



## MEMORANDUM

**DATE:** December 20, 2019

**TO:** USAID/Honduras Mission Director, Fernando Cossich

**FROM:** USAID OIG Latin America and Caribbean (LAC) Regional Office, through Global and Strategic Audits Division (GSAD) Assistant Director, Pamela Hamilton /s/

**SUBJECT:** Financial Audit of Directorate of Major Infrastructure of IDECOAS-FHIS Under Multiple Awards in Honduras, December 31, 2018 (9-522-20-013-R)

This memorandum transmits the final audit report on Directorate of Major Infrastructure of IDECOAS-FHIS (FHIS-DIM) under the following awards:

<b>Award Name (Type)</b>	<b>Award Number(Type)</b>	<b>Period</b>
Citizen Security Infrastructure Program (ICS)	522-0441 (Agreement) 522-0501 (Grant Agreement)	October 1, 2017 to December 31, 2018
Productivity and Opportunities for Development Through Renewable Energy Project (PODER)	522-0470 (Agreement) 522-0502 (Agreement)	January 1 to December 31, 2018

Tribunal Superior de Cuentas (TSC) signed an agreement with the U.S. Agency for International Development (USAID) and the Secretariat of Finance to perform audits of programs funded with USAID resources. TSC stated that it performed its audit in accordance with generally accepted government auditing standards. However, it did not have a continuing education program that fully complies with GAGAS requirements and an external peer review because such program is not offered in Honduras. 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.<sup>1</sup>

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 terms of the agreement; and (5) determine if FHIS-DIM has taken adequate corrective action on prior audit recommendations. To answer the audit objectives, the audit firm 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 \$1,354,735 of USAID expenditures for the audited period.

The audit firm 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 \$525 in total ineligible questioned costs. The questioned costs were related to: expenses paid with PODER project funds for vehicles that did not belong to project. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that USAID/Honduras determine the allowability of the \$525 in questioned costs and recover any amount determined to be unallowable.

The audit firm identified three material weaknesses in internal control related to (a) incorrect advance liquidations, (b) inadequate control over commodities, and (c) inappropriate use and maintenance of solar dryers. The audit firm identified three instances of material noncompliance related to questioned costs included in the fund accountability statement and cost sharing schedule as follows: (a) expenses not related to the PODER project paid with grant funds totaling \$525, (b) salaries and wage expenses of personnel not related to the ICS program totaling \$4,452 recorded as costs sharing contributions; and (c) salaries and wage expenses of personnel not related to the PODER project totaling \$4,809 recorded as costs sharing contributions.

The audit firm stated that based on their review, except for \$9,261 in ineligible questioned costs, nothing came to their attention that caused them to believe that FHIS-DIM did not fairly present the cost sharing schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost sharing schedule. The questioned costs were related to the material instances of noncompliance described above regarding salaries and wage expenses of personnel not related to the ICS program and PODER project recorded as costs sharing contributions. Since the questioned costs did not meet the OIG's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that USAID/Honduras determine the allowability of the \$9,261 in questioned costs

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<sup>1</sup> We reviewed the audit firm'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.

and recover any amount determined to be unallowable. Additionally, the audit firm stated that the recipient has not taken adequate corrective action to address all of the prior audit report recommendations. We are not making a formal recommendation on this issue, but we suggest that USAID/Honduras determines if the recipient addressed the issue noted.

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

**Recommendation 1.** Verify that FHIS-DIM corrects the three material weaknesses in internal control detailed on pages 19 to 20 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach a 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”).