

**FINANCIAL STATEMENT AUDIT OF USAID RESOURCES
MANAGED BY THE PUBLIC MINISTRY UNDER
PROJECT NO. 522-0394, STRENGTHENED RULE OF LAW AND RESPECT FOR
HUMAN RIGHTS PROGRAM
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2004**

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Tegucigalpa, M.D.C.
July 1, 2005

Mr. LEONIDAS ROSA BAUTISTA
Attorney General
Public Ministry
Tegucigalpa, Honduras

Mr. Rosa Bautista:

This report presents the results of our financial audit of the fund accountability statement of the grant funds provided by the U.S. Agency for International Development, Mission to Honduras, (USAID/Honduras) under Grant Agreement No.522-0394, Strengthened Rule of Law and Respect for Human Rights Program, managed by the Public Ministry for the period January 1 to December 31, 2004.

AUDIT BACKGROUND

On November 17, 1993, the Office of the Comptroller General of the Republic of Honduras, now called Tribunal Superior de Cuentas (TSC), signed an agreement with the U.S. Agency for International Development, Mission to Honduras (USAID/Honduras) and the Ministry of Finance and Public Credit (now called the Secretariat of Finance), with the purpose of performing audits of projects funded with USAID/Honduras resources. These audits may be performed directly by TSC or through supervised contracted public accounting firms.

Under this agreement, we performed a financial audit of USAID/Honduras grant funds managed by the Public Ministry under Project No.522-0394, Strengthened Rule of Law and Respect for Human Rights Program, for the period January 1 to December 31, 2004.

PROJECT BACKGROUND

On August 28, 1997, the U.S. Agency for International Development, Mission to Honduras, (USAID/Honduras) approved Grant Agreement No. 522-0394, Strengthened Rule of Law and Respect for Human Rights Program, that provided \$500,000 in grant funds to the Public Ministry to strengthen rule of law and respect for human rights. The program seeks to achieve, among other things: a new Criminal Procedures Code effectively implemented; an independent, apolitical and effective judiciary; an independent, apolitical and effective Public Ministry; broader and more effective civil society participation in justice sector reforms and monitoring; and a changed mind set regarding rule of law.

The original estimated project completion date was September 30, 2002; but according to

Amendment No.8 to the grant agreement dated September 5, 2002, the project completion date was extended to September 30, 2004; and through implementation letter No. 44 dated October 4, 2004 it was extended to September 30, 2005. The principal budget categories are as follows:

<u>GOALS</u>	<u>GRANT (L.)</u>	<u>COUNTERPART (L.)</u>
A.-Exercise of public trials	1,705,200	358,092
B.-Forensic medicine	1,425,900	299,439
C.-Education and Communication	2,263,800	475,398
D.-Logistical and administrative support	1,396,500	293,265
E.-Development of human resources	<u>558,600</u>	<u>117,306</u>
TOTAL	<u>7,350,000</u>	<u>1,543,500</u>

On December 27, 2002, the U.S. Agency for International Development, Mission to Honduras, (USAID/Honduras), under Grant Agreement No.522-0394, Strengthened Rule of Law and Respect for Human Rights Program, issued Implementation Letter No. 26 to provide \$500,000 in grant funds to the Public Ministry, seeking to achieve the following results: Prosecute 100% of the denouncements received, 23 work modules designed and implemented in Tegucigalpa, 100% of the denouncements received that burden the system, 30 working archives for files and improved user accessibility, 23 work modules designed and functioning in San Pedro Sula and La Ceiba, 18 persons trained to receive denouncements, 1 international consultant specialized in ensuring quality, 9 international instructors hired for each module, 1 national instructor hired for 9 modules and 9 seminars held.

<u>GOALS</u>	<u>GRANT (L.)</u>	<u>COUNTERPART (L.)</u>
A.-Restructure the Prosecutorial Organization in the transition process to a New Criminal Procedures System.	6,074,005	3,240,385
B.-Strengthen Forensic Investigation.	1,246,756	665,125
C.-Increase the Technical-Judicial Capacity of the Prosecutorial Function.	557,265	297,292
D.-Strengthen the Technical and Managerial Capacity of the Administrative Function.	<u>510,974</u>	<u>272,596</u>
TOTAL	<u>8,389,000</u>	<u>4,475,398</u>

In November 2003, Implementation Letter No. 30 was issued through which \$10,200 was provided to support forensic psychiatric studies and on February 17, 2004, Implementation Letter No. 34 was issued that provided \$6,250 to repair a vehicle donated to the Public Ministry.

On March 24, 2004, Implementation Letter No. 35 was issued that provided \$175,000 to the

Public Ministry to be used in the areas of physical organization, forensic medicine and technical assistance for the implementation of the Criminal Procedures Code.

The Public Ministry was created by Decree No. 228-93 in December 1993 and started operations in June 1994. It is a specialized, professional organization free from sectarian political interference, functionally independent from government branches and entities, and accountable for the following objectives and ends: represent, defend and protect society's interests; collaborate on and oversee the timely, impartial and efficient administration of justice, especially within the penal environment, investigating offenses until the responsible parties have been found; require application of the law by competent courts through the exercise of public trials; and oversee compliance with and respect of constitutional rights and guarantees, and the rule of the Constitution and law.

In exercising its legal and regulatory attributes, the Public Ministry enjoys complete functional, administrative, technical, financial and budgetary independence, and may not be obstructed, hindered or limited in any way by any authority. In order to achieve its goals, the Public Ministry is made up of five programs, which are: Upper Management, Administration, Forensic Medicine, Fight Against Drug Trafficking and the Government Attorney's Office.

AUDIT OBJECTIVES

The general objective of this engagement was to conduct a financial statement audit of funds provided by USAID/Honduras under Grant Agreement No. 522-0394, Strengthened Rule of Law and Respect for Human Rights Program, managed by the Public Ministry for the period January 1 to December 31, 2004.

The fund accountability statement is the basic financial statement to be audited that presents the revenues, costs incurred, and initial and final balance of funds provided to the Public Ministry by USAID, and commodities and technical assistance directly procured by USAID for the Public Ministry's use.

A. Audit of USAID Funds

Our audit was performed in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States of America, and accordingly included such tests of the accounting records as deemed necessary under the circumstances. The specific objectives of the audit were to:

- Express an opinion on whether the fund accountability statement for the USAID/Honduras funds provided to the Project present fairly, in all material respects, revenues received, costs incurred, and initial and final balance for the period audited in conformity with the terms of the agreement and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- Evaluate and obtain a sufficient understanding of the Public Ministry's internal control

related to the USAID/Honduras-funded project, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation includes the internal controls related to required cost-sharing contributions.

- Perform tests to determine whether the Public Ministry complied, in all material respects, with agreement terms and applicable laws and regulations related to the USAID/Honduras-funded program. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred were identified. Such tests include the compliance requirements related to required cost-sharing contributions.
- Determine if the Public Ministry has taken adequate corrective action on prior audit report recommendations.

We designed audit steps and procedures in accordance with *U.S. Government Auditing Standards*, Chapter 4, to provide reasonable assurance of detecting situations or transactions in which fraud or illegal acts have occurred or are likely to have occurred.

B. Review of Cost-Sharing Schedule

According to the grant agreement and implementation letters, the government of Honduras must contribute to the program's annual budget. Therefore, our specific objective was to determine if the schedule of cost-sharing contributions is fairly presented in accordance with the basis of accounting used by the Public Ministry and to determine whether cost-sharing contributions were provided in accordance with the terms of the agreement.

AUDIT SCOPE

The most important audit procedures applied during our audit were the following:

Contributions and Other Revenues

- We confirmed directly with USAID/Honduras and the Public Ministry cash contributions transferred to the Project during the period audited;
- We reconciled amounts reimbursed by USAID/Honduras with records of loans received from national funds (revenues different from reimbursements) and determined the balance at the cutoff date of the audit;
- We confirmed directly the balances in the account the project maintains with the Central Bank of Honduras, and determined if the Public Ministry complied with the guarantees required by USAID/Honduras;
- We verified if there was any revenue from a source other than USAID/Honduras reimbursements; and
- We reviewed the supporting documentation of USAID/Honduras reimbursements, verifying

aspects such as validity, authorization, accounting, supervision, etc.

Disbursements

- We traced transactions through Project accounting records to determine whether disbursements were properly recorded;
- We analyzed the propriety of the expenditures, reviewing the documentation that supports disbursements from the account the Project maintains with the Central Bank;
- We reviewed the inventory conducted during the period audited and we performed selective physical inspections of assets to verify whether such assets exist or were used for their intended purposes in accordance with the terms of the grant agreement, and whether control procedures exist and have been placed in operation to adequately safeguard the assets;
- We were alert to any costs that were not supported with adequate records or not eligible under the terms of the agreement;
- We reviewed travel and transportation charges to determine whether they were adequately supported and approved; and
- We reviewed procurement procedures to determine whether sound commercial practices including competition were used, reasonable prices were obtained, and adequate controls were in place over the qualities, quantities and prices of materials or services received.

Cost-Sharing Contributions

We reviewed the cost-sharing schedule for Project No. 522-0394 to determine whether the schedule is fairly presented in accordance with the basis of accounting used by the Public Ministry and whether cost-sharing contributions were provided in accordance with the terms of the agreement.

Internal Control

- We obtained a sufficient understanding of the five internal control components to plan the audit, performing procedures to understand the design of controls and whether those controls were placed in operation;
- We assessed control risk for financial statement assertions to determine:
 - ✓ If the controls were effectively designed; and
 - ✓ If the controls were placed in operation effectively.
- We determined the combined risk, which consists of inherent risk and control risk; and

- We used the combined risk to determine the nature, timing and extent of audit procedures (substantive tests) to verify the financial statement assertions.

Compliance with Agreement Terms and Applicable Laws and Regulations

- We identified the agreement terms and applicable laws and regulations that cumulatively, if not observed, could have a direct and material effect on the fund accountability statement;
- We assessed the inherent and control risk (combined risk) that material non-compliance could occur for each of the compliance requirements listed in the paragraph above; and
- We determined the nature, timing and extent of compliance tests based on the combined risk assessment described in the paragraph above.

AUDIT RESULTS

Fund Accountability Statement

The results of our tests disclosed questioned costs for US\$538 (L.9,670) that are not supported. See finding No. 1 on compliance.

In our opinion, except for the matter mentioned in the preceding paragraph, the fund accountability statement of grant funds provided by USAID/Honduras for Project No. 522-0394, Strengthened Rule of Law and Respect for Human Rights Program, managed by the Public Ministry for the period January 1 to December 31, 2004, presents fairly, in all material respects, program revenues, disbursements and initial and final balances in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 1 to the fund accountability statement.

Cost-Sharing Schedule

Based on our review, nothing came to our attention that caused us to believe that the Public Ministry did not fairly present the cost-sharing schedule, in all material aspects, in accordance with the basis of accounting used to prepare the cost-sharing schedule. Furthermore, nothing came to our attention that caused us to believe that the recipient has not provided and accounted for cost-sharing contributions, in all material aspects, in accordance with the terms of the agreement.

Internal Control

In planning and performing our audit, we considered the internal control of the Public Ministry in relation to the project in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on internal control. We also reviewed the separate cost-sharing schedule.

During our audit, we observed the following two reportable conditions involving internal control:

1. The Public Ministry did not implement adequate controls over the management of assets; and
2. The Public Ministry did not implement adequate controls over some purchases.

Compliance with Agreement Terms and Applicable Laws and Regulations

As part of obtaining reasonable assurance about whether the fund accountability statement of the Project is free of material misstatement, we conducted an evaluation of compliance with the agreement terms and applicable laws and regulations. We also reviewed the separate cost-sharing schedule to determine whether the cost-sharing schedule is fairly presented in accordance with the basis of accounting used by the Public Ministry and to determine whether cost-sharing contributions were provided and accounted for in accordance with terms of the agreement.

The results of our tests disclosed the following two important instances of noncompliance that must be reported in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States of America:

1. Some assets were not found during the physical inspection; and
2. Some assets were not marked with the USAID emblem.

Follow-up on Prior Audit Recommendations

During our audit of the fund accountability statement of Project No. 522-0394 for the period January 1 to December, 31, 2004, we followed up on the recommendation included in the prior audit report for the period of January 1 to December 31, 2003 issued by the Tribunal Superior de Cuentas on July 12, 2004. This report includes one compliance recommendation to be implemented by the Public Ministry and our review showed that this recommendation was implemented by the Public Ministry and closed by the TSC department of follow-up on recommendations.

Management Comments

In letters dated May 19 and June 6 and 7, 2005, the assets control unit and the Public Ministry's management commented that they agreed with the findings included in this report (two internal control and two compliance findings). Their comments are included in detail in this report after each recommendation.



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**INDEPENDENT AUDITOR'S REPORT
ON THE
FUND ACCOUNTABILITY STATEMENT**

Mr. LEONIDAS ROSA BAUTISTA
Attorney General
Public Ministry
Tegucigalpa, Honduras

We have audited the fund accountability statement of Project No. 522-0394, Strengthened Rule of Law and Respect for Human Rights Program, managed by the Public Ministry for the period January 1 to December 31, 2004. The fund accountability statement is the responsibility of the Public Ministry's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.52 of *U.S. Government Auditing Standards*, since no such program is offered by professional organizations in Honduras.

The results of our tests disclosed, as detailed in the fund accountability statement, questioned costs for US\$538 (L. 9,670) that are not supported with documentation.

In our opinion, except for the effects of the questioned costs discussed in the preceding paragraph,

the fund accountability statement referred to above presents fairly, in all material respects, program revenues, disbursements and initial and final balances for the period January 1 to December 31, 2004 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 1 to the fund accountability statement.

In accordance with *U.S. Government Auditing Standards*, we have also issued our reports dated May 27, 2005 on our consideration of the Public Ministry's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

This report is intended for the information of the Public Ministry and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Tribunal Superior de Cuentas

TRIBUNAL SUPERIOR DE CUENTAS

May 27, 2005

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HUMAN RIGHTS PROGRAM
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2004

FUND ACCOUNTABILITY STATEMENT
(Expressed in U.S. dollars) (See Note 2.)

			<u>Questioned Costs</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Initial balance, reconciled as of 1/1/04		(195,158)			3
<u>Plus Revenues</u>		<u>287,645</u>			4
Total Available Cash		92,487			
<u>Less: Disbursements</u>					
<u>Goal A</u>					
Restructure the Prosecutorial Organization in the Transition Process to a New Criminal Procedures System	162,261	114,305		130	6 and 9
<u>Goal B</u>					
Strengthen Forensic Investigation / Strengthen the Management of Forensic Medicine	50,503	16,497			6
<u>Goal C</u>					
Increase the Technical-Judicial Capacity of the Prosecutorial Function / Technical Assistance for the Implementation of the Criminal Procedures Code	49,031	45,424			6
<u>Goal D</u>					
Strengthen the Technical and Managerial Capacity of the Administrative Function	<u>15,236</u>	<u>6,169</u>		<u>408</u>	6 and 9
				<u>538</u>	
Total	<u>277,031</u>	<u>182,395</u>			6 y 9
Final Balance as of 31/12/2004		<u>89,908</u>			7



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**INDEPENDENT AUDITOR'S REPORT ON THE
COST-SHARING SCHEDULE
(With Annual Budgets)**

Mr. LEONIDAS ROSA BAUTISTA
Attorney General
Public Ministry
Tegucigalpa, Honduras

We have reviewed the accompanying cost-sharing schedule of the Public Ministry for the period January 1 to December 31, 2004. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). The purpose of our review was to determine if the cost-sharing schedule is fairly presented in accordance with the basis of accounting described in Note 1 to the cost-sharing schedule and to determine if cost-sharing contributions were provided in accordance with the terms of the agreement. We also considered internal control related to the provision of and accounting for cost-sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the cost-sharing schedule. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that the Public Ministry did not fairly present the cost-sharing schedule, in all material aspects, in accordance with the basis of accounting used to prepare the cost-sharing schedule. Furthermore, nothing came to our attention that caused us to believe that the Public Ministry has not provided and accounted for cost-sharing contributions, in all material aspects, in accordance with the terms of the agreement.

This report is intended for the information of the Public Ministry and the U.S. Agency for

International Development, Mission to Honduras (USAID/Honduras). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Tribunal Superior de Cuentas

TRIBUNAL SUPERIOR DE CUENTAS

May 27, 2005

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COST-SHARING SCHEDULE
(Expressed in U.S. dollars) (See Note No.2.)

		<u>Questioned Costs</u>					
		<u>Budget</u>	<u>Actual</u>	<u>Surplus</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<u>Goal A</u>							
Restructure the Prosecutional Organization in the Transition Process to a New Criminal Procedures System		117,412	851,860	734,448			
<u>Goal B</u>							
Strengthen Forensic Investigation / Strengthen the Management of Forensic Medicine		11,468	719,428	707,960			
<u>Meta C</u>							
Increase the Technical-Judicial Capacity of the Prosecutional Function / Technical Assistance for the Implementation of the Criminal Procedures Code		7,492	500,878	493,386			
<u>Goal D</u>							
Strengthen the Technical and Managerial Capacity of the Administrative Function		<u>-0-</u>	<u>306,969</u>	<u>306,969</u>			
Total		<u>136,372</u>	<u>2,379,135</u>	<u>2,242,763</u>			8

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
AND THE COST-SHARING SCHEDULE**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The fund accountability statement of grant funds provided by the U.S. Agency for International Development, Mission to Honduras (USAID/Honduras) and the cost-sharing schedule of the Government of Honduras under Project No. 522-0394, Strengthened Rule of Law and Respect for Human Rights Program, managed by the Public Ministry for the period January 1 to December 31, 2004 were prepared by the Project on a cash basis. The fund accountability statement and the cost-sharing schedule are the responsibility of the Project's management.

The Public Ministry has classified this Project by goals and the execution of expenditures is by stages corresponding to the period audited: the sixth and seventh. In the sixth stage, goal "A" is restructure the prosecutorial organization in the transition process to a new Criminal Procedures System; goal "B" is strengthen forensic investigation; goal "C" is increase the technical-judicial capacity of the prosecutorial function; and goal "D" is strengthen the technical and managerial capacity of the administrative function. In the seventh stage, goal "A" is restructure the prosecutorial organization in the transition process to a new Criminal Procedures System; goal "B" is strengthen the management of forensic medicine, goal "C" is provide technical assistance for the implementation of the Criminal Procedures Code, and goal "D" is strengthen the technical and managerial capacity of the administrative function.

The Public Ministry uses the cash basis of accounting. Consequently, revenues are recognized when received and expenses when paid.

The significant accounting policies adopted by the Public Ministry for the Project's administration are summarized as follows:

Monetary Unit

The Project's accounting records are kept in lempiras, the official currency of Honduras. In March 1990, the Government of Honduras approved an interbank market for most foreign currency transactions. Regulations of the Central Bank of Honduras state that all those transactions must be channeled through commercial banks and other authorized agents. The interbank exchange rate used for the period January 1 to December 31, 2004 was L. 17.9570 and L.18.74 to US\$1.00, respectively. These and other intermediate rates were used to prepare the fund accountability statement in order to credit to the Project the equivalent of the dollar amounts provided by USAID/Honduras to the Project.

Note 2. EXCHANGE RATE

The amounts presented in the fund accountability statement are translated at a rate of L.18.02 to US\$1.00, which is equal to the average rate of exchange during the period audited (total lempiras received by the Project divided by total dollars disbursed by USAID/Honduras).

The amounts presented in the cost-sharing schedule are translated at a rate of L.13.08 to US\$1.00, which is equal to the rate of exchange in effect on August 28, 1997, the date on which the grant agreement was signed, as required by the agreement.

Note 3. INITIAL BALANCE AS OF 1/1/04

The initial balance as of January 1, 2004 was determined as follows:

	<u>Dollars</u>	<u>Lempiras</u>
Initial balance with banks	(24,156)	(435,284)
(+) Accounts receivable at 1/1/04	23,161	417,354
(-) Accounts payable at 1/1/04	189,404	3,413,061
(-) Adjustment for return of revenue *	<u>4,759</u>	<u>85,764</u>
Initial balance reconciled	<u>(195,158)</u>	<u>(3,516,755)</u>

(*) Revenue recorded in the grant funds account (210) that corresponds to the cost-sharing funds account (110).

Note 4. REVENUES

During the period audited, the Public Ministry received revenues totaling US\$287,645 (L. 5,183,355), broken down as follows:

<u>Description</u>	<u>Dollars</u>	<u>Lempiras</u>
<u>USAID/Honduras reimbursements</u>		
Reimbursements 7, 8 and 9, prior period expenses (*)	92,989	1,675,663
Reimbursement No.10	16,585	298,867
Reimbursement No.11	72,451	1,305,584
Complement of reimbursement No.11	2,027	36,539
Reimbursement No.12	27,027	487,019
Reimbursement No.13	10,008	180,340
Reimbursement No.14	7,616	137,243
Reimbursement No. 15	7,746	139,574
Reimbursement No. 16	41,277	743,806
Reimbursement No. 17	6,228	112,223
Complement of reimbursements No. 14, 15 and 16	<u>3,691</u>	<u>66,497</u>
Total	<u>287,645</u>	<u>5,183,355</u>

(*) Reimbursements No. 7, 8 and 9 were requested from USAID/Honduras in September, October and December 2003 and paid in January 2004.

Note 5. LOANS FROM NATIONAL FUNDS

The project used funds from the national budget as loans to finance grant expenditures, which were reimbursed by USAID/Honduras. The analysis of these loans is as follows:

	<u>Dollars</u>	<u>Lempiras</u>
Initial loan balance as of 1/1/04	189,404	3,413,061
(+) Loans received during the period audited	5,492	98,979
(-) Loans repaid during the period audited	<u>96,679</u>	<u>1,742,162</u>
Loan balance as of 31/12/2004	<u>98,217</u>	<u>1,769,878</u>

Note 6. DISBURSEMENTS

During the period audited, the Public Ministry had expenditures in the amount of US\$182,395 (L. 3,286,764), which integrate each goal as follows:

<u>Goal A</u>	<u>Dollars</u>	<u>Lempiras</u>
Technical and professional services	3,108	56,000
Training	4,512	81,304
Materials and supplies	10,219	184,150
Procurement of goods	<u>96,466</u>	<u>1,738,325</u>
Total Goal A	<u>114,305</u>	<u>2,059,779</u>
<u>Goal B</u>		
Technical and professional services	5,133	92,500
Training	1,344	24,227
Materials and supplies	1,515	27,302
Air fares, per diem and travel expenses	2,277	41,034
Procurement of goods	<u>6,228</u>	<u>112,223</u>
Total Goal B	<u>16,497</u>	<u>297,286</u>
<u>Goal C</u>		
Technical and professional services	12,523	225,666
Training	3,798	68,437
Materials and supplies	9,263	166,914
Air fares, per diem and travel expenses	<u>19,840</u>	<u>357,513</u>
Total Goal C	<u>45,424</u>	<u>818,530</u>
<u>Goal D</u>		
Training	2,768	49,875
Air fares, per diem and travel expenses	1,563	28,168
Materials and supplies	<u>1,838</u>	<u>33,126</u>
Total Goal D	<u>6,169</u>	<u>111,169</u>
Total Disbursements	<u>182,395</u>	<u>3,286,764</u>

Note 7. FINAL BALANCE AS OF 31/12/04

The final balance as of December 31, 2004 of US\$89,908 (L. 1,620,163) reconciled to cash at banks is as follows:

Balance at 31/12/04	<u>(89,908)</u>	<u>(1,620,163)</u>
<u>Balance Make-up</u>		
Balance with banks at 31-12-04	8,400	151,366
(-) Loans payable (Fund 110)	98,217	1,769,878
(-) Return of expenses *	91	1,651
Reconciled balance at 31/12/04 (a)	<u>(89,908)</u>	<u>(1,620,163)</u>

(*) Return of expenses not executed by Agencia Merz for the repair of a motor vehicle.

(a) <u>Balance of accounts receivable from USAID/Honduras for 2005</u>		
Reimbursement No 1 on 01/02/05	81,658	1,471,477
Reimbursement No. 2 on 15/03/05	11,799	212,630
(-) Checks recorded in 2004 and reimbursed in 2005	<u>3,549</u>	<u>63,944</u>
Total	<u>89,908</u>	<u>1,620,163</u>

Note 8. SURPLUS OF COST-SHARING CONTRIBUTIONS

During our audit, we determined that the Public Ministry exceeded its budgeted contribution by US\$2,242,763 (L. 29,335,336).

Note 9. QUESTIONED COSTS

Questioned costs that are not supported amount to US\$538 for goods purchased from 1995 to 2002 that are included in the 2004 inventory but which could not be located during the physical inspection. See compliance finding No. 1.



FINANCIAL STATEMENT AUDIT OF USAID RESOURCES
MANAGED BY THE PUBLIC MINISTRY UNDER
PROJECT NO. 522-0394, STRENGTHENED RULE OF LAW AND RESPECT FOR
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FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2004

**INDEPENDENT AUDITOR'S REPORT
ON
INTERNAL CONTROL**

Mr. LEONIDAS ROSA BAUTISTA
Attorney General
Public Ministry
Tegucigalpa, Honduras

We have audited the fund accountability statement of the Public Ministry for the period January 1 to December 31, 2004, and have issued our report on it dated May 27, 2005. We also reviewed the separate cost-sharing schedule.

Except for not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

The management of the Public Ministry is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note 1 to the fund accountability statement. Because of inherent limitations in internal control, errors or fraud 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.

In planning and performing our audit of the fund accountability statement of the Public Ministry for the period January 1 December 31, 2004, we obtained an understanding of internal control. With respect to internal control, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Project's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement and cost-sharing schedule.

We observed the following two reportable conditions that are described in the attached findings:

1. The Public Ministry did not implement adequate controls over the management of assets; and
2. The Public Ministry did not implement adequate controls over some purchases.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the fund accountability statement and the cost-sharing schedule may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control 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 none of the reportable conditions described above is a material weakness.

We also noted another matter involving internal control and its operation that we have reported to the management of the Public Ministry in a separate letter dated July 1, 2005.

This report is intended for the information of the Public Ministry and the U.S. Agency for International Development, Mission to Honduras (USAID/Honduras). However, upon release by USAID/Honduras, this report is a matter of public record and its distribution is not limited.

Tribunal Superior de Cuentas

TRIBUNAL SUPERIOR DE CUENTAS

May 27, 2005

FINANCIAL STATEMENT AUDIT OF USAID RESOURCES

MANAGED BY THE PUBLIC MINISTRY UNDER
PROJECT NO. 522-0394, STRENGTHENED RULE OF LAW AND RESPECT FOR
HUMAN RIGHTS PROGRAM
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2004

**FINDINGS ON
INTERNAL CONTROL**

1. The Public Ministry did not Implement Adequate Controls over the Management of Assets

Condition

The Public Ministry did not implement adequate controls over the management of assets. For example:

- a. It did not have the amount of inventory maintained in the control of assets reconciled to the accounting records (see Annex 1.a);
- b. The serial number of some assets shown in the records was not the same as the number on the assets inspected (see Annex 1.b);
- c. Some assets were not included in the inventory (see Annex 1.c);
- d. Some assets were discarded without prior written authorization (see Annex 1.d); and
- e. Some assets transferred to other sites were not updated in the system (see Annex 1.e).

Criteria

Article 16, Chapter VII of regulations regarding control over the Public Ministry's assets states that: For verification purposes, the internal audit department shall, as part of its interventions in each region, schedule inventory taking of assets at each office in order to reconcile its findings with the assets unit and update records.

Internal Control Technical Standard N° 136-01, "Record System," issued by the Tribunal Superior de Cuentas states that records of fixed assets shall be kept in such a manner as to ensure the correct classification and timely control of their allocation, use, transfer or receipt.

Internal Control Technical Standard N° 135-05, "Physical Inventory Taking," paragraph 227 states that physical inspections shall be made at least once a year in order to verify the actual existence and condition of inventories. The respective supporting documentation must be maintained as evidence of the performance of these periodic inspections.

Article 8, Chapter V of regulations regarding control over the Public Ministry's assets states that:

No official or employee shall move, transfer, lend or make use of the Public Ministry' assets without the corresponding authorization.

Article 6, Chapter V of regulations regarding control over the Public Ministry's assets states that: In the event that assets are transferred or reassigned, the corresponding forms must be filled out – dispatch and receipt of assets – so that responsibility is also transferred.

Cause

The Public Ministry did not take reasonable care to ensure that procedures established for the use and management of assets were adequately implemented in the system.

Effect

The failure to adequately implement procedures established to manage assets resulted in some deficiencies (see annex No. 1).

Recommendation No.1

We recommend that the Public Ministry adequately implement established procedures to ensure that:

- a. All purchases of assets added to the inventory are periodically reconciled to the accounting records and assets control;**
- b. All assets are recorded in the system with the correct serial number;**
- c. All assets are included in the inventory;**
- d. Authorization in writing is obtained for all assets that are discarded; and**
- e. All transfers of assets have been updated in the system.**

Management Comments

According to a letter dated May 19, 2005, the person in charge of assets control at the Public Ministry stated:

- a. With respect to the difference reflected between the accounting records and the assets control section, we wish to state that the list issued by assets control was for the current date and not December 31 of last year; therefore, 2005 amounts were added, such as articles that were purchased in December 2004 and received in 2005 for L. 1,172,118: a Ford V-10 truck that was donated to the Public Ministry by USAID valued at L. 586,873

and two motorcycles with inventory numbers 27406 and 27407 valued at L. 113,130 and

that, in accounting terms, do not have value.

We currently have problems with the fixed assets module as there are entries that appear with incorrect information and values; therefore, corrections have been applied for the amount of L. 8,710.

According to official letter No. DA-140-2005, the Public Ministry's management stated that the following corrective actions were taken in relation to the audit:

- b. We wish to make it known that these changes have been made in the system;
- c. We wish to make it known that yes, they are recorded in inventory fund 210;
- d. As a corrective action, circular DA-001-2005 was issued as a reminder to comply with procedures established for exercising control over the Public Ministry's assets; and
- e. The correction was made to the system.

Auditor's Comments

We verified that the Public Ministry:

- a. Reconciled assets;
- b. Corrected the serial numbers in the system;
- c. Included these assets in the Project's inventory;
- d. Took actions in accordance with circular DA-001-2005 so that assets may not be discarded without authorization in writing; and
- e. Updated the system to the transfers of assets and we also reviewed evidence of the assets received through the charge of individual and collective. As a result, we are closing this recommendation with the publication of this report.

2. The Public Ministry did not implement adequate controls over some purchases

Condition

The Public Ministry purchased materials, tools and equipment with checks No. 275, 276 and 277 for US\$10,219 (L. 184,150) in order to make some metal stands, but it did not implement adequate controls. For example:

- a. There is no evidence of a purchase order request; and

- b. The tools and equipment purchased and the metal stands made from the materials purchased by the Project were not included in the inventory.

Criteria

Section B.2 (a) of Annex II, standard provisions annex of the agreement, states that the Grantee will “Carry out the Agreement or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents...”

Sound administrative practices establish that in order to make purchases it is necessary to have a purchase order request and that all goods purchased must be included in the inventory.

Cause

The Public Ministry did not take reasonable care to ensure that all purchases had a purchase order request and that all assets purchased were included in the inventory.

Effect

The lack of adequate care to ensure that all purchases have a purchase order request and that assets purchased were included in the inventory resulted in expenses of US\$10,219 (L. 184,150) to make assets with materials, tools and equipment acquired by the Project that were not included in the inventory and not used by the Project.

Recommendation No.2

We recommend that the Public Ministry ensure that:

- a. A purchase order request is prepared before any procurement action;**
- b. All assets are included in the inventory.**

Management Comment

According to official letter No. DA-138-2005, the Project’s management stated that: In response to your note dated May 19, I wish to inform you that a request was made to the internal audit department through memorandum DA-317-2005 to explain to us the procedures used in checks No. 275, 276 and 277, and the audit department told us that procedures in the utilization of these checks are subject to current practices in the procurement regulations.

At the same time and as a corrective action, the assets unit was ordered by memorandum DA-316-2005 to include them in assets obtained from grant funds, with the assets section immediately proceeding to enter them into the system.

Auditor’s Comments

We verified that subsequent checks had the appropriate purchase order requests and that the tools, equipment and metal stands were added to the inventory. Therefore, we are closing this recommendation with the publication of this report.

During a physical inspection, we verified that the metal stands are not being used and are being stored in warehouses in Tegucigalpa, Ceiba, Santa Rosa de Copan and San Pedro Sula.



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**INDEPENDENT AUDITOR'S REPORT
ON
COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS**

Mr. LEONIDAS ROSA BAUTISTA
Attorney General
Public Ministry
Tegucigalpa, Honduras

We have audited the fund accountability statement of the Public Ministry for the period January 1 to December 31, 2004 and have issued our report on it dated May 27, 2005. We also reviewed the separate cost-sharing schedule.

Except for not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with agreement terms and laws and regulations applicable to the Public Ministry is the responsibility of the Public Ministry's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the Public Ministry's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such opinion. We also performed tests of the Public Ministry's compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost-sharing contributions.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement and the cost-sharing schedule. The results of our compliance tests disclosed the following two material instances of noncompliance, which we describe in the attached findings:

1. Some assets were not found during the physical inspection; and
2. Some assets were not marked with the USAID emblem.

We considered these two material instances of noncompliance in forming our opinion on whether the Public Ministry's fund accountability statement is presented fairly, in all material respects, in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 1 to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated May 27, 2005.

This report is intended for the information of the Public Ministry and the U.S. Agency for International Development, Mission to Honduras (USAID/Honduras). However, upon release by USAID/Honduras, this report is a matter of public record and its distribution is not limited.

Tribunal Superior de Cuentas

TRIBUNAL SUPERIOR DE CUENTAS

May 27, 2005

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**FINDINGS
ON
COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS**

1. Some Assets Were not Found during the Physical Inspection

Condition

Assets valued at US\$538 (L.9,670) were not found during the physical inspection (See Annex No. 2).

Criteria

Section B.5 (b) of Annex II, standard provisions annex of the agreement, states that: “The Grantee shall maintain accounting books, records, documents and other evidence relating to the Agreement, adequate to show, without limitation, all costs incurred by the Grantee under the Agreement, the receipt and use of goods and services acquired under the Agreement by the Grantee,...”

Section E.2 (a) of Annex II, standard provisions annex of the agreement, states that: “In the case of any disbursement ... which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, USAID/Honduras, notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. dollars to USAID/Honduras...”

Cause

The Public Ministry’s management did not ensure that all assets purchased were periodically verified to determine their existence, safekeeping and protection.

Effect

The failure to ensure that all assets purchased were periodically verified to determine their existence, safekeeping and protection resulted in assets valued at US\$538 (L.9,670) not being found on performing a physical inspection. For this reason, we are questioning this amount as an unsupported cost.

Recommendation No.1

We recommend that the Public Ministry:

- a. Provide evidence to USAID/Honduras supporting assets valued at US\$538 (L.9,670) that could not be physically located, or refund the questioned costs that are not supported to USAID/Honduras; and**
- b. Perform periodic physical inventories to determine the existence, safekeeping and protection of assets.**

Management Comments

According to official letter No. DA-140-2005 dated June 7 of this year, the Public Ministry's management stated that the corresponding deductions would be made with respect to the collection of the assets from the responsible parties.

Auditor's Comments

During the exit conference, the Public Ministry's management expressed their willingness to comply with regulations regarding control over the Public Ministry's assets. Article 16, Chapter VII of regulations regarding control over assets states that: physical inspections of fixed assets are to be made at least once a year. We verified that the Public Ministry took actions in accordance with circular DA-001-2005 to comply with regulations regarding control over assets. Therefore, we are closing this recommendation with the publication of this report.

2. Some Assets were not Marked with the USAID Emblem

Condition

Some assets procured with grant funds and assigned by the Public Ministry to its regional offices in San Pedro Sula, Santa Rosa de Copan, Choluteca and Comayagua are not marked with the USAID emblem. (See Annex No. 3.)

Criteria

Annex II, Section B.8 (a) of the grant agreement states that: "The Grantee will give appropriate publicity to the grant and the Project as a program to which the United States has contributed... and mark goods financed by USAID..."

Cause

The Public Ministry did not take adequate care to ensure that all assets procured with grant funds were marked with the USAID emblem.

Effect

The failure to take adequate care to ensure that all assets procured with grant funds are marked with the USAID emblem could result in the grant assets not receiving appropriate publicity; also, this situation would not permit their timely identification.

Recommendation No.2

We recommend that the Public Ministry mark all assets procured with grant funds with the USAID emblem.

Management Comments

Public Ministry regional administrations are currently marking the assets identified in this audit and committed themselves to ensure that all assets be labeled.

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LIST OF RECOMMENDATIONS

INTERNAL CONTROL

Recommendation No.1

We recommend that the Public Ministry adequately implement established procedures to ensure that:

- a All purchases of assets added to the inventory are periodically reconciled to the accounting records and assets control;
- b All assets are recorded in the system with the correct serial number;
- c All assets are included in the inventory;
- d Authorization in writing is obtained for all assets that are discarded; and
- e All transfers of assets have been updated in the system.

Recommendation No.2

We recommend that the Public Ministry ensure that:

- a. A purchase order request is prepared before any procurement action; and
- b. All assets are included in the inventory.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Recommendation No.1

We recommend that the Public Ministry:

- a. Provide evidence to USAID/Honduras supporting assets valued at US\$538 (L.9,670) that could not be physically located, or refund the questioned costs that are not supported to USAID/Honduras; and
- b. Perform periodic physical inventories to determine the existence, safekeeping and protection of assets.

Recommendation No.2

We recommend that the Public Ministry mark all assets procured with grant funds with the USAID emblem.