

PD-AAZ-941

SN=63077

**AUDIT OF THE INSTITUTIONAL STRENGTHENING
AND PRIVATE VOLUNTARY ORGANIZATIONS
FEDERATION ASSISTANCE PROJECTS AND THE
NATIONAL BREAST FEEDING PROGRAM MANAGED
BY THE FEDERATION OF PRIVATE DEVELOPMENT
ORGANIZATIONS OF HONDURAS**

**Audit Report No. 1-522-89-54-N
September 22, 1989**

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

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

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

September 22, 1989

MEMORANDUM

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

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

SUBJECT: Audit Report No. 1-522-89-54-N, "Audit of the Institutional strengthening and Private Voluntary Organizations Federation Assistance Projects and the National Breast Feeding Program Managed by the Federation of Private Development Organizations of Honduras (FOPRIDEH)"

This report presents the results of a non-Federal financial audit requested by your Mission of the Institutional Strengthening and Private Voluntary Organizations Federation Assistance Projects, USAID/Honduras Projects No. 522-0266 and 522-ESF-0280, and the National Breast Feeding Program, USAID/Honduras Project No. 522-ESF-0313, managed by the Federation of Private Development Organizations of Honduras (FOPRIDEH). The certified public accounting firm of Price Waterhouse prepared the report, which is dated September 13, 1989.

The Purpose of the Private Voluntary Organizations Federation Assistance Projects is to assist FOPRIDEH in providing technical and financial assistance to private voluntary organizations (PVO's) designed to increase the productivity, employment, and income of the rural and urban poor. Completion dates for Projects No. 522-0266 and 522-ESF-0280 were extended to March 28, 1990 and March 31, 1989, respectively. Project No. 522-ESF-0313 was to provide support to the National Breast Feeding Program and was scheduled for completion on February 13, 1989. The audit period was from initiation of the projects on March 29, 1985 to December 31, 1988 and included coverage of the equivalent of \$4,790,820 in funds provided to FOPRIDEH.

The purpose of this audit was to report on (1) the fairness of the fund accountability statements of the projects managed by FOPRIDEH; (2) FOPRIDEH's internal control structure; and (3) compliance by FOPRIDEH with agreement terms and applicable laws and regulations.

In the opinion of Price Waterhouse, the fund accountability statements present fairly the projects' receipts and expenditures for the period March 29, 1985 to December 31, 1988, except that FOPRIDEH did not include in the fund accountability statements L.37,065 (\$18,532) provided by USAID/Honduras and L.429,514 (\$214,757) in interest earned on project funds. In addition, there were certain questionable expenditures amounting to L.47,604 (\$23,802). Price Waterhouse's study and evaluation of FOPRIDEH's internal control structure revealed reportable deficiencies of (1) inadequate accounting records maintained by subprojects financed by FOPRIDEH with A.I.D. funds, (2) some unused subproject funds not returned to FOPRIDEH, (3) bank reconciliations for Project No. 522-ESF-0313 not prepared on a timely basis, (4) approved procurement procedures not consistently followed, (5) unreconciled differences between funds received according to FOPRIDEH's accounting records and disbursements according to USAID/Honduras, and (6) travel advances not liquidated on a timely basis. In the opinion of Price Waterhouse, FOPRIDEH complied with agreement terms and applicable laws and regulations tested, except that interest earned on project funds was not recorded in the project accounts and FOPRIDEH did not receive its share of interest charged by PVO's to beneficiaries of the credit programs. Nothing came to their attention to indicate noncompliance with items not tested.

The draft report was discussed with FOPRIDEH and USAID/Honduras. Price Waterhouse incorporated appropriate modifications to the report based on additional explanations and supporting documentation provided regarding certain findings and questionable costs.

The Price Waterhouse report contains six recommendations on internal controls and three recommendations on compliance. We have summarized the most significant findings and related recommendations for inclusion in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Honduras:

- a. require the Federation of Private Development Organizations of Honduras (FOPRIDEH) to properly account for all project funds by reconciling the difference between FOPRIDEH's records and the funds disbursed according to USAID/Honduras or reduce the remaining available project funds by the unreconciled difference of L.37,065 (\$18,532);

- b. require FOPRIDEH to record in project accounts the L.429,514 (\$214,757) in interest earned on project funds and any other interest earned on project funds; and
- c. negotiate a settlement for the L.47,604 (\$23,802) in questionable costs included in the Price Waterhouse report dated September 13, 1989.

Recommendation No. 2

We recommend that USAID/Honduras require the Federation of Private Development Organizations of Honduras (FOPRIDEH) to improve its internal controls and compliance by:

- a. requiring private voluntary organizations (PVO's) with subprojects financed by FOPRIDEH to maintain adequate accounting records to properly account for A.I.D. funds;
- b. preparing monthly bank reconciliations for Project No. 522-ESF-0313 on a timely basis;
- c. ensuring that approved procurement procedures, which require purchase orders and competitive bids for all purchases, are followed;
- d. requiring unused funds provided to PVO's for sub-projects to be immediately returned to FOPRIDEH; and
- e. requiring PVO's to return FOPRIDEH's share of interest income charged to beneficiaries of credit programs, in accordance with agreement terms.

Please advise this office within 30 days of actions planned or taken to clear the recommendations.

AUDIT OF THE
INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS AND
NATIONAL BREAST - FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos. 522-0266, 522-ESF-0280 AND
522-ESF-0313

* * *

AS OF DECEMBER 31, 1988

AUDIT OF THE
INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS AND
NATIONAL BREAST - FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos.522-0266, 522-ESF-0280 AND
522-ESF-0313

TABLE OF CONTENTS

| | <u>Page (s)</u> |
|---|-----------------|
| Transmittal Letter and Summary | |
| Background | 1-2 |
| Audit objectives and scope | 2-3 |
| Results of audit | 3-4 |
| Management comments | 5 |
| Fund Accountability Statements | |
| Report of independent accountants | 6-7 |
| Fund accountability statements | 8-9 |
| Notes to the fund accountability statements | 10-14 |
| Internal Control Structure | |
| Report of independent accountants | 15-17 |
| Findings | 18-22 |
| Compliance with the Terms of the Agreements and Applicable Laws and Regulations | |
| Report of independent accountants | 23-24 |
| Findings | 25-27 |
| List of Report Recommendations | 28-29 |
| Appendix I - Management Comments | 30-31 |

Price Waterhouse



September 13, 1989

Mr. Coinage N. Gothard, Jr.
Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, D. C.

Dear Mr. Gothard:

This report presents the results of our audit of the Institutional Strengthening and Private Voluntary Organizations Federation Assistance Projects, USAID/Honduras Projects No.522-0266 and 522-ESF-0280 and of the National Breast-Feeding Program, USAID/Honduras Project No.522-ESF-0313, managed by the Federation of Private Development Organizations of Honduras (Federación de Organizaciones Privadas de Desarrollo de Honduras-FOPRIDEH), from March 29, 1985 to December 31, 1988.

BACKGROUND

FOPRIDEH was created in June 1983 through Resolution No.66 of the Government of Honduras as a nonprofit organization with an indefinite life. Its main offices are located in Tegucigalpa, Honduras and its main purposes are: a) to promote the unity of private development organizations in Honduras; b) to promote the interchange of experiences, human resources and materials; and c) to facilitate communication between private organizations, government entities and international institutions. FOPRIDEH's resources consist of several grants obtained from the U.S. Agency for International Development in Honduras (USAID/Honduras), the Population Council, the Government of Honduras (GOH) and other donors as well as interest earned on funds from these grants.

In March 1985, USAID/Honduras approved the FOPRIDEH Institutional Strengthening and Private Voluntary Organizations Federation Assistance Projects, USAID/Honduras Projects No.522-0266 and 522-ESF-0280, respectively. The projects' goals were to provide support to FOPRIDEH to develop its technical and financial assistance to Private Voluntary Organizations (PVOs) in Honduras. The projects included three components: a) institutional strengthening; b) development of activities including sub-project financing and special activities sub-components; and c) administrative support. Funds in the amount of US\$500,000 and L10,000,000 (equivalent to US\$5,000,000 at the official exchange rate), respectively, were provided for the two projects. The projects' assistance completion dates were scheduled for March 28,

1988 and March 28, 1990, and then were changed to March 31, 1989 and December 31, 1990, respectively.

Assistance provided under these projects was primarily for activities specifically designed to increase the productivity, employment and income of the rural and urban poor. The immediate recipients of project funds were those bona fide PVOs which qualified under FOPRIDEH's institutional eligibility criteria and whose sub-project proposals met eligibility requirements.

In December 1985, USAID/Honduras and FOPRIDEH signed a new and separate agreement for a total amount, after amendments, of L1,715,000 (US\$857,500), to provide support to the National Breast-Feeding Program (Programa de Apoyo a la Lactancia Materna - PROALMA II) USAID/Honduras Project No. 522-ESF-0313. This program is controlled by FOPRIDEH through its own set of accounting records but the financial information is consolidated with that of projects 522-0266 and 522-ESF-0280 at the end of each accounting period. The project assistance completion date was scheduled for December 15, 1988 and extended to February 13, 1989.

AUDIT OBJECTIVES AND SCOPE

We were engaged to conduct a financial audit of the Institutional Strengthening and Private Voluntary Organizations Federation Assistance Projects and the National Breast-Feeding Program managed by the Federation of Private Development Organizations of Honduras (FOPRIDEH) from March 29, 1985 to December 31, 1988.

Our audits were performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (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 the Institutional Strengthening and Private Voluntary Organizations Federation Assistance Projects and National Breast-Feeding Program, USAID/Honduras Projects No. 522-0266, 522-ESF-0280 and No. 522-ESF-0313, managed by FOPRIDEH, present fairly the projects' receipts and expenditures from March 29, 1985 to December 31, 1988, according to the terms of the agreements, identifying any unsupported costs or those not considered appropriately allocable or allowable under the agreements.
- 2) FOPRIDEH's internal control structure is adequate for the projects' purposes.

3) FOPRIDEH is complying with the terms of the agreements and applicable laws and regulations.

The major audit procedures conducted during our work in order to meet the stated audit objectives consisted of:

Receipts

Confirming directly with USAID/Honduras the funds provided to FOPRIDEH under the projects No. 522-0266, 522-ESF-0280 and 522-ESF-0313.

Sub-project financing activities

Reviewing all sub-projects files to evaluate the control procedures regarding the financing policies and eligibility of project beneficiaries according to the agreements No. 522-0266 and 522-ESF-0280.

Visiting the sub-projects in the field and interviewing the projects' No.522-0266 and 522-ESF-0280 beneficiaries on a selective basis (40% of the total) to determine if they were receiving and using the funds as specified in the agreements.

Breast-Feeding Program

Visiting the head offices of the counterpart institutions to determine the receipt of technical assistance and training as specified by the agreement.

Disbursements for administrative support of the projects

Reviewing on a selective basis the adequacy of documentation of representative disbursements (83% of the total) for administrative support of the projects to assure ourselves that they were properly documented, allocable and allowable in accordance with the agreements, and properly recorded and accumulated in corresponding periods.

RESULTS OF AUDIT

Fund Accountability Statements

In our opinion, except for the effects of not including in total funds received some receipts from USAID/Honduras amounting to L37,065 (US\$18,532) and certain revenues amounting to L429,514 (US\$214,757) for interest earned on project funds, which was recorded in non-project accounts; and certain questionable expenditures amounting to L47,604 (US\$23,802), the fund accountability statements of the Institutional Strengthening and Private Voluntary Organizations Federation Assistance Projects,

USAID/Honduras Projects No.522-0266 and 522-ESF-0280 and of the National Breast-Feeding Program, USAID/Honduras Project No. 522-ESF-0313, managed by the Federation of Private Development Organizations of Honduras, present fairly, in all material respects, the projects' receipts and expenditures for the period from March 29, 1985 to December 31, 1988 in accordance with the terms of the respective agreements with USAID/Honduras.

Internal Control Structure

We studied and evaluated FOPRIDEH's internal control structure and control risks in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statements of the projects and not to provide assurance on FOPRIDEH's internal control structure. We noted the following findings, that we consider reportable conditions under generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision).

1. FOPRIDEH's officers and employees did not liquidate travel advances on a timely basis.
2. Sub-projects financed by FOPRIDEH with USAID/Honduras funding did not maintain appropriate accounting records to allow for adequate financial control by FOPRIDEH's officers.
3. Unused sub-project funds which were on a stand-by basis were not returned to FOPRIDEH.
4. Bank reconciliations were not prepared for project 522-ESF-0313.
5. Approved procurement procedures were not followed consistently.
6. FOPRIDEH did not reconcile funds received from USAID/Honduras to funds recorded in its accounting records.

Compliance with the Terms of the Agreements and Applicable Laws and Regulations:

Except for FOPRIDEH not recording in project accounts the interest earned on project funds, and not receiving the portion of interest income on the sub-projects credit programs, as explained in finding No. 1 and 2 of this report, the results of our tests indicate that with respect to the items tested FOPRIDEH complied, in all material respects, with the terms of the agreements and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that FOPRIDEH had not complied, in all material respects, with those provisions. We also noted certain reportable instances of non-compliance which we consider non-material and have included as finding 3 in this report.

MANAGEMENT COMMENTS

This report was discussed with FOPRIDEH and USAID/Honduras representatives on August 1, 1989. Additional explanation and/or evidence regarding certain findings and costs initially questioned were provided and, where appropriate, changes have been incorporated into this report.

Written comments from USAID/Honduras are included in Appendix I.

Price Waterhouse

Price Waterhouse

Price Waterhouse



INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS AND
NATIONAL BREAST-FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos. 522-0266, 522-ESF-0280 AND
522-ESF-0313

FUND ACCOUNTABILITY STATEMENTS
FROM MARCH 29, 1985 TO DECEMBER 31, 1988

Report of Independent Accountants

We have audited the accompanying fund accountability statements of the Institutional Strengthening and Private Voluntary Organizations Federation Assistance Projects, USAID/Honduras Projects No. 522-0266 and 522-ESF-0280, and the National Breast-Feeding Program, USAID/Honduras Project No. 522-ESF-0313 (the projects), managed by the Federation of Private Development Organizations of Honduras (Federacion de Organizaciones Privadas de Desarrollo de Honduras-FOPRIDEH) from March 29, 1985 to December 31, 1988. These fund accountability statements are the responsibility of FOPRIDEH's management. Our responsibility is to express an opinion on these fund accountability statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). 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 statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 5, certain revenues amounting to L466,579 for some receipts from USAID/Honduras and interest earned on project funds were not recorded in project accounts and consequently, were not included in the accompanying fund accountability statements. Additionally, there were certain questionable expenditures amounting to L47,604 as described in Note 5.

In our opinion, except for the effects of not including certain receipts and revenues earned on project funds and except for the effects of certain questionable costs, as discussed in the preceding paragraph, the fund accountability statements audited by us, present fairly, in all material respects, the projects' receipts and expenditures for the period from March 29, 1985 to December 31, 1988, in accordance with the terms of the agreements 522-0266, 522-ESF-6280 and 522-ESF-0313 with the U.S. Agency for International Development.

This report is intended solely for the use of the U.S. Agency for International Development and FOPRIDEH. 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.

L. Rice Waterhouse

June 14, 1989

INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS AND
NATIONAL BREAST-FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos.522-0266, 522-ESF-0280 AND 522-ESF-0313

FUND ACCOUNTABILITY STATEMENTS
FROM MARCH 29, 1985 TO DECEMBER 31, 1988

(expressed in Lempiras - Note 1)

| | BUDGET | ACTUAL | VARIANCE WITH BUDGET | (NOTE 5) AMOUNTS | |
|---|--------------------|-------------------|----------------------------|---------------------|----------------|
| | | | | QUESTIONED | SUSPENDED |
| Receipts: | | | | | |
| Grants | | | | | |
| 522-0266 | L 1,000,000 | L 740,915 | L 259,085 | L 37,065 | |
| 522-ESF-0280 | 10,000,000 | 7,316,000 | 2,984,000 | | |
| 522-ESF-0313 | 1,715,000 | 1,700,000 | 15,000 | | |
| Interest earned: | | | | | |
| 522-ESF-0280 | | | | 404,534 | |
| 522-ESF-0313 | | 124,726 | (124,726) | 24,980 | |
| TOTAL RECEIPTS | L12,715,000 | L9,581,641 | L3,133,359 | L466,579 | |
| Expenditures: | | | | | |
| 522-0266 | | | | | |
| Consultant | L 565,696 | L 526,639 | L 39,057 | | |
| Travel expenses | 40,580 | 23,906 | 16,674 | | |
| Training | 286,194 | 202,347 | 83,847 | | |
| Capital costs | 107,530 | 51,765 | 55,765 | | |
| Operating costs | | 2,207 | (2,207) | | |
| Total 522-0266 | 1,000,000 | 806,864 | 193,136 | | |
| 522-ESF-0280 | | | | | |
| Administrative support component | | | | | |
| Personnel costs | 1,240,678 | 1,020,982 | 219,696 | L 1,097 | |
| Travel expenses | 121,986 | 76,227 | 45,759 | | |
| Promotion and publications | 31,912 | 27,893 | 4,020 | 1,946 | |
| Training | 111,681 | 138,115 | (26,434) | | |
| Technical assistance | 44,678 | 28,628 | 16,050 | | |
| Operating costs | 218,265 | 206,897 | 11,368 | | L15,431 |
| Capital costs | 134,572 | 123,654 | 10,918 | | |
| | 1,903,773 | 1,622,396 | 281,377 | 3,043 | L15,431 |
| Sub-Projects | 8,125,000 | 3,631,302 | 4,493,698 | | |
| Total 522-ESF-0280 | 10,028,773 | 5,253,698 | 4,775,075 | 3,043 | L15,431 |

FUND ACCOUNTABILITY STATEMENTS
FROM DECEMBER 16, 1985 TO DECEMBER 31, 1988

(expressed in Lempiras - Note 1)

| | BUDGET | A C T U A L | VARIANCE WITH BUDGET | (NOTE 5) AMOUNTS | |
|---|------------|-------------|----------------------------|---------------------|-----------|
| | ----- | ----- | ----- | QUESTIONED | SUSPENDED |
| | | | | ----- | ----- |
| 522-ESF-0313 | | | | | |
| Operative support component: | | | | | |
| Personnel costs | 986,865 | 927,853 | 59,012 | | |
| Travel expenses | 91,303 | 84,060 | 7,243 | | |
| Promotion and publications | 41,323 | 36,755 | 4,568 | L 4,935 | |
| Training | 72,328 | 35,467 | 36,861 | | |
| Evaluation costs | 93,350 | 81,354 | 11,996 | | L 1,336 |
| Operating costs | 92,020 | 133,810 | (41,790) | | 22,859 |
| Capital costs | 70,809 | 70,890 | (81) | | |
| | ----- | ----- | ----- | | |
| | 1,447,998 | 1,370,189 | 77,809 | | |
| | ----- | ----- | ----- | | |
| Administrative support component | | | | | |
| Administrative costs | 159,541 | 146,555 | 12,986 | | |
| Capital costs | 7,021 | 5,921 | 1,100 | | |
| Professional services | 34,421 | 34,421 | | | |
| Incidental expenses | 1,853 | 1,462 | 391 | | |
| Professional fees | 64,163 | 67,830 | (3,667) | | |
| | ----- | ----- | ----- | | |
| | 266,999 | 256,189 | 10,810 | | |
| | ----- | ----- | ----- | | |
| Total 522-ESF-0313 | 1,714,997 | 1,626,378 | 88,619 | 4,935 | 24,195 |
| | ----- | ----- | ----- | ----- | ----- |
| Total Disbursements | 12,743,770 | 7,686,940 | L5,056,830 | L 7,978 | L39,626 |
| | ----- | ----- | ----- | ----- | ----- |
| (Deficiencies) Excess of receipts over disbursements (Note 4) | L (28,770) | L1,894,701 | | | |
| | ===== | ===== | | | |

INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS
AND NATIONAL BREAST-FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos.522-0266, 522-ESF-0280 AND
522-ESF-0313

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS
DECEMBER 31, 1988

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies adopted by FOPRIDEH to manage the projects are summarized as follows:

Basis of accounting

The accrual basis of accounting is used in recording expenses, but receipts are generally recorded when collected.

Fixed assets

Fixed asset acquisitions are charged at cost directly to the projects and are not depreciated.

Severance compensation

Severance compensation for employees of the projects, accrued according to length of service, may be payable to them in the event of dismissal under the terms of the Honduran Labor Code. No definite liability in this respect existed as of December 31, 1988. However, FOPRIDEH had a cash fund of approximately L115,000 for severance payments, which was paid to the beneficiaries in May 1989.

NOTE 2 - EXCHANGE RATE

The records of the projects are kept in Honduran lempiras. The official rate of exchange of two lempiras for one United States dollar has remained constant for many years. All transactions in U.S. dollars were translated into lempiras at the official rate.

NOTE 3 - HISTORY AND OPERATION OF THE PROJECTS

The Institutional Strengthening and Private Voluntary Organization Federation Assistance Projects were approved by USAID/Honduras in March 1985, through agreements with FOPRIDEH.

The purpose of the projects was to provide support to FOPRIDEH to develop its technical and financial assistance to Private Voluntary Organizations (PVOs) in Honduras. The assistance was used primarily to increase the productivity, employment and income of the rural and urban poor. The project assistance completion date is December 31, 1990.

The National Breast-Feeding Program was assigned to FOPRIDEH by USAID/Honduras through a grant agreement dated December 20, 1985. The purpose of the agreement was to provide technical assistance and training on breast-feeding and maternal-child nutrition through the National Family Planning and Breast-Feeding Program of the Ministry of Health of Honduras. The program assistance completion date was February 13, 1989.

NOTE 4 - EXCESS OF RECEIPTS OVER DISBURSEMENTS

The excess of receipts over disbursements is represented by net assets in the books of FOPRIDEH as follows:

| | <u>PROJECT NUMBER</u> | | | |
|---------------------|-----------------------|---------------------|---------------------|-------------------|
| | <u>522-0266</u> | <u>522-ESF-0280</u> | <u>522-ESF-0313</u> | <u>TOTAL</u> |
| Assets: | | | | |
| Cash | | | | |
| in bank (a) | L 7,935 | L1,738,712 | L196,712 | L1,943,359 |
| Accounts | | | | |
| receivable (b) | 2,169 | 27,537 | 23,424 | 53,130 |
| Other | | | | |
| assets | 4,445 | 14,546 | | 18,991 |
| Deferred | | | | |
| amount | | 11,092 | | 11,092 |
| Receivable | | | | |
| from FOPRIDEH | | 35,846 | | 35,846 |
| | | <hr/> | <hr/> | <hr/> |
| Total | | | | |
| assets | 14,549 | 1,827,733 | 220,136 | 2,062,418 |
| Liabilities: | | | | |
| Accounts | | | | |
| payable (c) | (25,000) | (65,431) | (21,788) | (112,219) |
| Payable | | | | |
| to FOPRIDEH | (55,498) | | | (55,498) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net assets | <u>L(65,949)</u> | <u>L1,762,302</u> | <u>L198,348</u> | <u>L1,894,701</u> |

- a) The bank account related to project No.522-ESF-0313 was not reconciled by FOPRIDEH and the bank statement reflects a balance of L220,461 at December 31, 1988.
- b) These accounts receivable are from officers and employees' unliquidated travel advances and other expenses.
- c) Certain accounts payable related to project Nos.522-ESF-0280 and ESF-0313 amounting to L37,219 were not clearly identified in the accounting records, consequently, the respective costs have been questioned in this report.

NOTE 5 - QUESTIONABLE RECEIPTS AND COSTS

| <u>Receipts</u> | <u>Amounts</u> | |
|---|-------------------|------------------|
| | <u>Questioned</u> | <u>Suspended</u> |
| Interest earned on project funds in savings accounts and time deposits. | | |
| 522-ESF-0280-Interest not recorded | L404,534 | |
| 522-ESF-0313-Interest of L149,706, of which L24,980 was not recorded by FOPRIDEH in project accounts and consequently, not reflected in the accompanying fund accountability statements. The remaining L124,726 was properly recorded by PROALMA in the program's accounts. | 24,980 | |
| | <hr/> 429,514 | |
| Income from project funding not recorded by FOPRIDEH (see finding No.6 on page 21) | 37,065 | |
| | <hr/> L466,579 | |
| <u>Disbursements</u> | | |
| Operating and Administrative Costs | L 7,978 | L 39,626 |
| | <hr/> L 7,978 | <hr/> L 39,626 |
| See details and explanations in Exhibit I, Page 13 to 14 of this report. | | |

INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
 ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS AND
 NATIONAL BREAST-FEEDING PROGRAM
 MANAGED BY THE FEDERATION OF
 PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
 USAID/HONDURAS PROJECTS Nos.522-0266, 522-ESF-0280 AND 522-ESF-0313

 EXPLANATION OF QUESTIONABLE COSTS

| PROJECT NUMBER ----- | YEAR ---- | DETAIL ----- | AMOUNT | |
|---|--------------|---|------------------------------------|--|
| | | | QUESTIONED ----- | SUSPENDED ----- |
| OPERATING AND ADMINISTRATIVE COSTS ----- | | | | |
| PERSONNEL COSTS ----- | | | | |
| 522-ESF-0280 | 1988 | a) Amount reflected in the fund accountability statements in excess of the amount recorded in books. | L 1,097 ----- 1,097 ----- | |
| PROMOTION AND PUBLICATIONS ----- | | | | |
| 522-ESF-0280 | 1986 | a) Costs charged for cocktails and gifts made to the AID Director in Honduras. These costs are not allowable under the agreement. | 1,946 ----- | |
| OPERATING COSTS ----- | | | | |
| 522-ESF-0280 | 1988 | a) Costs charged to project with credit to accounts payable, for which there were no supporting documents. | | L 15,431 ----- 3,043 ----- L 15,431 ----- |
| PROMOTION AND PUBLICATION ----- | | | | |
| 522-ESF-0313 | 1987 | a) Check No.1309 for payment of vehicle insurance. The vehicle a Toyota Land Cruiser, is not part of the project's fixed assets. | 3,895 | |
| 522-ESF-0313 | 1988 | b) Checks No.1948 and 2003 for payments of repair services for the same vehicle mentioned above. | 1,040 ----- 4,935 ----- | |
| | | Carried forward | L 7,978 ----- | L 15,431 ----- |

| PROJECT NUMBER ----- | YEAR ---- | DETAIL ----- | QUESTIONED ----- | SUSPENDED ----- |
|-------------------------|--------------|--|---------------------|--------------------|
| | | Brought forward | L 7,978 ----- | L 15,431 ----- |
| | | EVALUATION COSTS ----- | | |
| 522-ESF-0313 | 1988 | a) Amount reflected in the fund accountability statements in excess of the amount recorded in books. | | 1,336 ----- |
| | | OPERATING COSTS ----- | | 1,336 ----- |
| 522-ESF-0313 | 1988 | a) Check No.2090 for repair services. These costs were not adequately documented as proper inclusion as project costs. | | 1,071 |
| | | b) Costs charged to project with credit to accounts payable, for which there were no supporting documents. | | 21,788 ----- |
| | | | | 22,859 ----- |
| | | | | 24,195 ----- |
| | | TOTAL OPERATING AND ADMINISTRATIVE COSTS | L 7,978 ===== | L 39,626 ===== |

Price Waterhouse



INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS
AND NATIONAL BREAST-FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos. 522-0266, 522-ESF-0280 AND
522-ESF-0313

INTERNAL CONTROL STRUCTURE

Report of Independent Accountants

We have audited the fund accountability statements of the Institutional Strengthening and Private Voluntary Organizations Federation Assistance Projects, USAID/Honduras Projects No. 522-0266 and 522-ESF-0280, and the National Breast-Feeding Program, USAID/Honduras Project No. 522-ESF-0313, managed by Federation of Private Development Organizations of Honduras (Federación de Organizaciones Privadas de Desarrollo de Honduras-FOPRIDEH) from March 29, 1985 to December 31, 1988, and have issued our report thereon dated June 14, 1989.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). 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 FOPRIDEH for the period from March 29, 1985 to December 31, 1988, we considered its 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 FOPRIDEH is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements 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 financial statements in accordance with generally accepted accounting principles. 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 procedures
- Sub-project financing controls
- Receipts and disbursements

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. FOPRIDEH's officers and employees did not liquidate travel advances on a timely basis.
2. Sub-projects financed by FOPRIDEH with USAID/Honduras funding did not maintain appropriate accounting records to allow for adequate financial control by FOPRIDEH's officers.
3. Unused sub-project funds which were on a stand-by basis were not returned to FOPRIDEH.
4. Bank reconciliations were not prepared for project 522-ESF-0313.
5. Approved procurement procedures were not followed consistently.
6. FOPRIDEH did not reconcile funds received from USAID/Honduras to funds recorded in its accounting records.

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 none of the reportable conditions described above is a material weakness.

This report is intended solely for the use of the U.S. Agency for International Development and FOPRIDEH. 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

June 14, 1989

INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS
AND NATIONAL BREAST-FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos. 522-0266, 522-ESF-0280 AND
522-ESF-0313

INTERNAL CONTROL STRUCTURE

FINDINGS

1. FOPRIDEH's Officers and Employees Did Not Liquidate Travel
Advances On A Timely Basis

Condition:

The project officers and employees did not liquidate their travel advances on time. In our review we found the following cases with delays from 2 to 7 months:

| <u>Name</u> | <u>Date of Travel</u> | <u>Date of Liquidation</u> |
|-------------------|-----------------------|----------------------------|
| Raúl Flores Gomez | 02-18-86 | 06-30-86 |
| Marco Raudales | 09-18-86 | 12-31-86 |
| Eloisa Martinez | 03-22-87 | 11-02-87 |
| Alejandro Duarte | 02-20-88 | 06-30-88 |
| Gustavo Casula | 10-14-88 | 12-30-88 |

Criteria:

Internal travel rules establish that travel advances are to be liquidated within three days following the traveler's return.

Cause:

There was lack of supervision and control over travel advances and accounts receivable.

Effect:

The project did not include travel expenses in the appropriate periods. As of December 31, 1988 there were unliquidated travel expenses of approximately L29,706 in projects No. 522-0266 and 522-ESF-0280 and L23,424 in project No. 522-ESF-0313. It is not known whether these expenses are allocable to specific projects.

Recommendation:

USAID/Honduras should request FOPRIDEH's project officials to review travel advances to officers and employees and liquidate as soon as practicable the outstanding balances and in the future require compliance with the internal travel rules.

2. Sub-Projects Financed by FOPRIDEH With USAID/Honduras Funding Did Not Maintain Appropriate Accounting Records to Allow for Adequate Financial Control by FOPRIDEH's Officers

Condition:

In our field observations of the use of funds by the sub-projects, we observed that most of them do not have appropriate accounting records to facilitate the financial supervision of the use of funds.

The major deficiencies noted were the following:

- a) Lack of segregation of funds provided by FOPRIDEH
- b) Lack of subsidiary records
- c) Lack of bank reconciliations
- d) Lack of updated records
- e) Lack of cost systems (where necessary)

Criteria:

The Exhibit D of each sub-agreement states that the sub-projects' implementing units should maintain appropriate accounting records.

Cause:

FOPRIDEH had not required compliance with the sub-agreements regarding the maintenance of appropriate accounting records and the issuance of progress reports.

Effect:

Misuse of project funds could occur and not be detected opportunely.

Recommendation:

USAID/Honduras should request FOPRIDEH to assure that the sub-projects' implementing units maintain appropriate accounting records for project funding.

3. Unused Sub-Project Funds Which Were On A Stand-By Status Were Not Returned to FOPRIDEH

Condition:

We observed that the sub-project with CONDERH has been on stand-by status since October 1987 but continues to maintain project funds (L36,000) in its bank accounts as of the date of this report.

Criteria:

To improve control over cash, unused funds should be under FOPRIDEH's custody.

Cause:

FOPRIDEH has not issued specific instructions regarding this situation.

Effect:

FOPRIDEH is not receiving the benefit of interest earned on these unused funds. Additionally, there exists the possibility that the funds could be used for unauthorized purposes.

Recommendation:

USAID/Honduras should request FOPRIDEH to require CONDERH to return the unused funds. USAID/Honduras should request FOPRIDEH to establish a requirement that any sub-project funds held by PVO's that are not needed for on-going project activities should be returned.

4. Bank Reconciliations Were Not Prepared For Project No.522-ESF-0313

Condition:

As of the date of this report, the bank reconciliations for the months of October, November and December 1988 had not been prepared by FOPRIDEH.

Criteria:

Bank reconciliations are a key control in the receipts and disbursements system.

Cause:

The preparation of bank reconciliations was not required by FOPRIDEH's management.

Effect:

Errors in cash transactions could occur and not be detected opportunely.

Recommendation:

USAID/Honduras should request FOPRIDEH to prepare monthly bank reconciliations on a timely basis.

5. Approved Procurement Procedures Were Not Followed Consistently

Condition:

In our selective tests we found many disbursements for purchases without purchase orders and bids.

Criteria:

FOPRIDEH's procurement manual requires purchase orders to be prepared and bids to be obtained for all purchases.

Cause:

FOPRIDEH's management was not adhering to these requirements for all purchases.

Effect:

There is a risk that FOPRIDEH could make purchases with terms and conditions not authorized and/or not advantageous to the project. Also, their own procurement procedures were not being followed.

Recommendation:

USAID/Honduras should request FOPRIDEH to adhere to established procurement procedures and controls to assure that all purchases are appropriate and documented prior to payment.

6. FOPRIDEH Did Not Reconcile Funds Received From USAID/Honduras to Funds Recorded In Its Accounting Records

Condition:

Differences between funds recorded in FOPRIDEH's books and funds confirmed as disbursed by USAID/Honduras are as follows:

| <u>Agreement</u> | <u>Amount recorded</u> | | <u>Difference</u> |
|------------------|------------------------|--------------|-------------------|
| | <u>FOPRIDEH</u> | <u>USAID</u> | |
| 522-0266 | L 740,915 | L 778,000 | L(37,065) (a) |
| 522-ESF-0313 | L1,700,000 | L1,715,000 | L (15,000) (b) |

- a) This difference could not be clarified by FOPRIDEH's accountant, and is considered questionable in the fund accountability statement.
- b) Transfer of funds was not remitted to FOPRIDEH by the Central Bank as of December 31, 1988. But the difference was clarified and received by FOPRIDEH in 1989.

Criteria:

Reconciliations of funds received should be made monthly.

Cause:

Management was not aware that differences existed between funds recorded by FOPRIDEH and funds provided by USAID/Honduras.

Effect:

Funds provided by USAID/Honduras have not been properly accounted for. The unreconciled difference is questioned in this report.

Recommendation:

USAID/Honduras should obtain from FOPRIDEH a complete explanation of the differences between funds recorded in FOPRIDEH's books and funds disbursed by USAID/Honduras or reduce the remaining available project funds by the difference.

Price Waterhouse



INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS
AND NATIONAL BREAST-FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos. 522-0266, 522-ESF-0280 AND
522-ESF-0313

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS AND APPLICABLE
LAWS AND REGULATIONS

Report of Independent Accountants

We have audited the fund accountability statements of the Institutional Strengthening and Private Voluntary Organizations Federation Assistance Projects, USAID/Honduras Projects No. 522-0266 and 522-ESF-0280 and the National Breast-Feeding Program, USAID/Honduras Project No. 522-ESF-0313, managed by the Federation of Private Development Organizations of Honduras (Federación de Organizaciones Privadas de Desarrollo de Honduras-FOPRIDEH) from March 29, 1985 to December 31, 1988, and have issued our report thereon dated June 14, 1989.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). 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.

Compliance with the terms of the agreements and applicable laws and regulations is the responsibility of FOPRIDEH's management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests of FOPRIDEH's compliance with the terms of the agreements and certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such terms and provisions.

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) Finding No. 1: Interest earned on project funds were not recorded in the project accounts.
- (2) Finding No. 2: FOPRIDEH was not receiving the portion of interest income on the sub-projects credit programs.

We considered these material instances of noncompliance in forming our opinion on whether FOPRIDEH's fund accountability statements are presented fairly, in all material respects, in accordance with the terms of the agreements No.522-0266, 522-ESF-0280 and 522-ESF-0313 with USAID/Honduras, and this report does not affect our report dated June 14, 1989.

Except as described above, the results of our tests indicate that, with respect to the items tested, FOPRIDEH complied, in all material respects, with the terms and 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 FOPRIDEH had not complied, in all material respects, with those terms and provisions. We also noted a certain immaterial instance of noncompliance which we have included as finding 3 of this report section.

This report is intended solely for the use of the U.S. Agency for International Development and FOPRIDEH. 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.

Pruss Waterhouse

June 14, 1989

INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS
AND NATIONAL BREAST-FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos.522-0266, 522-ESF-0280 AND
522-ESF-0313

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS AND APPLICABLE
LAWS AND REGULATIONS

FINDINGS

1. Interest Earned On Project Funds Were Not Recorded In The Project Accounts.

Condition:

During our audit we noted that interest in the amount L429,514 earned on project funds was not recorded in project accounts and consequently, not included in the fund accountability statements.

Criteria:

Attachment C, clause 3 a) of the agreements states: "If use of the grant funds results in accrual of interest to the grantee or to any person to whom the grantee makes grant funds available, such interest earnings must be maintained in the project account and be used in accordance with the specific purpose of this Agreement", and clause 3 b) states: "Funds made available through the grant but not disbursed to the grantee at the time the grant expires or is terminated shall revert to the Private Sector PVO account under the Economic Recovery Program, except for such funds encumbered by the grantee by a legally binding transaction applicable to this grant. Any funds disbursed to but not expended by the grantee at the time of expiration or termination of the grant shall be refunded to the PVO account".

Cause:

Management informed us that USAID/Honduras did not issue instructions in this respect.

Effect:

The fund accountability statements do not include the interest earned on the projects' funds in savings accounts and time deposits. Therefore, the projects did not receive the benefit of this interest income. This amount is questioned in the report.

Recommendation:

USAID/Honduras should require FOPRIDEH to record the L429,514 in interest income and any other interest earned on the projects' funds in projects accounts and include the amounts in the financial reports submitted to USAID/Honduras. This amount should be used for approved project purposes.

2. FOPRIDEH Was Not Receiving The Portion Of Interest Income On The Sub-Projects Credit Programs

Condition:

In our inspections we found that FOPRIDEH was not collecting its portion of interest income on the sub-projects' portfolios.

Criteria:

The sub-project agreements establish that FOPRIDEH will receive a portion of all interest charged by the PVO's to the beneficiaries of the credit programs.

Cause:

There was strong resistance from the PVO's to make these payments.

Effect:

FOPRIDEH was not receiving funds properly due in accordance with the sub-project agreements.

Recommendation:

FOPRIDEH should determine the amount of interest income due from the PVO's from the credit programs and collect the interest due from the PVO's in accordance with the sub-project agreements.

3. FOPRIDEH Was Not Filing Salary Information With The National Institute of Professional Training

Condition:

In our review we observed that FOPRIDEH was not filing salary information with The National Institute of Professional Training (Instituto Nacional de Formacion Profesional-INFOP) and consequently was not paying its respective contributions.

Criteria:

In accordance with Honduran Law, all institutions should pay contributions to INFOP based on the amount of salaries paid.

Cause:

FOPRIDEH considers that they are not subject to the INFOP Law.

Effect:

INFOP could claim all unpaid contributions from FOPRIDEH and assess penalties and surcharges.

Recommendation:

FOPRIDEH should clarify its status with INFOP and obtain a written determination that it is not subject to INFOP law, if applicable.

INSTITUTIONAL STRENGTHENING AND PRIVATE VOLUNTARY
ORGANIZATIONS FEDERATION ASSISTANCE PROJECTS
AND NATIONAL BREAST-FEEDING PROGRAM
MANAGED BY THE FEDERATION OF
PRIVATE DEVELOPMENT ORGANIZATIONS OF HONDURAS
USAID/HONDURAS PROJECTS Nos.522-0266, 522-ESF-0280 AND
522-ESF-0313

LIST OF REPORT RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE:

Recommendation 1:

USAID/Honduras should request FOPRIDEH's project officials to review travel advances to officers and employees and liquidate as soon as practicable the outstanding balances and in the future require compliance with the internal travel rules.

Recommendation 2:

USAID/Honduras should request FOPRIDEH to assure that the sub-projects' implementing units maintain appropriate accounting records for project funding.

Recommendation 3:

USAID/Honduras should request FOPRIDEH to require CONDERH to return the unused funds. USAID/Honduras should request FOPRIDEH to establish a requirement that any sub-project funds held by PVO's that are not needed for on-going project activities should be returned.

Recommendation 4:

USAID/Honduras should request FOPRIDEH to prepare monthly bank reconciliations on a timely basis.

Recommendation 5:

USAID/Honduras should request FOPRIDEH to adhere to established procurement procedures and controls to assure that all purchases are appropriate and documented prior to payment.

Recommendation 6:

USAID/Honduras should obtain from FOPRIDEH a complete explanation of the differences between funds recorded in FOPRIDEH's books and funds disbursed by USAID/Honduras or reduce the remaining available project funds by the difference.

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS AND APPLICABLE LAWS AND REGULATIONS

Recommendation 1:

USAID/Honduras should require FOPRIDEH to record the L429,514 in interest income and any other interest earned on the projects' funds in projects accounts and include the amounts in the financial reports submitted to USAID/Honduras. This amount should be used for approved project purposes.

Recommendation 2:

FOPRIDEH should determine the amount of interest income due from the PVO's from the credit programs and collect the interest due from the PVO's in accordance with the sub-project agreements.

Recommendation 3:

FOPRIDEH should clarify its status with INFOP and obtain a written determination that it is not subject to INFOP law, if applicable.

memorandum

DATE: July 27, 1989

REPLY TO
ATTN OF: Rafael Zelaya, Acting Controller

SUBJECT: Non-Federal Audit of Private Development Organizations
of Honduras (FOPRIDEH)

TO: Tim M. Elkins, Audit Manager RIG/A/T

Following are our comments on the draft report:

- P.4 The statement here and in other places throughout the audit concerning liquidation of travel advances should include members of FOPRIDEH as well, not just employees. There are many members who receive advances for travel expenses, for training, etc. who fail to liquidate promptly.
- P.13 (Appendix 1) It is not clear why findings concerning depreciation are listed under "Travel Expenses."
- P.24 Finding No. 7. In both of these cases listed here the difference is due to timing differences rather than any deficiencies on FOPRIDEH's part.

For Project 522-0266 FOPRIDEH submits a voucher to A.I.D. for reimbursement or liquidation of advances. A.I.D. immediately processes and registers this as a disbursement to FOPRIDEH. Generally 30 days pass before the funds are actually deposited in FOPRIDEH's account and another week before it receives a notice from its bank that the deposit has arrived. Then FOPRIDEH registers the funds in its books. The difference reported is due to this time lapse. In the case of the discrepancy for 521-PDF-0313, this was due to a reporting error by A.I.D. A.I.D. issued a disbursement P/L to the Central Bank for 115,000 at the end of the year. FOPRIDEH, however, did not need the funds for the project and the disbursement letter was later cancelled. A.I.D. reported this incorrectly to Price Waterhouse during the audit.

Following the above explanations, I believe the finding and subsequent recommendation should be cancelled.

- P.29 "Second, Quarterly Budget and Progress Reports were not Submitted to USAID/Honduras"

This statement is not completely true, the following reports were sent to A.I.D. and are presently in A.I.D. files:

FOPRIDEH Quarterly Reports on File

1. January-March 1986
2. October-December 1986
3. January-March 1987
4. January-March 1988
5. April-June 1988
6. October-December 1988
7. January-March 1989

The Mission has asked FOPRIDEH to submit these reports each quarter. In the past year FOPRIDEH has performed better in this area, sending 3 out of 4 reports.

- P.30 Finding No. 4. The recommendation here states: "USAID/Honduras in cooperation with FOPRIDEH should determine the amount of interest income due from the PVO's from the credit programs and collect the interest due from the PVO's in accordance with the sub-project agreements."

Mission recommends that USAID/Honduras be deleted from this recommendation. This is an action completely up to FOPRIDEH. The stipulation in the subproject agreements is not a part of the FOPRIDEH-A.I.D. agreement. It is a measure that FOPRIDEH included in the subproject agreements completely on its own volition and is a matter between FOPRIDEH and its grantees. A.I.D. has no part in enforcing the matter. The recommendation should be that FOPRIDEH enforce the matter.

- P.30 "5. FOPRIDEH did not issue and submit to USAID/Honduras the semiannual project progress reports for the Breast-feeding project No. 527-ESF-013.

It is true that the reports were not submitted. It is not clear that FOPRIDEH was entirely responsible. In this and many other cases, PROALMA staff would not respond to FOPRIDEH management and the AID-FOPRIDEH agreement was not clear as to what recourse FOPRIDEH had to make PROALMA staff comply with the stipulation. At this point the PROALMA staff has already disbanded and it would be impossible for FOPRIDEH to get PROALMA to submit the semiannual progress reports at this point. Also PROALMA has submitted to the Mission a final Project Report on the accomplishments during the life of the Project. We request that the recommendation be omitted from the Final Report.

APPENDIX II

REPORT DISTRIBUTION

No. of Copies

| | |
|--------------------------|----|
| Director, USAID/Honduras | 5 |
| AA/LAC | 2 |
| LAC/CAP/H | 1 |
| AA/M | 2 |
| GC | 1 |
| LAC/CONT | 1 |
| LAC/DP | 1 |
| LAC/DR | 1 |
| LAC/GC | 1 |
| RLA | 1 |
| AA/XA | 2 |
| LEG | 1 |
| M/FM/ASD | 2 |
| XA/PR | 1 |
| PPC/CDIE | 3 |
| IG | 1 |
| AIG/A | 1 |
| IG/PPO | 2 |
| IG/LC | 1 |
| IG/ADM/C&R | 12 |
| IG/I | 1 |
| RIG/I/T | 1 |
| Other RIG/As | 1 |

Handwritten mark