
**Audit of USAID/Honduras's
Rural Roads Maintenance Project Activities
Managed by the Secretariat for Public Works,
Transportation, and Communications
June 21, 1990 to December 31, 1992**

**Audit Report No. I-522-95-14-N
July 26, 1995**



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



AGENCY FOR INTERNATIONAL DEVELOPMENT
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July 26, 1995

MEMORANDUM

TO: Director USAID/Honduras, ~~Elena Brineman~~
FROM: RIG/A/San José Acting, ~~Wayne Watson~~
SUBJECT: Audit of USAID/Honduras' Rural Roads Maintenance Project
Activities Managed by the Secretariat for Public Works,
Transportation and Communications, June 21, 1990 to
December 31, 1992

This report presents the results of a financial audit of the Rural Roads Maintenance Project activities, USAID/Honduras Project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications (Secretariat) for the period June 21, 1990 to December 31, 1992. The accounting firm of Morales Palao William y Asociados prepared the report dated August 30, 1993.

The goal of the project was to increase agricultural production by maintaining and expanding farm-to-market access roads for both the incoming agricultural inputs and the outgoing production destined for market centers. An additional goal of the project was to establish a long-term sustainable maintenance system for rural roads and expand the network of all rural roads in areas with the greatest potential for agricultural export production.

The project consisted of three components. The first involved the institutional strengthening of the Secretariat's maintenance directorate to build a long-term, sustainable maintenance program and to assist in the administration of the project. The purpose was to assist the Government of Honduras in implementing the project and to find a long-term sustainable solution for rural roads maintenance by using existing resources more effectively and to institute mechanisms to generate resources. The purpose of the second component was to strengthen and expand the road maintenance program through the use of hand laborers

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and local contractors employing road machinery. The third component consisted of a program under which competitively bid contracts would be provided for rehabilitation of existing roads and for the construction of new roads.

The objectives of the audit were to determine whether: (1) the fund accountability statements for the grant funds under the project and the Government of Honduras counterpart funds present fairly, in all material respects, the financial situation for these activities during the audited period, (2) the Secretariat's internal control structures were adequate for project purposes, and (3) the Secretariat complied with the terms of the project agreement and applicable laws and regulations. The scope of the audit included an examination of the Secretariat's activities and transactions to the extent considered necessary to issue a report thereon for the period audited. The audit included coverage of \$3,789,710 of USAID/Honduras disbursements to the project during the audited period.

Morales Palao William was of the opinion that the fund accountability statements present fairly, in all material respects, the income and expenditures made with grant funds under the project, and the counterpart funds provided by the Government of Honduras, during the period audited, except for the effects which may arise from a lack of documentation for counterpart funds.

With respect to the Secretariat's internal control structures, the auditors identified two material weaknesses: (1) there was a lack of documentation to payrolls for work done within some municipalities under counterpart contributions and (2) the management units within the Secretariat, which are responsible for the custody and control of assets donated by USAID/Honduras, did not have an updated schedule of all assets received under the grant and were unable to account for \$331,454 worth of assets which represent questioned costs.

Regarding compliance with agreement terms and applicable laws and regulations, the auditors noted three material instances of noncompliance: (1) there was a lack of documentation to support counterpart contributions for road maintenance, (2) there was a lack of documentation to support counterpart contributions for salary expenses for management and engineering, and (3) there were payments made for nonproject advertising and promotion expenses under counterpart contributions.

The project ended September 30, 1994, and according to USAID/Honduras officials, the Mission does not plan to use the Secretariat as an implementing entity in the future. Therefore, we are not recommending any action to correct procedural deficiencies identified by the auditors with

respect to the Secretariat's internal control structure and compliance. **However, we strongly suggest that USAID/Honduras obtain a full accounting of the Government of Honduras' counterpart contributions provided through the Secretariat for Public Works, Transportation, and Communications to the Project over the period of audit, taking appropriate actions should shortfalls or nonqualifying contributions be noted.**

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

Recommendation No. 1

We recommend that USAID/Honduras: (a) resolve the questionable costs of \$331,454 (questioned) identified in the Morales Palao William report dated August 30, 1993, and (b) recover from the Secretariat the amounts determined to be unallowable.

Prior to the publication of this report, USAID/Honduras presented evidence that the questioned costs were resolved and the Mission determined that \$15,693 of the questioned costs were unallowable. These costs were recovered by means of an offset transaction against a request for reimbursement from the Government of Honduras in voucher No. 5-522-0969. Therefore, we consider Recommendation No. 1 resolved and closed upon issuance of this report.

The draft report was discussed with representatives from USAID/Honduras and the Secretariat. Based upon the comments and further documentation provided, the final report was modified as deemed appropriate.

This final report is being transmitted to you for your information.

**Regional Inspector General for Audit
San José, Costa Rica**

**Audit of USAID/Honduras's
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Transportation, and Communications
June 21, 1990 to December 31, 1992**

**Audit Report No. 1-522-95-14-N
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AUDIT OF THE
RURAL ROADS MAINTENANCE PROJECT
MANAGED BY THE
SECRETARIAT FOR PUBLIC WORKS, TRANSPORTATION
AND COMMUNICATIONS
FROM JUNE 21, 1990 TO DECEMBER 31, 1992

AUDIT OF THE
RURAL ROADS MAINTENANCE PROJECT
MANAGED BY THE
SECRETARIAT FOR PUBLIC WORKS, TRANSPORTATION
AND COMMUNICATIONS
FROM JUNE 21, 1990 TO DECEMBER 31, 1992

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Tegucigalpa, M.D.C.
August 3, 1994

Mr. Coinage N. Jothard
Regional Inspector General for Audit
United States Agency for International Development
San José, Costa Rica

Dear Mr. Gothard:

This report presents the results of our financial audit of the Rural Roads Maintenance Project USAID/Honduras project No. 522-0334 managed by the Secretariat for Public Works, Transportation and Communications (SECOPT) for the period June 21, 1990 to December 31, 1992.

BACKGROUND

On June 21, 1990, the Government of Honduras through the Ministry of Finance and Public Credit signed a grant agreement with USAID/Honduras to cover the costs for the implementation of the Rural Roads Maintenance Project, USAID/Honduras Project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications. The project assistance completion date is September 30, 1994.

The goal of this grant agreement is to increase agricultural production. The project will contribute to this goal by maintaining and expanding farm to market access roads for the ingress agricultural inputs and the egress production to market centers.

The project purpose is to establish a long-term sustainable maintenance system for rural road and expand the network of all rural roads in areas with the greatest potential for agricultural export production.

The project consists of three components:

- 1) Institutional strengthening of SECOPT's of Directorate General of Maintenance (DGM) to build a long-term, sustainable maintenance program and to assist in the administration of the project.

The propose of this component is to assist the Government of Honduras in implementing the project and to find a long-term sustainable solution for rural roads maintenance, this component will improve Directorate General Of Maintenance operations to use existing resources more effectively and to institute mechanisms to generate resources for rural roads maintenance.

2) Maintenance of rural roads constructed under USAID/Honduras funded program.

This component contains two sub components which are designed to assist the Directorate General Of Maintenance in strengthening and expanding the road maintenance program. Under the first sub component the Directorate General Of Maintenance will obtain local laborers to perform routine rod maintenance. To supplement the work of these hand laborers, contracts with local contractions will be issued to provide routine road maintenance using machinery.

3) Reconstruction of additional rural roads and bridges.

Under this component the Directorate General Of Maintenance coordinate with the Directorate General of Roads to provide competitively BID contracts to private sector contractors for the rehabilitation of roads formerly constructed with USAID/Honduras financing and for the construction of new rural roads

The total estimated amount of the project is US\$21,866,000 of which USAID/Honduras shall provide grant funds of US\$15,000,000 and the Government of Honduras shall provide the equivalent of US\$ 5,000,000 on a financial basis and US\$ 1,866,000 on an in-kind basis. As of December 31, 1992, USAID/Honduras had obligated an amount of US\$ 8,681,000, of which US\$ 3,789,710 had been disbursed.

OBJECTIVES AND SCOPE OF THE AUDIT

We were engaged to conduct a financial audit of the Rural Roads Maintenance Project, USAID/Honduras Project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications for the period June 21, 1990 to December 31, 1992.

Our audit was performed in accordance with generally accepted auditing standards and the "Government Auditing Standards" of the United States Comptroller General. Therefore, our examination included the review of documentation, accounting records, the internal control

structure and such other auditing procedures as we considered necessary in the circumstances to determine whether:

- A. The fund Accountability Statements of USAID/Honduras grant funds and the Government of Honduras counterpart funds of the Rural Roads Maintenance Project, USAID/Honduras Project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications present fairly, in all material respects, the project's receipts and expenditures for the period June 21 1990 to December 31, 1992 and costs reported as incurred and reimbursed by USAID/Honduras during the period are allowable, allocable, and reasonable in accordance with the terms of the agreement.
- B. The internal control structure of the Secretariat for Public Works, Transportation and Communications is adequate to manage the project's operations.
- C. The Secretariat for Public Works, Transportation and Communications complied with agreement terms and applicable laws and regulations that could affect the incurred costs and the project's goals.

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

The major audit procedures applied during our examination were the following:

RECEIPTS

- We confirmed directly with USAID/Honduras its contributions in cash and in kind provided to the project as of December 31, 1992.
- We verified the Government of Honduras' counterpart contributions in cash and in kind as of December 31, 1992.
- We reconciled direct costs reimbursed by USAID/Honduras through the Ministry of Finance and Public Credit with the project's accounting records.
- We made a comparative analysis of income to budgeted amounts and obtained explanations on differences.

PERSONNEL SERVICES

- We verified payrolls and registers through selective sampling.
- We verified that employees were contracted according to regulations in force in Honduras and that salaries and wages are reasonable according to the positions performed by the employee.
- We made analytical review for the periods under review.
- We verified, through payroll summarization, that actual payroll expenses were included in the Project Situation Reports, the quarterly financial statements of the executing units within SECOPT.

MINOR PURCHASES

- We evaluated policies and procedures on operational expenses and minor purchases, as well as their review and approval.
- We verified that expenses were made in accordance with the terms of the project's regulations for the procurement of goods and services.
- We verified the authenticity of the supporting documentation submitted.
- We verified on the adequacy of the accounting records.

PROCUREMENT OF FURNITURE AND EQUIPMENT

- We verified the adequacy of the project's accounting records with relation to the procurement costs and cost of assets granted, to be sure of correct valuations.
- We reviewed supporting documentation on the procurement of equipment and verified that purchases were made observing the Government of Honduras' procurement requirements with relation to their amounts: three quotations for purchases costing less than L30,000 and public bidding for purchases greater than L30,000.
- We verified that the procurement of goods was duly authorized.
- We verified that assets are being used for the Project's service.
- We physically inspected all fixed assets

INFORMATION SYSTEMS

- Through an analytical review we assessed the reliability of the information generated by the electronic data processing department.

CONSTRUCTION, REHABILITATION AND MAINTENANCE CONTRACTS

- We verified that:
 - (1) USAID/Honduras regulations were followed in the awarding of contracts.
 - (2) All construction companies participating in the project were previously qualified by USAID/Honduras,
 - (3) Payments to contractors were made according to each contract's terms, and
 - (4) The modification and acceptance order of the executed works have been documented as required (Implementation Letters).
- We confirmed that all construction and maintenance projects have complied with both U.S. and Honduran legal requirements, as for example the requirements for publication in newspapers of contracts' pre-qualification, bidding and awarding.

RESULTS OF THE AUDIT

Fund Accountability Statements

In our opinion, except as mentioned in finding N° 1 of the report on Compliance with the Agreement Terms and Applicable Laws and Regulations, the fund accountability statements of the USAID/Honduras grant funds and Government of Honduras counterpart funds of the Rural Roads Maintenance Project managed by the Secretariat for Public Works, Transportation and Communications, present fairly, in all material respects, the income and expenditures of the project for the period from June 21, 1990 to December 31, 1992, in accordance with the terms of the grant agreement with USAID/Honduras.

Internal Control Structure of the USAID/Honduras grant funds and the government of Honduras counterpart funds of the rural roads maintenance project, for the period June 21, 1990 to December 31, 1992

In planning and performing our audit of the fund accountability statements, of the USAID/Honduras grant funds and Government of Honduras counterpart funds of the Rural

Roads Maintenance Project for the period from June 21, 1990 to December 31, 1992, we considered the internal control structure of the Secretariat for Public Works, Transportation and Communications relative to the project 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.

During our audit we observed the following two findings involving the internal control structure and its operation, the second of which we consider to be a material weakness.

1. Lack of documentation to support payroll payments made to manual laborers of the pilot project with municipalities.
2. The management offices of the road workers and the unpaved road network units, who are responsible for the custody and control of assets donated by USAID/Honduras, do not have an updated list of all assets received under this concept.

We also noted other matters of lesser significance regarding the internal control structure and its operation that we have communicated to the entity in a separate letter to management dated August 30, 1993.

Compliance with the Agreement Terms and Applicable Laws and Regulations

As part of obtaining reasonable assurance about whether the fund accountability statements of the Rural Roads Maintenance Project, managed by the Secretariat for Public Works, Transportation and Communications for the period June 21, 1990 to December 31, 1992, are free of material misstatements, we performed tests of the entity's compliance with the terms of the agreement and applicable laws and regulations. The results of our tests disclosed the following three material instances of noncompliance, the effects of which have not been corrected in the project's fund accountability statements.

1. We were not able to assure to soundness of expenditures reported in the component of management and engineering of Road Maintenance Unit because no supporting documentat.on was provided to us.

2. Expenses for construction and rehabilitation wages reported in the fund accountability statement for Government of Honduras counterpart funds included salary expenses of other projects.
3. Project funds were used to pay advertising and promotion expenses of non-USAID projects

MANAGEMENT COMMENTS

Each one of the findings included in this report, have being discussed with the related personnel and they agree with every one of them. At the date of this report we have not received any written comments from the management of the project.

Morales Palao Williams - Ernst & Young

AUDIT OF THE
RURAL ROADS MAINTENANCE PROJECT
MANAGED BY THE
SECRETARIAT FOR PUBLIC WORKS, TRANSPORTATION
AND COMMUNICATIONS
FROM JUNE 21, 1990 TO DECEMBER 31, 1992

FUND ACCOUNTABILITY STATEMENTS

INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statements of USAID/Honduras grant funds and Government of Honduras counterpart funds of the of Rural Roads Maintenance Project, USAID/Honduras Project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications (SECOPT) for the period June 21, 1990 to December 31, 1992. These fund accountability statements are the responsibility of SECOPT's management. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

Except as mentioned in the third and fifth paragraph; we conducted our audit in accordance with generally accepted auditing standards and, with the United States Controller General's Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance on whether the fund accountability statement are free of material misstatements. 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 accounting estimates made by the management, as well as evaluating the overall presentation of the fund accountability statements. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 1, the fund accountability statements were prepared on the basis of cash received and disbursed, which is a comprehensive accounting basis different from generally accepted accounting principles.

As explained finding No. 1 of our report on Compliance with the Agreement Terms and Applicable Laws and Regulations, we were not able to assure the soundness of expenditures reported in the fund accountability statement of Government of Honduras counterpart funds because no supporting documentation was provided to us for L2,787,713 of recorded expenditures under the project component of management engineering of the Road Maintenance Unit

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine supporting documentation as mentioned in the preceding paragraph, the fund accountability statements of USAID/Honduras grant funds and Government of Honduras counterpart funds of the Rural Roads Maintenance Project, USAID/Honduras Project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications present fairly, in all material respects, the project's receipts and expenditures for the period June 21, 1990 to December 31, 1992, in accordance with the terms of the agreement signed with USAID/Honduras.

This report is intended solely for the use of the United States Agency for International Development and the Secretariat for Public Works, Transportation and Communications. 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.

Mauricio Palao Villalón - Ernst & Young

August 30, 1993

AUDIT OF THE
RURAL ROADS MAINTENANCE PROJECT
MANAGED BY THE
SECRETARIAT FOR PUBLIC WORKS, TRANSPORTATION
AND COMMUNICATIONS.
FROM JUNE 21, 1990 TO DECEMBER 31, 1992

FUND ACCOUNTABILITY STATEMENT
USAID/HONDURAS GRANT FUNDS

(In Lempiras - Note 1)

	<u>Budgeted</u>	<u>Executed</u>	<u>Available</u>	<u>Questionable costs</u>	
				<u>Ineligible</u>	<u>Unsupported</u>
Receipts:	L 28,663,693	L 22,361,509	L 6,302,184	-0-	-0-
Disbursement:					
Road maintenance	12,933,205	11,040,511	1,892,694	-0-	-0-
Road Construction	6,106,378	1,928,839	4,177,539	-0-	-0-
Road Rehabilitation	9,624,110	9,392,159	231,951	-0-	-0-
Total disbursement	<u>L 28,663,693</u>	<u>L 22,361,509</u>	<u>L 6,302,184</u>	<u>-0-</u>	<u>-0-</u>
Excess of receipts over disbursements	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>		

See accompanying notes

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FROM JUNE 21, 1990 TO DECEMBER 31, 1992**

**FUND ACCOUNTABILITY STATEMENT
COUNTERPART FUNDS**

(In Lempiras - Note 1)

	Budget	Executed	Available	Questionable costs Ineligible	Not Supported
RECEIPTS	L 14,258,800	L 17,182,651	L (2,885,119)	-0-	-0-
DISBURSEMENT:					
Construction and Rehabilitation					
Road Construction and Rehabilitation of roads	L 4,300,000	L 6,184,055	L (1,884,055)	L -0-	L -0-
Management and Engineering	3,977,500	2,112,811	1,864,689	25,350	153,372
Sub total	8,277,500	8,296,866	19,366	25,350	153,372
Road Maintenance					
Maintenance Contracts	2,580,000	2,324,252	255,748	-0-	-0-
Salaries of Road workers	2,799,300	3,213,445	(414,145)	-0-	-0-
Municipalities Program	245,100	317,605	(72,505)	-0-	167,604
Management and Engineering	356,900	3,030,483	(2,673,583)	-0-	2,787,713
Sub total	5,981,300	8,885,785	(2,904,485)	-0-	2,955,317
Total	14,258,800	17,182,651	(2,885,119)	25,350	3,108,689
Excess of receipts over disbursement	L -0-	L -0-	L -0-	L	L

See accompanying notes

AUDIT OF THE
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FROM JUNE 21, 1990 TO DECEMBER 31, 1992

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The fund accountability statements of USAID/Honduras grant funds and Government of Honduras counterpart funds of the Rural Roads Maintenance Project, USAID/Honduras Project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications (SECOPT) for the period June 21, 1990 to December 31, 1992, were prepared for the purpose of complying with Part "C", Section B.5- Reports, Records, Inspections and Auditing, of project implementation letter No. 1.

The Secretariat for Public Works, Transportation and Communications uses the fund accountability system and budgetary execution to report the progress of the project's operations. The significant accounting policies adopted by SECOPT are summarized as follows:

Basis for preparing the financial statements.

The attached fund accountability statements have been prepared on a cash basis to record receipts and disbursements. Therefore, incomes are recognized when they are received and expenses when they are paid.

Severance compensation to employees.

According to the Honduran Labor Code and the Civil Service Law, the institution is required to pay compensation upon termination of employment. The institution has as a policy to pay according to the stipulations of the law. Therefore, disbursements of this nature are recognized as expenses on the date they are paid.

Monetary Unit.

The project's accounting records are kept in Honduras Lempiras, the official currency of the Republic of Honduras. The official exchange rate of two Lempiras for one United States Dollar (L.2.00 = US\$1.00) has remained constant. However in March 1990 the Government of Honduras approved an interbank exchange market for most foreign exchange transactions. All foreign exchange transactions are required by central bank regulation to be channeled through national private banks and authorized agents, the exchange rate as of June 1990, and December 31, 1992, was L 4.30 and L. 5.97 for US\$1.00 respectively.

Note 2. HISTORY AND OPERATIONS OF THE PROGRAM

On June 21, 1990, the Government of Honduras through the Ministry of Finance and Public Credit signed a grant agreement with USAID/Honduras to cover the costs for the implementation of the Rural Roads Maintenance Project USAID/Honduras Project No. 522-0334 managed by the Secretariat for Public Works, Transportation and Communications. The project assistance completion date is September 30, 1994.

The goal of this grant agreement is to increase agricultural production. The project will contribute to this goal by maintaining and expanding farm to market access roads for the ingress agricultural inputs and the egress production to market centers.

The project purpose is to establish a long-term sustainable maintenance system for rural road and expand the network of all rural roads in areas with the greatest potential for agricultural export production.

The project consists of three components:

- 1) Institutional strengthening of SECOPT's of Directorate General of Maintenance (DGM) to build a long-term, sustainable maintenance program and to assist in the administration of the project.

The propose of this component is to assist the Government of Honduras in implementing the project and to find a long-term sustainable solution for rural roads maintenance, this component will improve Directorate General Of Maintenance operations to use existing resources more effectively and to institute mechanisms to generate resources for rural roads maintenance.

- 2) Maintenance of rural roads constructed under USAID/Honduras funded program.

This component contains two sub components which are designed to assist the Directorate General Of Maintenance in strengthening and expanding the road maintenance program. Under the first sub component the Directorate General Of Maintenance will obtain local laborers to perform routine rod maintenance. To supplement the work of these hand laborers, contracts with local contractions will be issued to provide routine road maintenance using machinery.

- 3) Reconstruction of additional rural roads and bridges.

Under this component the Directorate General Of Maintenance coordinate with the Directorate General of Roads to provide competitively BID contracts to private sector contractors for the rehabilitation of roads formerly constructed with USAID/Honduras financing and for the construction of new rural roads

The total estimated amount of the project is US\$21,866,000 of which USAID/Honduras shall provide grant funds of US\$15,000,000 and the Government of Honduras shall provide the equivalent of US\$ 5,000,000 on a financial basis and US\$ 1,866,000 on an in-kind basis. As of December 31, 1992, USAID/Honduras had obligated an amount of US\$ 8,681,000, of which US\$ 3,789,710 had been disbursed.

Note 3. BUDGET

Budgeted amounts shown in the fund accountability statements represent budgeted amendments from the beginning of the project through December 31, 1992.

Counterpart funds of L14,258,800 were jointly programmed by USAID/Honduras and the Secretariat for Public Works, Transportation and Communications to support the Rural Roads Maintenance Project during the period June 21, 1990 to December 31, 1992. As shown in the fund accountability statement for the Government of Honduras counterpart contribution, contributions for the same period have been L17,145,323, which exceeded the budgeted amounts by L2,885,119.

Note 4. QUESTIONABLE COSTS

The following is a description of the questionable costs of the fund accountability statements for the period June 21, 1990 to December 31, 1992 :

	<u>Questionable costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<u>I. AID funds:</u>		
None		
 <u>II. Counterpart funds:</u>		
a) Management and engineering category, construction and rehabilitation component		
1. Advertising and Promotion payments made with USAID Project No. 522-0334 funds, corresponded to projects financed with IDB Loans # 668/OC-HO and 875/SF-HO.	L 25,350	L -0-
2. Expenses wages reported no documented		153,375
b) Municipalities program category, road maintenance component		
1. Lack of documentation to support payroll payment made to manual laborers of the Pilot Project with Municipalities		167,604
c) Management and engineering category, road maintenance component		
1. Expenses recorded for which no supporting documentation exists		2,787,713
Total	L 25,350	L 3,108,692

AUDIT OF THE
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INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statements of USAID/Honduras grant funds and Government of Honduras counterpart funds for the Rural Roads Maintenance Project, USAID/Honduras project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications (SECOPT) for the period June 21, 1990 to December 31, 1992 and have issued our report thereon dated August 30, 1993.

Except for not conducting an external quality control review by an unaffiliated audit organization and as explained finding No. 1 of our report Compliance with the Agreement Terms and Applicable Laws and Regulations, we were not able to assure the soundness of expenditures reported in the fund accountability statement of Government of Honduras counterpart funds because no supporting documentation was provided to us for L2,787,713 of recorded expenditures under the project component of management engineering of the Road Maintenance Unit, as described further in our opinion of the Fund Accountability Statements, we conducted our audit in accordance with generally accepted auditing standards and, the United States Controller General's Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance on whether the fund accountability statements are free of material misstatement.

In planning and performing our audit of the fund accountability statements of USAID/Honduras grant funds and Government of Honduras counterpart funds of the Rural Roads Maintenance Project, managed by SECOPT, for the period from June 21, 1990 to December 31, 1992, we considered SECOPT's internal control structure relative to the project 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.

SECOPT's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against losses from unauthorized use or disposition and that transactions are executed in accordance with the management's authorization and recorded properly to permit the preparation of the fund accountability statements in accordance with the basis of accounting described in Note 1 to the fund accountability statements . 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 may 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 into the following categories:

- Accounting process
- Budgetary process
- Payroll procedures
- Receipts and disbursements
- Fixed assets control
- Contracts with third parties (construction companies)

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 certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reported conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the management assertions in the fund accountability statements. The reportable conditions noted are described as finding Nos. 1 and 2 in the following pages.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that finding No. 2 is a material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of SECOPT in a separate letter dated August 30, 1993.

This report is intended solely for the use of the United States Agency for International Development and the Secretariat for Public Works, Transportation and Communications. 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.

Mauder Pales Williams - Ernst & Young

August 30, 1993

AUDIT OF THE
RURAL ROADS MAINTENANCE PROJECT
MANAGED BY THE
SECRETARIAT FOR PUBLIC WORKS, TRANSPORTATION
AND COMMUNICATIONS,
FROM JUNE 21, 1990 TO DECEMBER 31, 1992

INTERNAL CONTROL STRUCTURE

FINDINGS

1. Lack of documentation to support payroll payment made to manual laborer of the Pilot Project with Municipalities

Condition:

The executing unit of peon caminero within the directorate General of Maintenance did not have all of the checks, receipts and payrolls for work done within some municipalities. For example:

Municipality	DEFICIENCY		Amount
	Check	Payrolls	
El Nispero. Depto. Sta. Bárbara 1991	x	x	L 21,960
El Paraíso. Depto. de Copán 1991		x	24,156
San Marcos. Depto. Sta. Bárbara 1991	x	x	17,568
Dulce Nombre Copán. Depto. Copán 1991		x	21,960
Lepaera. Depto. Lempira 1991		x	21,960
Sub-total			107,604

Municipality	DEFICIENCY		Amount
	Check	Receipt	
El Nispero, Depto. Santa Barbara 1992		x	30,000
Lepaera, Depto. Lempira 1992		x	30,000
Sub-total			60,000
Total			L 167,604

Criteria:

All payments made to municipalities included in the Pilot Project should be supported by the employees' payroll, the voucher check and the receipt issued by the municipality.

Cause:

Official of the executing unit of peon caminero told us that the reason for the above deficiency was that they were overloaded with work and forgot to obtain the payrolls and receipts in these cases and they lost the two checks identified.

Effect:

The failure to support all payroll payments with original documentation leaves open the possibility of making excessive salary payments, or payment to individuals other than the project's employees.

Recommendation:

Before making any disbursement, to the executing unit of the peon caminero they should obtain the supporting documentation of such payments.

2. The Management Units Within the Directorate General of Maintenance, Who Are Responsible For the Custody and Control of Assets Donated by USAID/Honduras, Did Not Have an Updated List of All Assets Received Under This Concept.

Condition:

The Directorate General of Maintenance's Road Workers and the Unpaved Road Network unit does not have a list of assets purchased directly by USAID/Honduras. For example, we noted the following assets purchased directly by USAID/Honduras were not on the unit records:

12 radio sets	L	24,295
2 VCR's /1 TV & 100 Cassettes		6,626
28.000 wheel barrows		275,604
16 pick up and 2 station wagon		1,079,631
Vehicle spare parts		<u>40,549</u>
		<u>L1,426,705</u>

Criteria:

Every fixed asset purchased directly by USAID/Honduras as part of the agreement, must be timely recorded, controlled and safeguarded by the project's executing units.

Cause:

The assets purchased directly by USAID/Honduras are received and registered on the records of the Directorate General of Maintenance central warehouses but once these assets are issued to the project executing units there is no one assigned responsibility to account for and control these assets

Effect:

The lack of effective controls produces an uncertainty about whether these assets are adequately safeguarded. Additionally, at this point in time there may be problems finding and identifying these assets.

Recommendation:

We recommend that the management of the Directorate General Maintenance's Road Workers and the Unpaved Road Network unit make a physical inventory of the assigned assets to each of its sub offices and classify them as purchased by the Government of Honduras, USAID/Honduras, or other organizations. Additionally, the unit should assign persons to be responsible for assuring that the assets are properly safeguarded.

AUDIT OF THE
RURAL ROADS MAINTENANCE PROJECT
MANAGED BY THE
SECRETARIAT FOR PUBLIC WORKS, TRANSPORTATION
AND COMMUNICATIONS,
FROM JUNE 21, 1990 TO DECEMBER 31, 1992

COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statements of USAID/Honduras grant funds and Government of Honduras counterpart funds of the Rural Roads Maintenance Project, USAID/Honduras Project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications (SECOPT) for the period June 21, 1990 to December 31, 1992, and we have issued our report therein dated August 30, 1993.

Except for not conducting an external quality control review by an unaffiliated audit organization and as explained finding No. 1 of this report, we were not able to assure the soundness of expenditures reported in the fund accountability statement of Government of Honduras counterpart funds because no supporting documentation was provided to us for L2,787,713 of recorded expenditures under the project component of management engineering of the Road Maintenance Unit, as described further in our opinion of the fund accountability statements, we conducted our audit in accordance with generally accepted auditing standards and the United States Controller General's Government Auditing Standards. 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 agreement terms and laws and regulations applicable to the Rural Roads Maintenance Project is the responsibility of SECOPT's management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatements, we performed tests of SECOPT compliance with significant agreement terms and certain provisions of laws and regulations. However, the objective of our audit of the fund accountability statements was not to provide an opinion on the overall compliance with such terms and provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures is material to the fund accountability statements. The results of our tests of compliance disclosed the material instances of noncompliance explained in findings Nos. 1 through 3 in this section.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statements of USAID/Honduras grant funds and Government of Honduras counterpart funds of the Rural Roads Maintenance Project, USAID/Honduras Project No. 522-0334, managed by the Secretariat for Public Works, Transportation and Communications, for the period from June 21, 1990 to December 31, 1992 are fairly presented, in all material respects, in conformity with the basis of accounting described in Note 1 to the fund accountability statement and this report does not affect our report dated August 30, 1993 on those fund accountability statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Secretariat for Public Works, Transportation and Communications complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to the items not tested, nothing came to our attention that caused us to believe that the Secretariat for Public Works, Transportation and Communications had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the United States Agency for International Development and the Secretariat for public works, transportation and communications. 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.

Marcus Pales William - Ernst & Young

August 30, 1993

AUDIT OF THE
RURAL ROADS MAINTENANCE PROJECT
MANAGED BY THE
SECRETARIAT FOR PUBLIC WORKS, TRANSPORTATION
AND COMMUNICATIONS,
FROM JUNE 21, 1990 TO DECEMBER 31, 1992

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS

FINDINGS

1. We were not able to assure the soundness of expenditures reported in the Road Maintenance component in the management and engineering budget category for lack of supporting documentation.

Condition:

When we reviewed the management and engineering expense category under the Road Maintenance component, we noted that the Directorate General of Maintenance did not have supporting documentation for the following expenses. It should be noted that all these expenses were funded from the government of Honduras' counterpart contribution.

Personnel services	L 261,898
Minor purchases	10,000
Materials and supplies	320,000
In-kind expenses of personnel services	290,967
In-kind expenses of administration, vehicles and equipment	<u>1,904,848</u>
Total	<u>L 2,787,713</u>

Criteria:

All expenses reported by the project's executing units must be adequately documented and justified as an expenses applicable to the project.

Cause:

The Directorate General of Maintenance's accountant for the Roads Maintenance component told us that the above costs were registered purely upon management's estimations, the basis of which was undocumented.

Effect:

The above counterpart contribution amounts are unsupported and should not be accepted by USAID/Honduras.

Recommendation:

The Directorate General of Maintenance should adjust its quarterly financial reports under the project to eliminate those expenses not adequately supported and not applicable to the agreement. Likewise to avoid repeating this situations in the future, the Directorate General of Maintenance must establish a mechanism for supervision and approval of reports that includes a 100% percent verification of the supporting documentation. This procedure should be complemented with and adequate process of filing these documents under the custody and care of a responsible office.

2. Expenses wages reported in excess in the Management and Engineering budget category in the Construction and Rehabilitation component of the Counterpart Fund Accountability Statement.

Condition:

As of December 31, 1992, reported accrued salary expenses were L642,024 of which L153,371 are not documented.

Criteria:

All counterpart expenses applicable to the grant agreement must be adequately documented and recorded .

Cause:

These differences result from payment of salary expenses of non-USAID/Honduras projects charged to the audited project's budget.

Effect:

Presentation of overvalued counterpart expenses.

Recommendation:

We recommend to the management of the project make the adjustments to the quarterly reports, so these reports will reflect only expenses which are adequately supported and applicable to the agreement.

3. Advertising and Promotion payments made with USAID Project # 522-0334 funds, corresponded to projects financed with IDB Loans # 668/OC-HO and 875/SF-HO.

Condition:

We observed that certain advertising and promotion payments made by the project correspond to projects financed with IDB funds. Examples:

<u>Payment Order</u>	<u>Date</u>	<u>Amount</u>	<u>Supplier</u>
#3619	26/09/92	L...8,450	La Prensa
# 3753	26/10/92	8,450	La Tribuna
# 3798	27/10/92	<u>...8,450</u>	La Prensa
		<u>L 25,350</u>	

Criteria:

Project funds must be used for paying expenses required for the project's implementation.

Cause:

These expenses are made with the authorization of the General Directors of Roads because ESF funds are not timely received; therefore, there is some type of inter-fund loans between IDB and A.I.D.

Effect:

Other projects' expenditures are included as Project # 522-0334 expenses.

Recommendation:

We recommend to the management of the project make the adjustments to the quarterly reports, so these ones will reflect only expenses which are adequately supported and applicable to the Agreement 522-0334.

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AUDIT OF THE
RURAL ROADS MAINTENANCE PROJECT
MANAGED BY THE
SECRETARIAT FOR PUBLIC WORKS, TRANSPORTATION
AND COMMUNICATIONS,
FROM JUNE 21, 1990 TO DECEMBER 31, 1992

LIST OF REPORT RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE :

Recommendation 1:

Before making any disbursement, to the executing unit of the peon caminero they should obtain the supporting documentation of such payments.

Recommendation 2:

We recommend that the management of the Directorate General Maintenance's Road Workers and the Unpaved Road Network unit make a physical inventory of the assigned assets to each of its sub offices and classify them as purchased by the Government of Honduras, USAID/Honduras, or other organizations. Additionally, the unit should assign persons to be responsible for assuring that the assets are properly safeguarded.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS:

Recommendation 1:

The Directorate General of Maintenance should adjust its quarterly financial reports under the project to eliminate those expenses not adequately supported and not applicable to the agreement. Likewise to avoid repeating this situations in the future, the Directorate General of Maintenance must establish a mechanism for supervision and approval of reports that includes a 100% percent verification of the supporting documentation. This procedure should be complemented with and adequate process of filing these documents under the custody and care of a responsible office.

Recommendation 2:

We recommend to the management of the project make the adjustments to the quarterly reports, so these reports will reflect only expenses which are adequately supported and applicable to the agreement.

Recommendation 3:

We recommend to the management of the project make the adjustments to the quarterly reports, so these ones will reflect only expenses which are adequately supported and applicable to the Agreement 522-0334.

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