



MEMORANDUM

DATE: December 4, 2018

TO: USAID/Honduras, Mission Director, Fernando Cossich

FROM: USAID OIG Latin America and Caribbean (LAC) Regional Office, Assistant Director, Brad Moore /s/

SUBJECT: Audit of the Productivity and Opportunities for Development Through Renewable Energy Project Managed by the Directorate of Major Infrastructure of IDECOAS-FHIS, Assistance Agreement No. 522-0470 and Grant Agreement No. 522-0502, January 1, 2017, to December 31, 2017 (I-522-19-011-R).

This memorandum transmits the final audit report on the Productivity and Opportunities for Development through Renewable Energy Project (PODER), managed by the Directorate of Major Infrastructure (DIM) of IDECOAS-FHIS (FHIS-DIM).

Tribunal Superior de Cuentas (TSC) signed an agreement with the U.S. Agency for International Development (USAID) and the Secretariat of Finance with the purpose of performing audits of programs funded with USAID resources. The agreement required TSC to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

TSC states that it performed the audit in accordance with generally accepted government auditing standards except that TSC did not have a continuing education program and an external peer review that fully complies with GAGAS requirements. TSC is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on FHIS-DIM's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, follows the Guidelines.

² We reviewed TSC's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate FHIS-DIM's internal controls; (3) determine whether FHIS-DIM complied with award terms and applicable laws and regulations; (4) determine if cost-sharing contributions were made and accounted for by FHIS-DIM in accordance with the agreement terms; and (5) determine if FHIS-DIM has taken adequate corrective action on prior audit recommendations. To answer the audit objectives, TSC reported that they assessed and tested the internal controls related to the project; compliance with applicable laws, regulations, the agreement's provisions; and reviewed project expenditures. The audit covered \$1,480,823 in USAID funds for the audited period.

TSC concluded the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited, except for \$23,945 in ineligible questioned costs. The ineligible questioned costs were related to materials purchased that were not used on the project and to budgeted amounts exceeded in the budget execution component. TSC confirmed that after the audit's exit conference they verified that the pending materials were used for the project and that evidence was presented of USAID approving the excess expenditures in the operating costs component of the budget. As a result, we will not include a recommendation regarding these questioned costs.

TSC identified two internal control material weaknesses related to the use and management of funds and a procurement process that was not properly performed.

In addition, TSC identified two instances of noncompliance with applicable laws and regulations and agreement terms related to the questioned costs detailed above. TSC determined that the recipient has taken adequate corrective actions on these noncompliance findings; as a result, we will not include a recommendation regarding these instances of noncompliance.

TSC determined that cost sharing contributions were made and accounted for by FHIS-DIM in accordance with the agreement terms. Additionally, TSC determined that the recipient has taken adequate corrective actions on four prior audit report findings but one internal control finding was not implemented. This finding was included in the internal control findings above.

To address the issues identified in the report, we recommend that USAID/Honduras:

Recommendation 1. Verify that FHIS-DIM corrects the two material weaknesses in internal control detailed on pages 17 and 18 and pages 19 to 23 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decision. We appreciate the assistance extended during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").