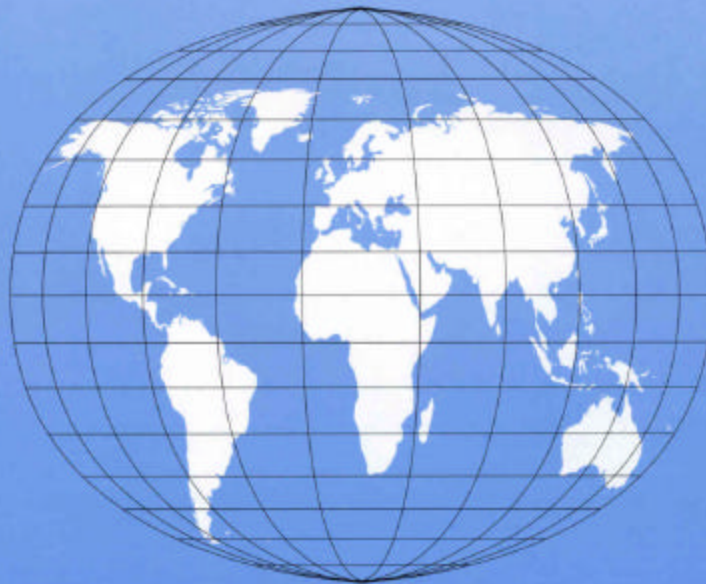


Report of Audit

Audit of USAID/Honduras' Water and Sanitation Reconstruction Activities

**Audit Report No. 1-522-01-003-P
March 7, 2001**



San Salvador, El Salvador

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



U.S. Agency for
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

March 7, 2001

MEMORANDUM

FOR: USAID/Honduras Director, Timothy Mahoney

FROM: Acting Regional Inspector General/San Salvador,
Steven H. Bernstein *Steven H. Bernstein*

SUBJECT: Audit of USAID/Honduras' Water and Sanitation Reconstruction
Activities (Report No. 1-522-01-003-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments are included in their entirety in Appendix II.

This report contains two recommendations for your action. For the first audit recommendation, no management decision has been reached. We request that you provide us written notice within 30 days of any additional information related to the actions planned or taken to implement this recommendation. For the second audit recommendation, final action has been taken and this recommendation is closed upon issuance of this audit report.

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

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Summary of Results

As part of its fiscal year 2000 audit plan, the Regional Inspector General/San Salvador performed this audit to determine whether USAID/Honduras' water and sanitation reconstruction activities are on schedule to achieve the planned outputs and whether host country contracts are being awarded in accordance with competitive procedures (see page 6).

In answer to our first audit objective, we found that USAID/Honduras' water and sanitation reconstruction activities are not currently on schedule to achieve the planned outputs. These activities are being implemented through two organizations—the National Autonomous Water and Sanitation Service (SANAA) and the Honduran Social Investment Fund (FHIS) (See page 7).

For SANAA, we found that its urban water system activities are significantly behind schedule. We therefore recommend that USAID/Honduras finalize a plan including timeframes with SANAA for the completion of all its urban water system projects (see pages 7 – 8). In its comments to the draft audit report, USAID/Honduras stated that it found the recommendation useful and actionable and has decided to take appropriate corrective measures in order to resolve the findings reported. However, it did not provide a firm plan of action to correct the deficiency (see Appendix II). As a result, no management decision has been reached on this recommendation.

For FHIS, we found that its activities are also significantly behind schedule to achieve the planned outputs. In addition, six FHIS projects were not scheduled to be completed until January 18, 2002—18 days past the December 31, 2001 deadline. USAID/Honduras managers have made program adjustments and corrective actions to complete all projects by the December 2001 deadline. However, their latest monitoring schedule did not reflect this goal. Because of this, we recommend that USAID/Honduras adjust its monitoring schedule to reflect its goal to finish all FHIS activities by December 31, 2001 (see pages 8 – 9). In its comments to the draft audit report, USAID/Honduras stated that the monitoring schedule provided to the auditors contained errors. The mission provided a revised schedule documenting the mission's plans for completing all of the FHIS work by December 18, 2001 (see Appendix II). Hence, we consider that final action has been taken regarding this recommendation.

In answer to the second audit objective, we found that the implementers of the water and sanitation reconstruction activities followed USAID prescribed policies and procedures on competition in awarding host country contracts (see pages 9 – 12). USAID/Honduras did not make any specific remarks regarding this audit objective in its comments to our draft report (see Appendix II).

Background

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

The impact on Honduras' water and sanitation systems was acute. Before Hurricane Mitch, in most cities 96 percent of the population had access to water and sanitation. Through a total or partial destruction of water sources, damage to water lines and major pipelines, and a washing away or collapsing of latrines and sewage lines by Hurricane Mitch, many of the systems that provided this access to the people were destroyed or damaged. USAID/Honduras, using reprogrammed local currency and emergency funds, funded temporary repairs that brought water to approximately 80 percent of the residents that previously had piped water. However, these repairs were not durable enough to weather another storm and did not fully cover the populations in need. In addition, the damage to sanitation facilities was left untouched by emergency repair measures. These conditions have significantly increased health risks for Hondurans and are among the factors that account for an estimated 40 percent increase in diarrheal disease.

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

To use the funding provided by Congress, USAID/Honduras and the Government of Honduras signed a special objective grant agreement for the *Hurricane Reconstruction Program* (HRP), dated June 9, 1999, to achieve the joint special objective "*Critical Hurricane Reconstruction Needs Met.*" Components No. 3 (entitled "*Public Health Protected Activity*") and No. 5 (entitled "*Improved Responsiveness of Local Governments to Citizen Needs Activity*") fund water and sanitation reconstruction programs. The HRP has a completion date of December 31, 2001. In addition, USAID/Honduras, to start these programs before Congress passed the Emergency Supplemental, used \$8 million of reprogrammed Child Survival funds that helped finance these programs under the prior bilateral agreements dealing with Municipal Development and Health. Programs are primarily funded through two Honduran organizations, SANAA and FHIS.

As of September 30, 2000, obligations for the water and sanitation activities totaled about \$113 million (\$105 million from HRP funds). Whereas the Child Survival funds provided to the SANAA activities helped fund the same planned outputs and therefore have the same December 31, 2001 deadline, the Child Survival funds provided to the FHIS activities were for additional reconstruction projects and

were not subject to the same deadline. Because of this lack of a time deadline and the fact that these projects have been suspended in order to concentrate on the HRP-funded activities, we did not include these 29 FHIS water and sanitation reconstruction projects, totaling \$3.3 million, in our audit scope. In addition, because their agreements had either not yet been signed or had just been signed at the time of audit fieldwork, we did not include the activities of the Private Voluntary Organizations (PVOs), the United States Army Corp of Engineers (USACE), or the Geological Survey, totaling \$10.2 million, in our audit scope. Information provided by USAID/Honduras on obligations, commitments and accrued expenditures as of September 30, 2000, for each entity is illustrated in the following table.

Entity Type	Recipient	Original Obligation	Accrued Obligations	Unaudited Obligations
Child Survival	SANAA	\$ 4.8	\$ 4.6	\$ 4.3
HRP	SANAA	21.0	10.7	1.3
Child Survival	FHIS	3.3	3.3	1.1
HRP	FHIS	73.8	68.9	5.7
HRP	PVOs	3.0	3.0	0.0
HRP	USACE	4.2	4.2	0.9
HRP	Pending Recipient – Geological Survey	3.0	0.0	0.0
Unaudited Amount		13.5	10.5	2.0
Total Audited		\$ 9.0	\$ 9.0	\$ 9.0

Within USAID/Honduras, the Health Strategic Objective team is managing the rural and urban projects being implemented by SANAA. The Municipal Development Strategic Objective team is managing the urban projects being implemented by FHIS.

The planned number of outputs for both the FHIS and SANAA urban programs changed slightly as more information became available. For example, the planned number of SANAA urban water systems was revised from 37 to 33 because the original planned number was developed prior to SANAA's complete assessment of the damage done by Hurricane Mitch. The following table illustrates these changes from the signing of the special objective grant agreement, to the signing of the latest work plans of FHIS and SANAA, to the date of the latest USAID/Honduras monitoring schedule that we received on December 6, 2000.

Output Description	Stipulated Specified Objective Agreement	Planned	Actual
SANAA			
Urban Water Systems	37	33	33
Rural Water Systems	1,211	1,211	1,211
Latrines	16,488	16,488	16,488
FHIS			
Water Systems	25	22	22
Sewage Systems	35	39	34
Drainage Systems	12	11	12
Systems at Relocation Sites of Displaced Persons	10	9	8

While the numbers of planned outputs have changed only modestly, the scope of work to be done under many of the FHIS outputs has been significantly reduced because of cost increases. For example, mission and FHIS officials told us that the scopes of individual FHIS projects were cut back significantly from what was originally planned, primarily because of increased costs. USAID/Honduras originally planned to use local Honduran contractors to construct these water and sanitation systems and budgets were prepared using local costs. However, because of policy mandates from USAID/Washington, a decision was made to "bundle" projects into groups in order to attract U.S. companies to bid on the work. In fact, because these new procurement groups were over \$5 million, USAID procurement regulations require that only U.S. companies can be awarded these contracts. Although mission officials believed that by using U.S. companies the program would have increased transparency, higher competence, quality, expertise and speed, they stated that this change alone increased the anticipated costs on projects by more than 40 percent, and this required a corresponding reduction in the planned scope of work to be performed under individual projects.

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

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

The audit scope and methodology is presented in Appendix I.

Audit Findings **Are USAID/Honduras' water and sanitation reconstruction activities on schedule to achieve the planned outputs?**

USAID/Honduras' water and sanitation reconstruction activities are not currently on schedule to achieve the planned outputs. The SANAA and FHIS water and sanitation activities are discussed separately below.

SANAA Urban Activities Behind Schedule

As shown in the following table, SANAA rural activities (including latrines) are only slightly behind schedule and these delays are not material. However, the urban activities are significantly behind schedule.

Output Description	Planned Percentage of Completion By 9/30/00	
33 Urban Water Systems	37%	8%
1,211 Rural Water Systems	40%	38%
16,488 Latrines	41%	37%

According to the USAID/Honduras manager of the SANAA program, the reported delays for the SANAA urban water systems are misleading because the planned time frames for completing each urban system are currently being revised. He stated that the revised schedules will reflect a more accurate time frame of the construction projects and that these schedules should be available in January 2001.

The 37 percent planned completion by September 30, 2000, and the 8 percent actual completion figures as of September 30, 2000, are based on SANAA's latest work plan, approved by USAID on December 17, 1999. Actual progress has lagged behind that projected in the work plan primarily because of a two-month delay in receiving USAID-purchased materials that SANAA needed to start major construction efforts on almost all of the 33 projects. In the year since the latest work plans were approved, however, SANAA has been able to fine-tune the construction schedules. As a result of weekly meetings with SANAA implementers as well as monthly reports from an engineer contracted on the behalf of USAID to monitor SANAA progress, USAID/Honduras is confident that all projects will be completed by December 31, 2001. In addition, the engineer that we hired to review the technical aspects of these urban water systems concluded that construction on those visited-projects should be finished on schedule. Nonetheless, because the currently approved SANAA work plans

are misleading in terms of their progress and USAID/Honduras needs to be assured that projects continue on schedule, we recommend the following.

Recommendation No. 1: We recommend that USAID/Honduras finalize a plan including timeframes with the National Autonomous Water and Sanitation Service for the completion of all its urban water system projects.

FHIS Activities Behind Schedule

As with the SANAA projects, some FHIS activities are behind schedule to achieve the planned outputs. In addition, six FHIS projects are not scheduled to be completed until January 18, 2002—18 days past the December 31, 2001 deadline. USAID/Honduras managers have made program adjustments and corrective actions to complete all projects by the December 2001 deadline. However, their latest monitoring schedule does not reflect this goal.

As stated in the special objective grant agreement between the United States and Honduran governments, all water and sanitation reconstruction activities, with the exception of project supervision and audits, have to be completed by December 31, 2001. USAID/Honduras maintains a dynamic monitoring system to continuously track each stage of the design, contracting, construction, supervision and auditing for each project. In this tracking system, projects are grouped together based on their procurement “bundle” as described in the background section. This monitoring system is continuously updated by the USAID/Honduras FHIS project managers as new information is learned and/or program adjustments are made.

The first procurement “bundle,” or Group I, is comprised of 8 water, 9 sanitation, 1 drainage, and 4 relocation reconstruction projects (22 projects total) and is the only group currently in the construction phase.¹ For all types of projects in this group, the percentage of completion is behind what was anticipated as shown in the following table:

Output Description	Planned Percentage of Completion	Actual Percentage of Completion
8 Urban Water Systems	22 %	13 %
9 Urban Sanitation Systems	22 %	8 %
1 Urban Drainage System	24 %	9 %
4 Water, Sanitation and/or Drainage Systems at Relocation Sites	30 %	13 %

* As determined by the construction supervisor’s report as of October 25, 2000.

¹ An exception to this is the local projects that are in various stages of implementation.

However, although the construction percentage of completion was significantly behind schedule, managers have made numerous adjustments and corrective actions to ensure that all project construction in Group I is completed by June 26, 2001. During our site visits to 10 of these 22 projects, the construction contractor told us that adjustments, including such actions as adding more laborers and/or equipment to make up for construction down time during the recent rainy season, would be performed in order to complete all construction by the date agreed to in their contract—June 26, 2001. Our independent engineer believed that such actions were feasible for all projects visited. In addition, there are financial disincentives included in the contract with the construction contractor for every day after this date that the projects are not finished.²

For Group I-A, according to USAID/Honduras' monitoring schedule, construction of these six projects is not anticipated to be completed until January 18, 2002. Group I-A consists of 2 water system projects, 3 sanitation system projects and 1 relocation project. For all other procurement groups, USAID/Honduras anticipates construction to be completed by December 2001. The table in Appendix III illustrates the originally planned versus actual or anticipated completion dates as known by the mission as of December 6, 2000. For the most part, at the time of our audit fieldwork, target dates for design completion were in the future. Until these designs are complete there is nothing to review for audit purposes and, therefore, we did not perform any site visits of the projects in these groups. However, it was evident from our fieldwork and discussions with USAID, FHIS and project implementers that everyone was striving to finish by the December 31, 2001 deadline. Therefore, USAID/Honduras needs to bring its plan/monitoring system into line with that goal.

Recommendation No. 2: We recommend that USAID/Honduras adjust its monitoring schedule to reflect its goal to finish all Honduran Social Investment Fund activities by December 31, 2001.

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

The implementers of the water and sanitation reconstruction activities followed USAID prescribed policies and procedures on competition in awarding host country contracts.

Our review focused on the awarding of approximately \$24.8 million in host country contracts for the construction of SANAA and FHIS urban water and sanitation systems and the related design and supervision services. Both FHIS and SANAA

² FHIS will charge the contractor one-tenth of a percent of each project's budget for every day that the contractor is late.

awarded host country contracts and our audit focused primarily on the six major procurements done or in process by FHIS. In addition, the firm of Fernandez, Fortin, Bogran and Asociados, which acted on behalf of SANAA, was in the process of awarding three contracts and we reviewed its actions to date. The following table illustrates items awarded and reviewed during our audit.

Awarding Entity	No. of Contracts Awarded	Total Amount in millions	No. of Contracts in Progress	No. of Contracts Reviewed	No. of Contracts Not Reviewed
SANAA-Rural	0	0	0	0	0
SANAA-Urban	48	\$ 0.4	18	2	0
Fernandez, Fortin, Bogran and Asociados	0	0	0	0	3
FHIS-procurements over \$250,000	4	\$ 23.8	49	4	2
FHIS-procurements under \$250,000	20	\$.6	7	20	0
TOTAL			74		

The major procurements (over \$250,000) included in the above table were the four contracts awarded and the two in process by FHIS. Of the four awarded contracts, one was for construction services and three were for design and/or supervision services. Of the two major procurements in progress, one is for construction and one is for supervision and design services. The results of our review follows.

Public Advertising

USAID's Automated Directive System (ADS) 305.5.3 requires that host country contracts be advertised extensively to promote interest in and competition for USAID-financed procurements. The type of contract to be awarded dictates how the procurement should be advertised. For technical and professional services and the purchase of goods, procurements over \$100,000 are required to be published in the Commerce Business Daily. Construction services exceeding \$500,000 must also be published in the Commerce Business Daily.

FHIS, SANAA and Fernandez, Fortin, Bogran and Asociados complied with the advertising requirements in the ADS. Specifically, FHIS sent to USAID/Honduras the notices of prequalification for the construction, design and supervision of all FHIS projects. In addition, invitations for bids were sent by FHIS for the two

construction procurements. USAID/Honduras then sent the notices and invitations for bids to the Office of Contracts in USAID/Washington. This Office published them on the USAID website and also sent them to the Commerce Business Daily for publication. As a result of responses from the notice of prequalification for design and supervision services, FHIS prequalified ten companies. Therefore, for the four design and/or supervision procurements, requests for proposals were sent by letter to all prequalified firms. FHIS, SANAA and/or Fernandez, Fortin, Bogran and Asociados arranged to have the notices published in the local newspapers.

In all, four notices or invitations for bids were required to be, and were, published in the Commerce Business Daily. These included two prequalification notices for the overall construction and related design and supervision services for all FHIS projects and two invitations for bids for construction services on two FHIS procurement bundles. Requests for proposals were sent by letter to all prequalified firms for design and/or supervision services on four FHIS procurement bundles. Neither SANAA nor Fernandez, Fortin, Bogran and Asociados had procurements that were required to be advertised in the Commerce Business Daily. However, all three entities published notices in local newspapers as required.

Competitive Selection

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

FHIS, SANAA and Fernandez, Fortin, Bogran and Asociados complied with the competition requirements in ADS Chapter 305. For example, as explained above, prequalification questionnaires, invitations for bids, and requests for proposals were developed and used. Public or private openings of sealed bids were held by FHIS for all major procurements. Committees were established to evaluate prequalification questionnaires, bids or technical proposals. Host country contracts were then awarded to the lowest responsible bidders or the most technically qualified offerors.

Specifically for the four major FHIS procurements, the following procedures applied and were performed. For the procurement of construction services, four companies

submitted prequalification questionnaires and three of these companies were then qualified by an evaluation committee. The lowest bidder of these three was then awarded the contract. The remaining three contracts awarded were for design and/or supervision services. For all three of these awards, the evaluation committee ranked each technical proposal submitted during a public opening. The highest ranked company was then awarded the contract after negotiating a reasonable price.

Other Issues

One issue that was not related to the audit objectives, but is significant enough to be reported, is about the marking of SANAA project sites. USAID policy (ADS 320) requires that all USAID-funded activities be suitably marked to identify USAID. For construction activities this means that all construction sites, receiving USAID financing, must display signs suitably marked and indicating participation by the United States of America. However, from our site visits of SANAA construction projects, and our discussions with SANAA officials, we determined that they were not routinely (and for none of the seven SANAA sites we visited) displaying signs at their construction sites that identified the financier as the United States of America and/or USAID. Therefore, we suggest that USAID/Honduras, in writing, instruct SANAA to conform to the marking requirements for all future rural sites and on-going urban activities.

**Management
Comments and
Our Evaluation**

In its comments to the draft audit report, USAID/Honduras stated that it found the recommendations useful and actionable and that it decided to take appropriate corrective measures in order to resolve the findings reported. However, for the first audit recommendation it did not provide a firm plan of action to correct the deficiency. As a result, no management decision has been reached on this recommendation.

Regarding the second recommendation, USAID/Honduras stated that the FHIS monitoring schedule provided to the auditors contained erroneous information regarding project termination dates. The mission provided a revised schedule documenting the mission's plans for completing all of the FHIS projects by December 18, 2001. Hence, final action has been taken on this recommendation and the recommendation is closed upon issuance of this audit report.

**Scope and
Methodology**

Scope

We audited USAID/Honduras' water and sanitation reconstruction activities in accordance with generally accepted government auditing standards. Our audit did not include a review of the activities being implemented by certain Private Voluntary Organizations or the U.S. Army Corp of Engineers because these agreements had only recently been awarded. In addition, we did not review the geological survey that has yet to be awarded or the FHIS activities funded with Child Survival money. We, therefore, limited our scope to the audit of SANAA (Child Survival and HRP funded) and FHIS (HRP funded) projects, totaling about \$99.6 million. The audit was conducted at USAID/Honduras and the implementers' administrative and construction sites (located throughout Honduras) from September 19, 2000 through November 9, 2000.

As discussed in the background section, there were several planned outputs to be completed by December 31, 2001. These outputs included 76 urban FHIS projects, 33 urban SANAA projects, 1,211 rural SANAA water projects, and the construction of 16,488 latrines. We determined whether the SANAA and FHIS activities were on schedule to achieve these planned outputs. We used a materiality level of 10 percent to determine if activities were on schedule. We calculated the difference between the planned and actual percentages of completion for activities at September 2000. If the difference was 10 percent or less, then we considered the activity to be "slightly" behind schedule. If the difference was over 10 percent, the activity was considered "significantly" behind schedule.

At the time our audit began, records showed that 72 reconstruction-related host country contracts totaling about \$24.8 million had been awarded. This \$24.8 million covered four major procurements by FHIS plus 22 minor procurements by SANAA and FHIS. We determined whether host country contracts for each of the four major procurements by FHIS were awarded in accordance with the advertising and competition procedures in ADS Chapter 305. In addition, we reviewed the overall procurement processes for FHIS, SANAA and Fernandez, Fortin, Bogran and Asociados, and specifically reviewed 22 other minor procurements. Our review of the overall procurement processes for these entities included looking at selected aspects of procurements in process, but yet to be awarded, including the bidding process for the construction of the six projects included in Group 1-A. We reviewed USAID/Honduras' internal controls over monitoring the SANAA and FHIS activities, as well as its oversight of host country contracting.

Methodology

To answer the audit objectives, we interviewed responsible officials at USAID/Honduras, SANAA, FHIS, Fernandez, Fortin, Bogran and Asociados, and the contractors involved in construction, supervision and design of the (already-awarded) projects. In addition, we reviewed the relevant documentation of these entities and performed site visits to 17 water and sanitation reconstruction projects.

To determine whether the water and sanitation reconstruction activities were on schedule to achieve planned outputs, we reviewed documentation at USAID/Honduras which included project design and monitoring documents, financial reports, and the strategic objective grant agreement and its annexes including the activity descriptions. These documents provided the project's funding, listed the expected outputs and identified the project timeframe. We also reviewed other relevant documentation such as correspondences and briefing documents on the project's progress. We performed site visits, selected randomly, on 10 of the 22 FHIS urban project sites where the construction contract had already been awarded, four SANAA urban project sites, and three SANAA rural sites. Because the projects were of a very technical nature, we hired an independent engineer who assisted us during our site visits in determining if the projects could be finished when planned. He provided us with a detailed report about each of the projects reviewed. We provided a copy of this report to USAID/Honduras.

To determine whether host country contracts were being awarded in accordance with competitive procedures, we reviewed the requirements of ADS Chapter 305 - *Host Country Contracts*. For public advertising, we verified on the Commerce Business Daily website that the notices had been posted and we obtained copies of the newspaper advertisements. We obtained and reviewed copies of the solicitation documents for all the major procurements done or in process by FHIS, SANAA and Fernandez, Fortin, Bogran and Asociados. For openings of bids or technical proposals, we reviewed the evaluation committee reports, which listed each company that submitted a proposal or bid and included the signatures of representatives attesting to their presence. We also attended one public offering. Regarding competitive selection, we reviewed the methodology used to rank offerors, as well as the evaluation reports that showed signatures of each member of the evaluation committee. We also used the evaluation reports to determine whether awards were made to the lowest responsible bidder or the most technically qualified and responsible offeror. Finally, we reviewed copies of 26 of the 72 host country contracts that had been finalized to verify that contracts were awarded to the offerors selected by the evaluation committees.

**Management
Comments and
Our Evaluation**

**USAID/HONDURAS
MEMORANDUM**



DATE : February 26, 2001
TO : Tim Cox, RIG/SS
FROM : Joseph Lombardo, Acting Mission Director
SUBJECT : **DRAFT AUDIT REPORT N° 1-522-01-0xx-P**
Audit of USAID/Honduras' Water and Sanitation Reconstruction
Activities

This memorandum represents USAID/Honduras response to the draft report of the audit of USAID/Honduras' Water and Sanitation Reconstruction Activities No. 1-522-01-0xx-P. Mission has reviewed subject draft report and has no comments to make with regard to the reports' substance. Also, we concur with its contents except for the following:

The correct completion date of the six projects conforming Group I-A, included in the second paragraph of page 7 of 14, should read December 18, 2001, instead of January 18, 2002. Inadvertently, we provided to the RIG's auditors a document which contained erroneous information regarding to project termination dates. Attached to this memorandum is the revised Gantt diagram, which includes the correct information.

USAID/Honduras found the recommendations useful and actionable; and has decided to take appropriate corrective measures in order to resolve the findings uncovered during the audit. This constitutes Mission Management Decision; therefore, we hereby request RIG's concurrence upon the issuance of the report.

We would like to express our appreciation for the time and effort of RIG' staff in performing the audit and providing valuable information for the improvement of the Water and Sanitation Activities.

Appendix III

Planned Versus Actual or Anticipated Completion Dates for All Procurement Bundles except Group I, Which is Currently in the Construction Phase

Procurement "Bundle" or Group	Description of Outputs Included in Each Group	Design Phase (By Dates)			Contracting Phase (By Dates)			Construction Phase (By Dates)		
		Planned Completion	Actual/Anticipated Completion	Number of Days Delayed	Planned Completion	Actual/Anticipated Completion	Number of Days Delayed	Planned Completion	Actual/Anticipated Completion	Number of Days Delayed
Group I-A	2 Water and 3 Sewage Systems, and Water and/or Sanitation Systems at 1 Relocation Site	N/A ¹	N/A ¹	N/A ¹	11/16/00	1/12/01	57 days	11/16/01	1/18/02	63 days
Group II	2 Sewage and 4 Drainage Systems	11/15/00	1/31/01	77 days	12/18/00	2/28/01	72 days	10/19/01	10/19/01	0 days
Group III (Zones I and 2)	4 Water, 8 Sewage, and 6 Drainage Systems, and Water and/or Sanitation Systems at 3 Relocation Sites	12/28/00	12/28/00	0 days	2/1/01	2/1/01	0 days	12/6/01	12/6/01	0 days
Group III (Zone 3)	2 Water and 6 Sewage Systems	2/28/01	2/28/01	0 days	4/4/01	4/4/01	0 days	12/24/01	12/24/01	0 days
Group IV	2 Water, 3 Sewage, and 1 Drainage Systems	2/9/01	2/9/01	0 days	2/27/01	2/27/01	0 days	8/28/01	8/28/01	0 days
Local Projects	4 Water and 3 Sewage Systems	N/A ²	N/A ²	N/A ²	N/A ²	N/A ²	N/A ²	5/18/01 ²	5/18/01 ²	0 days

1 The design phase for Group I-A does not include planned or actual dates because FHIS already had designs for these projects.

2 There are no dates for the design or contracting phases for these projects because they were small projects and only beginning and ending dates were determined for each project. For the construction phase, the date of the project to be finished last was used.