OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

MEMORANDUM

DATE: November 28, 2022

TO: USAID/Honduras Mission Director, Janina Jaruzelski

FROM: USAID OIG Latin America and Caribbean (LAC) Regional Office, Senior Auditor, John Vernon /s/

SUBJECT: Financial Audit of Directorate of Major Infrastructure of FHIS/SEDECOAS Under Multiple Awards in Honduras, January 1, 2019, to December 31, 2020 (9-522-23-005-R)

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

Award Name (Type)	Award Number (Type)	Period
Citizen Security Infrastructure Program (ICS)	522-0501 (Grant Agreement)	January 1, 2019, to December 31, 2020
Pilot Infrastructure Activity Program in Western Honduras (PIOH)	522-0502 (Grant Agreement)	January 1, 2019, to December 31, 2020

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. 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 DIM-FHIS/SEDECOAS's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.[1]

[1] 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.

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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 DIM-FHIS/SEDECOAS's internal controls; (3) determine whether DIM-FHIS/SEDECOAS complied with award terms and applicable laws and regulations; (4) determine if cost-sharing contributions were made and accounted for by DIM-FHIS/SEDECOAS in accordance with the terms of the agreement; and (5) determine if DIM-FHIS/SEDECOAS 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; assessed and tested compliance with applicable laws, regulations, the agreement's provisions; and reviewed project expenditures. The audit covered $3,875,545 of USAID expenditures 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 $78,124 in total questioned costs ($30,891 ineligible and $47,233 unsupported). However, TSC confirmed that questioned costs totaling $77,964 have been resolved by DIM-FHIS/SEDECOAS; as a result, we will not include these questioned costs in a recommendation. These questioned costs were related to: (1) weaknesses found in recording and executing expenses totaling $40,724 and (2) weaknesses identified in the project implementation processes in the area of contracting totaling $37,240. Additionally, TSC confirmed that $160 in ineligible questioned costs are pending implementation. 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 $160 in questioned costs and recover any amount determined to be unallowable.

TSC identified one material weaknesses in internal control related to the fund accountability statement and the cost-sharing schedule together with their explanatory notes not correctly prepared. Since TSC reported that corrective actions have been taken to address the material weakness, we are not making a recommendation regarding this finding. TSC issued a management letter which included one minor internal control deficiency.

TSC identified three instances of material noncompliance as follows: (1) DIM/FHIS-SEDECOAS showed some weaknesses in recording and executing expenses; (2) DIM/FHIS-SEDECOAS showed some weaknesses in project implementation processes in the area of contracting, (3) DIM-FHIS/SEDECOAS included, in the cost-sharing schedule, cash contributions that were requested for reimbursement and recorded as expenses in the fund accountability statement. Since TSC reported that corrective actions have been taken to address the second and third instances of material noncompliance, we are not making a recommendation regarding these findings.

TSC stated that based on their review, except for unsupported questioned costs of $1,463,635, nothing came to their attention that caused them to believe that DIM-FHIS/SEDECOAS did not fairly present the cost sharing contributions schedule, in all material respects, in accordance with the basis of accounting used to prepare the cost sharing contributions schedule. The questioned costs were related to cash contributions included in the cost-sharing schedule and requested for reimbursement and recorded as expenses in the fund accountability statement. Since TSC reported that the questioned costs were adjusted, we are not making a recommendation regarding this finding.

Additionally, TSC determined that the recipient has taken adequate corrective action on a prior audit report recommendation.

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

Recommendation 1. Verify that DIM-FHIS/SEDECOAS corrects the one instance of material noncompliance detailed on pages 30 and 31-34 of the audit report.

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

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").