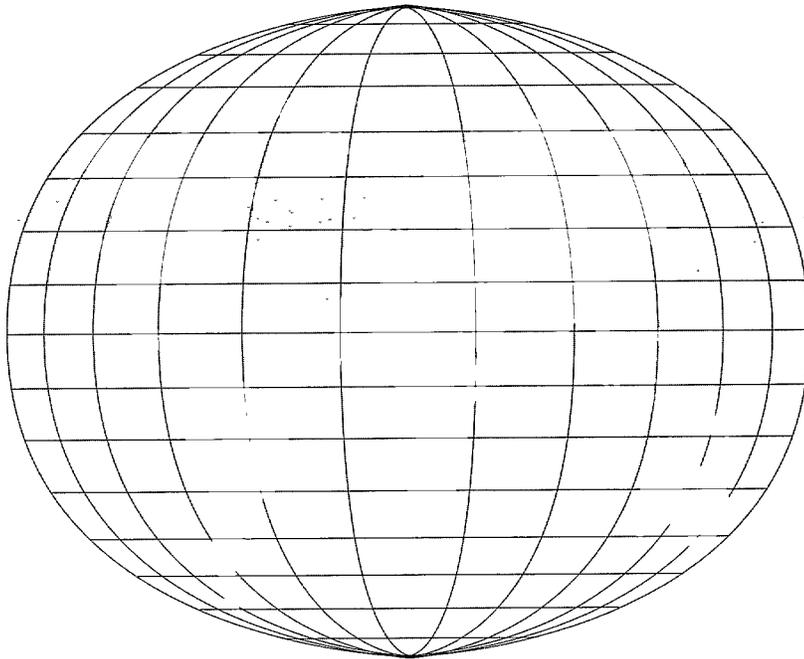
PD-ABS-270

104971

Report of Audit

Audit of USAID/Honduras' Road Reconstruction Activities

Audit Report No. 1-522-00-004-P
May 16, 2000



Regional Inspector General
San Salvador

**OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

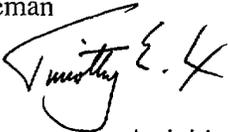


U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

May 16, 2000

MEMORANDUM

FOR: USAID/Honduras Director, Elena Brineman
FROM: RIG/A/San Salvador, Timothy E. Cox 
SUBJECT: Audit of USAID/Honduras' Road Reconstruction Activities
(Report No. 1-522-00-004-P)

This memorandum is our report on the subject audit. This report contains one recommendation for your action. Please advise me within 30 days of actions planned or already taken to reach a management decision on the recommendation.

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

Background

Hurricane Mitch struck Honduras in October 1998. Its devastation and associated flooding, which continued through January 1999, resulted in the deaths of thousands of Hondurans, temporarily left nearly a million people homeless and caused crop, equipment, infrastructure, and other losses estimated at \$3.4 billion.

The impact on Honduras' road and bridge network—reputed to be Central America's best before the disaster—was acute. Over 100 bridges were destroyed. Thousands of kilometers of roads were closed by landslides and made intransitable by muddy stretches (called pegaderos). Culverts, drainage ditches and discharge canals were damaged. The Honduran Ministry of Public Works, Transportation, and Housing, the Honduran [Government] Social Investment Fund (FHIS), and local communities went to work immediately to open roads through the removal of landslide

debris, temporary repairs of pegaderos and constructing provisional river fords. When the rains began again in May 1999, many of these repairs were washed away.

Also, in late May 1999, Congress passed the Emergency Supplemental Appropriations Act, creating the Central America and the Caribbean Emergency Disaster Recovery Fund, which contained a total of \$621 million in reconstruction assistance for countries hit by Hurricanes Mitch and Georges and for Colombia for earthquake damages. Because of the extent of damage caused by Hurricane Mitch, Honduras received \$291 of the \$621 million.

To use the funding provided by Congress to combat the effects of Hurricane Mitch, USAID/Honduras and the Government of Honduras signed a special objective grant agreement for the *Hurricane Reconstruction Program* (HRP), dated June 9, 1999, to achieve the joint special objective “*Critical Hurricane Reconstruction Needs Met.*” Component No. 1 is the *Emergency Reconstruction of Roads and Bridges Activity* (RECAP Activity). The HRP has a completion date of December 31, 2001.

The specific objectives of the RECAP Activity are to accelerate and make more durable the economic reactivation of families acutely affected by Hurricane Mitch, and to create conditions conducive to future generation of more jobs, increased income and more social and economic development. This will be accomplished principally by reconstructing and upgrading rural farm-to-market roads and bridges which will, to the extent possible, ensure year-round uninterrupted links between production centers and their markets. Reconstruction techniques will aim to reduce maintenance and, thus, enhance sustainability during the five years following the completion of the RECAP Activity and mitigate the potential damage of heavy rainfalls and floods.

The RECAP Activity is expected to produce the following outputs:

- 2,000 kilometers of reconstructed unsurfaced roads, mainly farm-to-market;
- 2,000 linear meters of reconstructed two-lane concrete bridges/fords;
- 30 kilometers of reconstructed and upgraded paved road sections; and
- 20 kilometers of repaired/cobblestoned town streets and related works.

Funding for the RECAP Activity is as follows:

	USAID	Government of Honduras
Life of Project (U.S. Dollars)	\$50,000,000	\$2,100,000

Responsibility for the RECAP Activity was assigned to the Employment Generation Unit of the Honduran Social Investment Fund (FHIS/UGE). In accordance with the terms and conditions of the RECAP activity description, FHIS/UGE established a new FHIS Executing Unit dedicated exclusively to implementing the RECAP Activity. The Executing Unit (hereafter referred to as the RECAP Activity) is managed by a U.S. project manager contracted directly by USAID. Additionally, a U.S. chief engineer was also directly contracted by USAID to be the unit's chief technical, scientific and engineering expert. To obtain the necessary construction, and design and supervision services, the RECAP Activity was to award host country contracts (HCCs) that were expected to account for \$47 million of the \$50 million in project funding.

In order to expedite the HCC process, USAID/Honduras sought and received from the USAID/Washington Office of Procurement, a deviation from Automated Directive System 305.5.1a. With this deviation, USAID/Honduras delegated to the RECAP Activity manager eight of nine contracting steps that normally require the written approval of the Mission Director or the Strategic Objective Team Leader when contracts exceed \$250,000. These eight steps included, for example, approval of: (1) notices to prospective offerors, (2) solicitation documents, (3) the methodology for selecting contractors, (4) the selected contractor, and (5) signed contract documents.

Audit Objectives As part of its fiscal year 2000 audit plan, the Regional Inspector General/San Salvador performed the audit to answer the following questions:

- Are USAID/Honduras' road reconstruction activities on schedule to achieve the planned outputs?
- Are host country contracts being awarded in accordance with competitive procedures?

The audit scope and methodology is presented in Appendix I.

Audit Finding**Are USAID/Honduras' road reconstruction activities on schedule to achieve the planned outputs?**

USAID/Honduras' road reconstruction activities are not on schedule to achieve the planned outputs. Higher than expected reconstruction costs and longer than planned implementation show that the RECAP Activity's planned outputs cannot be achieved within the current project budget or by the project completion date. These two causes are discussed below.

Reconstruction Costs Significantly Higher Than Original Estimates

The costs from the first round of contracting were significantly higher than originally estimated. The RECAP Activity recently awarded about \$19 million of an expected \$47 million in contracts for reconstruction activities. These contracts provided actual per unit costs for reconstructing one kilometer of road and cobblestoning one kilometer of road. Actual cost data for other planned objectives were not available because contracts for those activities have not yet been awarded. The cost of reconstructing a kilometer of road increased from the planned amount of \$15,000 to approximately \$24,000—a 60 percent increase. In overall terms, the cost of reconstructing 2,000 kilometers of roads will cost \$48 million instead of the original planned \$30 million. Similarly, the cost of cobblestoning 20 kilometers of streets will be closer to \$2.8 million instead of the original \$2 million (40 percent increase). These higher costs for road reconstruction significantly impact the RECAP Activity. Reconstructing all 2,000 kilometers of roads would consume all of the project's funding and none of the other planned outputs could be achieved. Thus, it is clear that all the planned objectives cannot be met.

The RECAP Activity manager and chief engineer did an analysis and identified several factors for the higher than expected unit costs of reconstructing roads and cobblestoning streets. For example, they cited that the original estimates did not include design costs, contemplated using individual engineers rather than firms to do day-to-day supervision of construction activities, and did not adequately account for the high inflation currently being experienced in Honduras. Another factor, according to the officials, was that the RECAP Activity chose to tackle the highest priority and most critical roads. These were generally the most heavily damaged. Finally, they cited an underestimation of the amount of upgrading needed to raise selected roads to a year-round maintainable standard. Concerning the cobblestoned streets, the officials suspected that a scarcity of manual labor caused the increased costs. The officials did not believe the unit prices in the

first round of contracting were inflated, noting that the unit prices were within 0.3 percent of their own engineering estimates.

Per unit costs might rise even more. The RECAP Activity officials expect the costs to reconstruct a kilometer of road will increase because the second round of contracts will be for renovating even more heavily damaged roads. Also, in addition to inflation concerns, the managers are concerned about the capacity of Honduran construction firms to undertake the large volume of works planned by USAID, the Government of Honduras and other international donors. They believe that unit costs might rise because of this increased demand for reconstruction services.

Implementation Took Longer Than Planned

In addition to the higher costs, vital reconstruction time was lost which affected the project's ability to complete all the planned objectives by the project completion date. Specifically, reconstruction activity started in March 2000, not in the fall of 1999 as originally planned. As a result, approximately two-thirds of the current dry season was lost. Thus, rather than have two full dry seasons of reconstruction time, the RECAP Activity will have only one and one-third dry seasons to accomplish all the planned outputs by December 31, 2001.

The RECAP Activity accomplished much from September 1999 through March 31, 2000. For example, managers hired all administrative and technical staff, arranged for office space and furnishings, and began project implementation. With respect to project implementation, the FHIS Executing Unit established a work plan and milestones for the accomplishment of the planned outputs. As discussed in more detail in the next section of this report, the FHIS Executing Unit also implemented an extensive host country contracting process, which led to actual reconstruction activities beginning in mid-March 2000. However, the RECAP Activity did not begin reconstruction activities as quickly as originally planned.

It was expected that the RECAP Activity would complete contracting in the fall of 1999 and immediately begin reconstruction activities, thus providing two full dry seasons for reconstruction before the project completion date. The consultant who designed the project stated in his report dated April 21, 1999:

The project will have a duration of approximately 30 months from the date of execution of the Grant Agreement until 30 September 2001. This should be sufficient time to achieve some work during 1999 and major actions in the dry seasons of 2000 and 2001.

In a June 1999 briefing document for Congress, the Mission noted it was interviewing for the two primary positions (RECAP Activity manager and chief engineer) the week of June 14th, and it expected to move immediately to contract the selected candidates after the interviews. The Mission went on to state:

We would then be on track to complete the contracting process for construction contracts prior to the end of the rainy season so they could mobilize to begin working immediately when the rains stop in November.

A June 7, 1999 action memorandum requesting the Mission Director to sign the Special Objective Grant Agreement stated that the Office of Transition Initiatives was providing \$1.4 million to “assist in jump starting the RECAP component to take maximum advantage of the two dry seasons during the LOA [Life of Activity].”

The consultant’s report stated that rainy seasons impose constraints on reconstruction activities, particularly on the use of heavy equipment for excavation and transport of gravel, grading, ditching, and other reconstruction works. Consequently, the majority of the reconstruction has to be done during the dry season (generally November through April). The report subsequently stated that some tasks may be achieved during the rainy season, but the program’s duration contemplates nearly 30 months of activities, including two full dry seasons.

Actual reconstruction did not begin until mid-March 2000. USAID/Honduras officials who worked on the design of the project stated that they thought the project would be able to move two to three months quicker than it did. However, they noted that the supplemental did not pass as quickly as they had hoped. They added that the congressional notice process took another 15 days. Additionally, the officials stated that a congressional hold was placed on the project that was not lifted until June 24, 1999. Consequently, two months passed from the point the project was designed to when the funds could be obligated. These officials stated that the Mission could have started the project in May using the \$1.4 million in funding from the Office of Transition Initiatives, but elected not to because the supplemental had not yet passed and because of the concerns that led to the congressional hold. According to the officials, the hold delayed the process of hiring the RECAP Activity managers.

A delay in getting project funding to the RECAP Activity was also commonly cited as a problem by Mission and RECAP Activity officials, but there were differences of opinion as to whether it affected implementation. Although the manager and chief engineer were on board

in early September 1999, the RECAP Activity did not receive funding until November 30, 1999. In a letter to the Mission Director dated November 3, 1999, the RECAP Activity manager stated that the lack of project funding was seriously affecting their ability to implement the schedule in their preliminary work plan. Mission management did not agree that implementation was significantly affected. They noted that the RECAP officials moved forward with such activities as the hiring of employees, looking for office space, and preparing contract solicitation documents. They added that at least 14 employees were on board the first week of November. Mission management also stated that as soon as the letter was received, the Mission took immediate action to get funding to the RECAP Activity.

Finally, the RECAP Activity officials believed that the project designers were overly optimistic about how quickly significant reconstruction activity could begin. Because the RECAP Activity officials anticipated that the selection and design of roads and bridges would not be completed until September 2000, their work plan showed most of the planned outputs being achieved in calendar year 2001. The chart below provides the milestones for achieving the planned outputs during the life of the project.

Description	Calendar Year 2000			Calendar Year 2001				TOTAL
	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	
	30-Jun-00	30-Sep-00	31-Dec-00	31-Mar-01	30-Jun-01	30-Sep-01	31-Dec-01	
Roads (KM)	100	100	100	600	700	300	100	2000
Bridges (ML)	100	150	150	300	500	400	400	2000
Cobblestoning (KM)	5	5	5	5	0	0	0	20
Paved Roads (KM)	0	0	0	0	15	15	0	30

KM = Kilometers
ML = Linear Meters

The chart shows only 300 kilometers of roads and 400 linear meters of bridges being reconstructed in calendar year 2000. For calendar year 2001, the remaining 1,700 kilometers of roads and 1,600 linear meters of bridges were planned to be reconstructed. Thus, fully 85 percent of the planned outputs for roads and 80 percent of the planned outputs for bridges are scheduled to be achieved in one dry season. Additionally, between the two calendar years, 600 kilometers of roads and 1,100 linear meters of bridges were shown as being reconstructed during the months from July through December—predominantly the rainy season.

The planned milestones do not appear achievable. The consultant's report stated that two full dry seasons are needed for the reconstruction implying that an equal amount of reconstruction would be achieved in each dry season. Further, given the caveats in the consultant's report, reconstructing 600 kilometers of roads and 1,100 linear meters of bridges during the rainy

season is not realistic. Finally, given the higher than expected contract costs and the loss of two-thirds of a dry season, the RECAP Activity's manager and chief engineer do not believe it is possible to complete the planned outputs for calendar year 2001. As a result, in its report for the quarter ended March 31, 2000, the RECAP Activity made five recommendations including reducing the planned kilometers of roads to be reconstructed from 2,000 to 1,250 and extending the project completion date to December 31, 2002. Additionally, the RECAP Activity is prioritizing only about 775 more kilometers of roads, in addition to the 475 kilometers of roads already contracted, to be reconstructed because that is all the additional kilometers that can be renovated given the costs of current contracts and project funding.

USAID/Honduras has provided notice that the planned outputs cannot be met and that an extension of the project might be needed. For example, Mission officials stated that congressional staffers who visited in January 2000 were informed that more time might be needed. More recently, in a document prepared in early April 2000, for a USAID/Administrator's briefing to Congress, the Mission stated that, due to the higher-than-anticipated per kilometer cost, it is expected the target for road reconstruction will have to be adjusted from 2,000 kilometers to approximately 1,250 kilometers. The Mission goes on to state:

Since most road construction can only be accomplished during the dry season, the Mission may need to consider an extension in the estimated completion date (currently December 31, 2001). Such an extension would provide two full dry seasons (instead of the current 1 1/3 dry seasons) to complete reconstruction activities.

Additionally, in its Results Review and Resource Request (R4) dated March 31, 2000, the Mission stated that some programs may need additional time to complete all planned activities and that construction activities, in particular, may require an additional dry season in early 2002 to complete all planned work.

Although RECAP Activity officials and USAID/Honduras have acknowledged the higher than expected costs and the loss of vital reconstruction time, they both agree that additional information is needed to determine what actions should be taken. For example, selecting the additional roads to be reconstructed, evaluating their condition, and determining the length and types of bridges that they require, will provide the data needed to better estimate the associated time and costs. Additionally, they point out that the reconstruction currently ongoing throughout the country will provide important information on just how quickly reconstruction can be accomplished. We were told that this information

should be available in July or August and that the second round of contracting will not take place until this information has been obtained and reviewed.

Because of higher reconstruction costs and the loss of two-thirds of a dry season, the RECAP Activity will not achieve its planned outputs. We agree with USAID/Honduras that it will be better able to evaluate the RECAP Activity around July or August when the second group of roads is selected, the number and types of bridges needed are identified, and actual progress can be evaluated. Consequently, we are making the following recommendation.

Recommendation No. 1: Before awarding the remaining \$28 million in project funds, we recommend that USAID/Honduras assess the status of the Emergency Reconstruction of Roads and Bridges Activity, identify available options, and, in consultation with USAID/Washington and Congress, determine what adjustments should be made to the project.

Audit Finding Are host country contracts being awarded in accordance with competitive procedures?

The RECAP Activity followed USAID prescribed policies and procedures on competition in awarding HCCs. Our review focused on the awarding of \$19 million in HCCs for the construction of roads and bridges and the related design and supervision services, the acquisition of prefabricated bridges, the acquisition of soil stabilizers, and the cobblestoning of streets. The review included the advertising for a second round of reconstruction and related design and supervision HCCs that are to be awarded within the next few months and are expected to total about \$28 million. The results of our review of the awarding of HCCs follows.

Procurement of Host Country Contracts

Automated Directive System (ADS) Chapter 305 - *Host Country Contracts*, governs the use of HCCs. Specifically ADS 305.5.2 *Competition*, and ADS 305.5.3 *Advertising* delineate the procedures required to ensure competition in the procurement process.

ADS 305.5.3 requires that HCCs be advertised extensively to promote interest in and competition for USAID-financed procurements. The type of contract to be awarded dictates how the procurement should be advertised. For technical and professional services and the purchase of goods, procurements over \$100,000 are required to be published in the Commerce

Business Daily (CBD). Construction services exceeding \$500,000 must also be published in the CBD.

ADS 305.5.2 requires that HCCs for the procurement of USAID-financed goods and services shall be awarded on the basis of competitive procedures. The type of transaction involved determines the procedures to be used in obtaining competition. For example, technical and professional services are to be procured using competitive, technical selection among qualified prospective contractors. For construction services, formal competitive bidding among qualified bidders is the normal procedure used to award HCCs. Formal competitive bid procedures include public advertising, issuance of invitations for bids, public opening of sealed bids, evaluation of bids, and award of a contract to the lowest responsible bidder. The purchase of goods in excess of \$100,000 requires the same formal competitive bid procedures used for awarding contracts for construction services.

In addition to ADS Chapter 305, the RECAP Activity had to comply with the procurement procedures established in its activity description. These procedures included a prequalification process requiring the use of questionnaires for reconstruction contracts. The FHIS Executing Unit was to publicly advertise procurement actions in at least two Honduran newspapers and provide 21 days for submission of applications. The activity description also required the use of evaluation committees to review the prequalification questionnaires, the invitations for bids and the technical proposals.

We determined that the RECAP Activity complied with the advertising and competition requirements in ADS Chapter 305 and the activity description. For example, all notices of award were posted in the CBD and in Honduran newspapers and generally provided 21 days notice. Prequalification questionnaires, invitations for bids and requests for proposals were developed and used. Public openings of sealed bids were held. Committees were established to evaluate prequalification questionnaires, bids or technical proposals. HCCs were awarded to the lowest responsible bidders or the most technically qualified offerors. Appendix II provides two tables which, together with the following narrative, provides the results of our review for the major procurement actions reviewed.

▸ **Public Advertising:** The RECAP Activity published notices for all the major procurement actions in the CBD and in the Honduran newspapers. Specifically, it sent to USAID/Honduras the notices of prequalification or invitations for bids or proposals. USAID/Honduras sent the notices to USAID/Washington, Office of Contracts. The Office of Contracts published the notices on the USAID website and also sent them to the CBD for publication. The RECAP Activity arranged to have the notices published in the local newspapers.

Based on the amounts and types of HCCs that were to be awarded, six notices were required to be, and were, published in the CBD. These included four prequalification notices for the first and second rounds of road and bridge reconstruction service contracts to be awarded and the related design and supervision contracts to be awarded. The other two notices were for requests for invitations to bid for the prefabricated bridges and the soil stabilizers. A separate notice was not published for the cobblestoning of streets as these services were covered by the notices for the road and bridge reconstruction services.

Notices were published in the local newspapers. In addition to the six notices that were published in the CBD, four other notices were published: two soliciting requests for bids for cobblestoning streets; and two for those companies prequalified, soliciting invitations for bids or requests for proposals for the first round of HCCs to be awarded for road and bridge reconstruction services, and design and supervision services.

Although the RECAP Activity complied with the advertising requirements of ADS Chapter 305, it did not always comply with the advertising procedures in the activity description. Specifically, not all notices provided 21 days for the submission of applications. Of the six notices in the CBD, all but one provided at least 21 days. The notice for the soil stabilizers provided only five days response time. The delay in posting the notice, which appeared to have occurred at USAID/Washington, did not negatively affect U.S. firms since all five soil stabilizer contracts were awarded to U.S. firms. Eight of the 10 notices posted in the newspapers provided at least 21 days for the submission of applications. The other two provided 20 days.

▸ **Solicitation Documents:** The RECAP Activity developed prequalification questionnaires, invitations for bids, and requests for technical proposals. These documents provided detailed descriptions of the services or products that were needed and outlined the methodology that would be used to select the offerors. Those offerors wishing to compete for contracts could download the solicitation documents from the USAID external website, or obtain one directly from the RECAP Activity. Prequalification questionnaires were developed to select offerors qualified to reconstruct roads and bridges and to select offerors qualified to design and/or supervise road and bridge reconstruction. Invitations for bids were prepared and made available to those offerors prequalified to provide for road and bridge reconstruction services. Additionally, invitations for bids were prepared for the procurement of prefabricated bridges, and the purchase of soil stabilizers. A request for proposal was prepared and made available to those offerors prequalified to provide design and supervision services.

▸ **Public Openings:** Public openings of bids were held for the award of roads and bridges reconstruction contracts totaling \$9.7 million and

cobblestoning contracts totaling \$1.5 million. The amount of each bid was documented and each offeror signed a statement indicating they attended the public opening and had no objections about the process.

▸ **Competitive Selection:** Evaluation committees were established for each major procurement. These committees, that included qualified engineers, evaluated the prequalification questionnaires, invitations for bids, and requests for technical proposals. Each offeror was scored on various factors such as its relevant previous experience, the experience of its current and proposed employees and its financial capacity to perform the work. For reconstruction contracts, the evaluation committee also inspected the equipment of the lowest bidders and reviewed references to ensure they were responsible. For the procurement of prefabricated bridges, the evaluation committee evaluated the technical proposals and economic proposals jointly because prefabricated bridges of various types and sizes would be needed, and the price and ability of a firm to deliver a bridge quickly were deemed important factors. Detailed evaluation reports were prepared. These reports described: (1) how and when the procurement was advertised, how many solicitations were received, and when they were opened; (2) who was on the evaluation committee; (3) the methodology used to evaluate the solicitations; (4) the results of the evaluations; and (5) the conclusions and recommendations of the committee.

▸ **Awarding of Contracts:** Awards were made to the most technically qualified and responsible offeror(s) or the lowest responsible bidders. Because three HCCs for design and supervision services were to be awarded for work in different areas of Honduras, one offeror was rated the most technically qualified for two of the three contracts. However, the evaluation committee concluded that since the offeror proposed the same personnel for both contracts, it was capable of managing only one. Consequently, the offeror was awarded one contract and the other contract was awarded to the next highest technically qualified and responsible offeror. For the reconstruction of roads and bridges, six contracts were awarded for work in six areas of the country. One offeror was the lowest bidder for two of the contracts but also was deemed not to have the capacity to manage both contracts. Consequently, one contract was awarded to the next lowest responsible bidder. For the other five contracts, the lowest bidder was determined to be responsible and was awarded the contract. For the two cobblestoning contracts, the lowest bidders were determined to be responsible and were awarded contracts. For prefabricated bridges, the four bidders, who were deemed technically qualified, presented different options allowing for flexibility in the size and type of bridges that could be used. As a result, each qualified bidder was to be awarded an indefinite quantity contract with a minimum purchase of two prefabricated bridges. Similarly, for the procurement of soil stabilizers, indefinite quantity contracts were to be awarded to the five bidders deemed technically qualified so that the

different products could be tested.

Other Issues

One issue that was not significant to the audit objectives is not included in this audit report. This issue will be communicated to USAID/Honduras by a separate memorandum.

Management Comments and Our Evaluation

In order to issue the audit report by May 17, 2000, we asked USAID/Honduras to provide its management comments in a shortened time period. The Mission was unable to provide us its final comments in time to be included in this report. The Mission did provide draft comments. Those draft comments indicated that the Mission agreed with our report. The comments also indicated that the Mission, subsequent to our audit, assessed the status of the RECAP Activity. As a result of that assessment, the Mission stated that it revised the planned outputs and developed a plan to accelerate project implementation. A management decision for Recommendation No. 1 will be recorded when the Mission provides us a firm plan of action to implement the recommendation.

Scope and Methodology

Scope

We audited USAID/Honduras' Road Reconstruction Activities in accordance with generally accepted government auditing standards. The audit was conducted at USAID/Honduras and the RECAP Activity from March 20, 2000 through April 28, 2000.

The RECAP Activity had four categories of planned outputs to be completed by December 31, 2001: 2,000 kilometers of reconstructed roads; 2,000 linear meters of reconstructed bridges; 30 kilometers of reconstructed paved roads; and 20 kilometers of cobblestoned streets. Our review focused on whether the RECAP Activity was on schedule to achieve these planned outputs.

At the time our audit began, records provided by the RECAP Activity showed that 20 reconstruction-related HCCs totaling about \$19 million had been awarded, although four contracts totaling about \$2.2 million had not been finalized. The \$19 million covered five major procurements: roads and bridges reconstruction services; roads and bridges design and supervision services; acquisition of prefabricated bridges; acquisition of soil stabilizers; and cobblestoning services. Additionally, the RECAP had advertised for a second round of prequalification for roads and bridges reconstruction services and related design and supervision services. It was expected that HCCs totaling about \$28 million would be awarded during the second round of contracting.

Our review focused on whether HCCs for each of the five major procurements were awarded in accordance with the competitive procedures in ADS Chapter 305 and the project's activity description. The review included the advertising for construction and related design and supervision HCCs that are to be awarded during the second round of contracting. In addition, the RECAP Activity awarded a \$156,000 HCC for financial and administrative services. We did not review in detail the awarding of this contract because of its small value.

Methodology

To answer the audit objectives, we interviewed responsible officials at USAID/Honduras and the RECAP Activity. In addition, we reviewed relevant documentation at the two entities.

To determine whether road reconstruction activities were on schedule to achieve planned outputs, we reviewed documentation at USAID/Honduras which included project design documents, and the strategic objective grant agreement and its annexes including the project's activity description. These

documents provided the project's funding, listed the expected outputs and identified the project timeframe. We also reviewed other relevant documentation such as correspondence and briefing documents on the project's progress. At the RECAP Activity, we reviewed quarterly progress reports that included work plans and milestones for achieving the planned outputs. We reviewed contracts and quarterly reports to obtain current reconstruction costs. We reviewed relevant correspondence with USAID/Honduras and records of meetings with USAID/Honduras personnel and Honduran government officials.

To determine whether host country contracts were being awarded in accordance with competitive procedures, we reviewed the requirements of ADS Chapter 305 - *Host Country Contracts* and the procedures contained in the project's activity description. For public advertising, we verified on the CBD website that the notices had been posted and we obtained copies of the newspaper advertisements. We obtained and reviewed copies of the solicitation documents for all the major procurements from the RECAP Activity or, for those still posted, we downloaded copies from the USAID external website. For public openings of bids, we reviewed the evaluation committee reports, which listed each bidder and the amount of its bid and included the signatures of bidder representatives attesting to their presence. Regarding competitive selection, we reviewed the evaluation reports which described in detail such items as the methodology used to rank offerors, the members of the evaluation committee, the results of the evaluations, and the conclusions and recommendations of the committee. We also used the evaluation reports to determine whether awards were made to the lowest responsible bidder or the most technically qualified and responsible offeror. Finally, we obtained copies for 16 of the 20 HCCs that had been finalized to verify that contracts were given to the offerors selected by the evaluation committees.

Table No. 1 – Results by Contracting Stages for Each Major Procurement

	Procurement of Roads and Bridges Reconstruction Services	Procurement of Roads and Bridges Design and Supervision Services	Procurement of Prefabricated Bridges	Procurement of Soil Stabilizers	Procurement of Cobblestoning Services
No. of firms requesting questionnaires, or bid or proposal documents	92	42	Not available	11	17
No. of firms submitting prequalification questionnaires	70	31	Not applicable	Not applicable	Not applicable
No. of firms pre-qualified	22	11	Not applicable	Not applicable	Not applicable
No. of firms submitting proposals or bids	11	9	5	7	8
No. of contracts awarded	6	3	4	5	2
Total cost of contracts	\$9,700,000	\$1,400,000	\$5,000,000	\$1,700,000	\$1,500,000

Table No. 2 – Summary of Competitive Procedures used for Each Major Procurement

Competitive Procedures	Procurement of Roads and Bridges Reconstruction Services	Procurement of Roads and Bridges Design and Supervision Services	Procurement of Prefabricated Bridges	Procurement of Soil Stabilizers	Procurement of Cobblestoning Services
Public advertising used.	✓	✓	✓	✓	✓
Solicitation documents prepared and used.	✓	✓	✓	✓	✓
Public opening of bids.	✓	Not applicable	Not applicable	Not applicable	✓
Competitive selection used and evaluation committee procedures documented.	✓	✓	✓	✓	✓
Contracts awarded to lowest responsible bidder or most technically qualified and responsible offeror.	✓	✓	✓	✓	✓