

**FINANCIAL STATEMENT AUDIT OF USAID/HONDURAS RESOURCES,  
UNDER THE EDUCATODOS PROGRAM, GOH/USAID STRATEGIC  
OBJECTIVE GRANT AGREEMENT No. 522-0436, MANAGED BY THE  
SECRETARIAT OF EDUCATION  
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006**

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**TABLE OF CONTENTS**

	Page
AUDIT BACKGROUND.....	1
PROGRAM BACKGROUND.....	1
AUDIT OBJECTIVES.....	4
AUDIT SCOPE.....	5
AUDIT RESULTS.....	7
REPORT ON FUND ACCOUNTABILITY STATEMENT.....	9
FUND ACCOUNTABILITY STATEMENT.....	11
REPORT ON COST-SHARING SCHEDULE.....	12
COST-SHARING SCHEDULE.....	14
NOTES TO THE FUND ACCOUNTABILITY STATEMENT AND THE COST-SHARING SCHEDULE.....	15
REPORT ON INTERNAL CONTROL.....	19
FINDINGS ON INTERNAL CONTROL.....	22
REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS.....	27
FINDINGS ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS.....	29
LIST OF RECOMMENDATIONS.....	34
ANNEX No. 1 SPARE PARTS NOT RECORDED ON INVENTORY CONTROL CARDS.....	36
ANNEX No. 2 SALES TAX PAID .....	38



Tegucigalpa, M.D.C.  
May 15, 2007

**Dr. MARLON A. BREVÉ REYES**  
**Secretary of Education**

Dr. Brevé Reyes:

This report presents the results of our financial audit of the fund accountability statement of grant funds provided by the U.S. Agency for International Development, Mission to Honduras (USAID/Honduras) for the EDUCATODOS Program, under GoH/USAID Strategic Objective Grant Agreement No. 522-0436, managed by the Secretariat of Education for the period January 1 to December 31, 2006.

### **AUDIT BACKGROUND**

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

Within the framework of this agreement, we conducted a financial audit of the EDUCATODOS Program, GoH/USAID Strategic Objective Grant Agreement No. 522-0436, managed by the Secretariat of Education for the period January 1 to December 31, 2006.

### **PROGRAM BACKGROUND**

On September 5, 2003, the U.S. Agency for International Development, Mission to Honduras (USAID/Honduras) approved Strategic Objective Grant Agreement No. 522-0436 that provided US\$1,700,000.00 in grant funds for the Secretariat of Education's EDUCATODOS Program to increase and improve investments and transparency of the social sector and to increase and improve basic education opportunities.

The budget approved for the EDUCATODOS Program in Implementation Letter No. 8 is as follows:

The budget approved for the EDUCATODOS Program is as follow:

External Funds (USAID/Honduras)

<u>Description</u>	Available Budget in Implementation Letter No.8 (*)		Approved Budget in Implementation Letter No.11 (**)		Total	
	<u>Lempiras</u>	<u>Dollars</u>	<u>Lempiras</u>	<u>Dollars</u>	<u>Lempiras</u>	<u>Dollars</u>
Personnel Services	-	-	3,905,383	206,634	3,905,383	206,634
Nonpersonnel Services	677,740	35,916	17,031,704	901,148	17,709,444	937,064
Other nonpersonnel services	120,000	6,359	-	-	120,000	6,359
Consulting services	2,210,000	117,117	-	-	2,210,000	117,117
Per diem and travel expenses	201,536	10,680	-	-	201,536	10,680
Materials and Supplies	391,290	20,736	3,238,400	171,344	3,629,690	192,080
Capitalizable assets	2,600,000	137,785	3,154,513	166,906	5,754,513	304,691
Transfers	-	-	4,800,000	253,968	4,800,000	253,968
Total	<u>6,200,566</u>	<u>328,593</u>	<u>32,130,000</u>	<u>1,700,000</u>	<u>38,330,566</u>	<u>2,028,593</u>

(\*) The exchange rate used is L.18.87 to US\$1.00, as established in Implementation Letter No. 8.

(\*\*) The exchange rate used is 18.90 to US\$1.00, as established in Implementation Letter No. 11.

National Treasury Funds \*

<u>Description</u>	Budget to be <u>Executed in Lempiras</u>	Budget to be <u>Executed in Dollars</u>
Personnel Services	22,570,274.00	1,289,155.00
Nonpersonnel Services	7,827,399.00	447,081.00
Materials and Supplies	2,664,728.00	152,202.00
Capitalizable assets	<u>2,161,200.00</u>	<u>123,442.00</u>
Total	<u>35,223,601.00</u>	<u>2,011,880.00</u>

\* Budget modified and approved by the Secretariat of Finance.

On September 5, 2003, the strategic objective grant agreement was signed to provide access to basic education for youths excluded from the school system and young adults. The program is scheduled to conclude on September 30, 2009. Under the Program, USAID on September 5, 2003 expanded the strategic objective grant agreement, "Investing in People: Healthier, Better Educated People" to finance the Education Activity. The EDUCATODOS Program is a nine-grade formal basic education option, with an alternative modality of delivering services that the Government of Honduras incorporates in its actions to eradicate poverty as a means of investing in human capital.

EDUCATODOS is an aggressive strategy to incorporate into the education system more than 1.5 million youths and young adults between 12 and 35 years of age who have not begun or completed basic education, especially in rural and periurban areas.

The Secretariat of Education of Honduras implements this program as an effective strategy that has contributed to the reduction of illiteracy and to increasing the levels of schooling among the Honduran people, by offering quality basic education in accordance with the following results:

Respond to the policies of the government of Honduras to attend to priority social investment areas and to contribute to the achievement of country goals, earmarked in the millennium goals, EFA goals.

It is an alternative education model that strengthens such values as citizenship, democracy and national identity, among others.

Between 1995 and December 2006, more than 897,935 youths and young adults have been assisted and around 196,558 people have been made literate in 16 of Honduras' 18 departments.

It has an annual average registration of 80,000 participants from first to ninth grades, of which 52% are women.

It uses an innovative methodology that combines texts, audio materials and a teaching mediator who is a volunteer facilitator such facilitator jointly responsible, motivated and committed is leader of his community.

EDUCATODOS is strengthened by volunteers, with more than 6,000 facilitators contributing approximately 1,440,000 hours annually of volunteer service at the learning centers, resulting in significant savings to the government.

Each department is attended by a network of field operations in which 75% of the Program's financial and technical efforts are concentrated.

The Program is conducted in 16 of the country's departments and has a structure at a departmental and municipal level, a coordinator for each department and a municipal promoter for each municipality. Currently, work is being done toward departmental sectorization for the purpose of reduce the salary and wage expenses. Departments in which the Program is conducted are the following: Choluteca, Valle, Francisco Morazán, La Paz, Comayagua, Intibucá, Lempira, Santa Bárbara, Copan, Ocotepeque, Cortes, Atlántida, Yoro, Olancho, El Paraíso and Gracias a Dios.

The main office is located at the United Nations Park, El Picacho. As of January 2005, through implementation letter No. 6 of 2005, an administrative structure and an administrative and financial coordination office responsible for the management of funds provided by USAID/Honduras and the national counterpart was created. It is made up of an administrative and financial coordinator, a general accountant, a human resources administrator, and a procurement and contracting official, among others. Also approved in the same implementation letter was the creation of a concurrent audit for the purpose of reviewing 100% of the Program's financial documentation.

Previously, the firm Fernández, Fortín, Bográn y Asociados was responsible for managing funds provided by USAID/Honduras. Through an implementation letter signed by USAID/Honduras, the Secretariat of Finances and the Secretariat of Education, the new administrative structure was approved.

## **AUDIT OBJECTIVES**

The objective of this engagement was to conduct a financial audit of the fund accountability statement of USAID/Honduras resources provided to the EDUCATODOS Program under GoH/USAID Strategic Objective Grant Agreement No. 522-0436, managed by the Secretariat of Education, for the period January 1 to December 31, 2006.

The fund accountability statement is the basic financial statement of USAID/Honduras grant funds to be audited that presents revenue, disbursements and cash balances provided by USAID to the Secretariat of Education and goods and technical assistance directly procured by USAID for the use of the Secretariat of Education.

### **A. Audit of USAID/Honduras 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-funded program presents fairly, in all material respects, revenues received, disbursements and cash balances for the period January 1 to December 31, 2006 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 internal control of the Secretariat of Education related to the USAID/Honduras-funded program, 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 Secretariat of Education 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 Secretariat of Education has taken adequate corrective actions 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 agreement, the government of Honduras must provide annual budgets for the Program. 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 Secretariat of Education 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 Revenue**

- We confirmed directly with USAID/Honduras and the Secretariat of Education contributions in cash made to the Program during the period audited;
- We reconciled the advances and reimbursements made by USAID/Honduras with the records and files of the Program;
- We directly confirmed the program account balances maintained with Banco Mercantil (BAMER), and if it complied with the guarantees required by USAID/Honduras;
- We verified if there was revenue from sources other than USAID/Honduras fund advances and reimbursements; and
- We reviewed supporting documentation for advances and reimbursements made by USAID/Honduras and the government of Honduras, verifying aspects such as validity, authorization, accounting records and supervision.

#### **Disbursements**

- We traced the transactions through the Program's accounting records to determine if the disbursements were properly recorded;
- We analyzed the propriety of disbursements by reviewing documentation supporting expenditures made from the separate account the Program maintains with Banco Mercantil;
- We reviewed the inventory of commodities procured during the life of the Program 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 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 the materials or services received.

### **Cost-Sharing Contributions**

We reviewed the cost-sharing schedule for Grant Agreement No. 522-0436, EDUCATODOS Program, and determined whether the cost-sharing schedule is fairly presented in accordance with the basis of accounting used by the Secretariat of Education and whether the 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.

#### **Follow-Up on Prior Audit Recommendations**

- We followed up on actions taken on the recommendations included in the previous audit report issued by the Tribunal Superior de Cuentas on June 21, 2006.

### **AUDIT RESULTS**

#### **Fund Accountability Statement**

The results of our tests disclosed questioned costs for US\$665 (L12,602) that are not eligible. See compliance findings No. 1 and 2.

In our opinion, except for the questioned costs mentioned in the previous paragraph, the fund accountability statement of GoH/USAID Strategic Objective Grant Agreement No. 522-0436, EDUCATODOS Program, managed by the Secretariat of Education for the period January 1 to December 31, 2006 presents fairly, in all material respects, revenues, disbursements and cash 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**

The results of our review disclosed that the Secretariat of Education did not fully comply with the provision of its cash contributions to the Program, failing to provide US\$226,731 (US\$70,146 for the period audited and US\$156,585 for 2005). (See compliance finding No. 3.)

Based on our review, nothing came to our attention that caused us to believe that the Secretariat of Education did not fairly present the cost-sharing schedule, in all material aspects, in accordance with the basis of accounting described in Note 1 to the cost-sharing schedule. Furthermore, except as noted in the paragraph above, nothing came to our attention that caused us to believe that the Secretariat of Education 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 Secretariat of Education in relation to the Program 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 three reportable conditions involving internal control:

1. The Program's accountant was authorized to sign checks;
2. The Secretariat of Education did not have adequate procedures for managing and controlling incentives for facilitators; and
3. The Secretariat of Education had some weaknesses in the management and control of the warehouse.

### **Compliance with Agreement Terms and Applicable Laws and Regulations**

As part of obtaining reasonable assurance about whether the fund accountability statement of the GoH/USAID Strategic Objective Grant Agreement No. 522-0436, EDUCATODOS Program 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 contributions were provided and accounted for in accordance with the terms of the agreement.

The results of our tests disclosed the following three material 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. The Secretariat of Education paid sales tax with grant funds;
2. Some incentives for facilitators were not found on performing the physical inspection at the warehouse; and
3. The Secretariat of Education did not request or obtain the full amount of cost-sharing contributions.

### **Follow-up on Prior Audit Recommendations**

During our audit of the fund accountability statement of the GoH/USAID Strategic Objective Grant Agreement No. 522-0436, EDUCATODOS Program for the period January 1 to December 31, 2006, we followed up on the recommendations included in the prior audit report for the period January 1 to December 31, 2005 issued by the Tribunal Superior de Cuentas (TSC) on June 21, 2006. This report included five internal control recommendations and three compliance recommendations to be implemented by the EDUCATODOS Program and our review showed that these recommendations were implemented by the EDUCATODOS Program and closed by the TSC department of recommendation follow-up.

### **Management Comments**

In a letter dated April 26, 2007, the Program's Office of Administrative and Financial Coordination commented on the internal control and compliance findings. These comments are included in detail in this report after each recommendation.



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FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006

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

**Dr. MARLON A. BREVÉ REYES**  
**Secretary of Education**

We have audited the fund accountability statement of GoH/USAID Strategic Objective Grant Agreement No. 522-0436, EDUCATODOS Program, managed by the Secretariat of Education for the period January 1 to December 31, 2006. The fund accountability statement is the responsibility of the management of the Secretariat of Education. 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 of America. 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 do 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\$665 (L12,602) that are ineligible.

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, project revenues, disbursements and cash balances for the period January 1 to December 31, 2006 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 April 19, 2007 on our consideration of the internal control of the Secretariat of Education 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 Secretariat of Education and the U.S. Agency for International Development/Honduras (USAID/Honduras). However, upon release by USAID/Honduras, this report is a matter of public record and its distribution is not limited.

**Carmen Xiomara Rodezno Oyuela**

Jefe de la Unidad de Auditorías para Proyectos de  
Organismos Internacionales (UAPOI)  
Tribunal Superior de Cuentas  
19 de Abril de 2007

FINANCIAL STATEMENT AUDIT OF USAID/HONDURAS RESOURCES,  
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**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>
Beginning balance		8,362			7
<u>Revenues</u>					
Advances		263,852			
Reimbursements		<u>948,374</u>			
Total revenues	2,028,593	<u>1,212,226</u>			3
Total available cash		<u>1,220,588</u>			
<u>Less: Disbursements</u>					
National Technical Coordination	29,191	28,968			8
Administrative and Financial Coordination	962,252	957,422	429		6 y 8
Coordination of Planning and Strategic Alliances	37,651	30,228			8
Coordination of Field Operations	805,194	831,258	236		6 y 8
Technical assistance	<u>194,305</u>	<u>172,713</u>			8
Total disbursements	2,028,593	2,020,589			8
Excess of disbursements over revenues at 31/12/2006		<u>(800,001)</u>			4
Total questioned costs			<u>665</u>		6



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

**Dr. MARLON A. BREVÉ REYES**  
**Secretary of Education**  
**Tegucigalpa, Honduras**

We have reviewed the accompanying cost-sharing schedule of the GoH/USAID Strategic Objective Grant Agreement No. 522-0436, EDUCATODOS Program for the period January 1 to December 31, 2006. 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 Program 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.

The results of our review disclosed that the government of Honduras, through the Secretariat of Education, did not provide to the Program US\$226,731 (L3,969,561) of cost-sharing contributions for the period audited (US\$70,146 for the period audited and US\$156,585 for 2005). (See compliance finding No. 3.)

Based on our review, nothing came to our attention that caused us to believe that the Secretariat of Education 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, except as noted above, nothing came to our attention that caused us to believe that the Secretariat of Education 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 Secretariat of Education and the U.S. Agency for International Development/Honduras (USAID/Honduras). However, upon release by USAID/Honduras, this report is a matter of public record and its distribution is not limited.

**Carmen Xiomara Rodezno Oyuela**

Jefe de la Unidad de Auditorías para Proyectos de  
Organismos Internacionales (UAPOI)  
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**COST-SHARING SCHEDULE**  
Expressed in U.S. dollars (See Note 2)  
(With Annual Budgets)

				<u>Questioned costs</u>		
<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Shortfall</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<b><u>CONTRIBUTION 1</u></b>						
<u>Cash</u>						
Basic wages and salaries	1,105,124	1,068,414	36,710			
13th month salary	91,930	91,796	134			
14th month salary	92,101	85,833	6,268			
Printing, publications and copies						
	447,081	428,203	18,878			
Stationery (paper)	6,187	5,006	1,181			
Tires and inner tubes	11,446	11,084	363			
Fuel	51,406	49,374	2,031			
Other spare parts and minor accessories	34,499	34,332	167			
Office furniture	53,188	53,188	---			
Office and teaching supplies						
	48,664	44,251	4,413			
Computer equipment	<u>70,254</u>	<u>70,253</u>	<u>1</u>			
Subtotal	2,011,880	1,941,734	70,146			5
<b><u>CONTRIBUTION 2</u></b>						
Funds not executed-2005	<u>501,191</u>	<u>344,606</u>	<u>156,585</u>			
Total	<u>2,513,071</u>	<u>2,286,340</u>	<u>226,731</u>			5



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FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006

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

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

The fund accountability statement of grant funds provided by the U.S. Agency for International Development, Mission to Honduras (USAID/Honduras) to the EDUCATODOS Program, GoH/USAID Strategic Objective Grant Agreement No. 522-0436, managed by the Secretariat of Education for the period January 1 to December 31, 2006 was prepared by the auditor, and the cost-sharing schedule was prepared by the Secretariat of Education. The Program uses the cash basis of accounting. Consequently, revenues are recognized when received and expenses when paid. The fund accountability statement and the cost-sharing schedule are the responsibility of the Secretariat of Education.

The significant accounting policies adopted by the Secretariat of Education for the Program's administration are summarized as follows:

**Monetary Unit**

The Project's accounting records are kept in lempiras, the official currency of Honduras. However, since June 1994 the exchange mechanism in effect in Honduras is defined in the regulation on the public negotiation of foreign currency in the exchange market authorized by the Central Bank of Honduras by resolution 337-6/94. This mechanism establishes that all these transactions be channeled through commercial banks or other authorized agents. The interbank exchange rates used by the Central Bank of Honduras from January 1 to December 31, 2006 were L18.95 and L19.02 to US\$1.00, respectively. These and other intermediate rates were used to prepare the fund accountability statement.

**Note 2. EXCHANGE RATE**

The amounts of actual expenses presented in the fund accountability statement are valued at the exchange rate of L18.95 to US\$1.00, which is the average exchange rate for the audited period established by USAID/Honduras.

The amounts presented in the cost-sharing schedule are translated at the reference exchange rate established in Central Bank of Honduras resolution No. 337-6/94 of L17.5078 to US\$1.00 in effect on September 5, 2003, the date on which Grant Agreement No. 522-0436 was signed.

### **Note 3. REVENUES**

Revenues for the audit period amounted to US\$1,212,226 (L 22,971,694) as detailed below:

<u>Description</u>	<u>US\$</u>	<u>Lps</u>	Less Refunds to USAID		Total	
			<u>US\$</u>	<u>Lps</u>	<u>US\$</u>	<u>Lps</u>
Revenues from:						
Advances	263,852	5,000,000	-	-	263,852	5,000,000
Reimbursements	948,374	17,971,694	-	-	948,374	17,971,694
Interest	<u>629</u>	<u>11,917</u>	<u>629</u>	<u>11,917</u>	<u>=</u>	<u>=</u>
Total revenues	<u>1,212,855</u>	<u>22,983,611</u>	<u>629</u>	<u>11,917</u>	<u>1,212,226</u>	<u>22,971,694</u>

### **Note 4. EXCESS OF DISBURSEMENTS OVER REVENUES AS OF DECEMBER 31, 2006**

The excess of disbursements over revenues at December 31, 2006 of US\$800,002 (L15,160,026) is reconciled to cash at banks as follows:

	<u>Dollars</u>	<u>Lempiras</u>
Excess of disbursements over revenues at 31/12/06	(800,001)	(15,160,026)
<u>Integration of excess of disbursements over revenues</u>		
Balance with banks at 31/12/2006	81,982	1,553,564
(+) Accounts receivable	23	445
Adjustment for recovery of accounts receivable	202	3,825
(-) Accounts payable *	<u>(882,208)</u>	<u>(16,717,860)</u>
Excess of disbursements over revenues at 31/12/06 * *	<u>(800,001)</u>	<u>(15,160,026)</u>

\* This corresponds to US\$171,038 (L3,241,185) payable to NGOs and US\$711,170 (L13,476,675) payable to sundry suppliers.

\*\* Reimbursement of funds of US\$375,398 (L7,113,795) requested from USAID/Honduras in 2006 and reimbursed in January 2007, and reimbursement of US\$424,603 (L8,046,231) requested from USAID/Honduras in January 2007 and pending to be reimbursed to the Program.

### **Note 5. SHORTFALL OF COST-SHARING CONTRIBUTIONS**

The Government of Honduras, through the Secretariat of Finance, approved the budget of US\$2,011,880 for 2006 and agreed to provide US\$501,191 to the Secretariat of Education that had not been executed in 2005. The Secretariat of Education did not request the total amount approved from the Secretariat of Finance, which resulted in a shortfall of US\$70,146 for 2006 and US\$156,585 for 2005. See compliance finding No. 3.

### **Note 6. QUESTIONED COSTS**

The results of our tests disclosed questioned costs for US\$665 (L12,602) that are ineligible. See compliance findings No. 1 and 2.

**Note 7. BEGINNING BALANCE RECONCILED**

Funds corresponding to per diem advances (accounts receivable) disbursed in 2005 and not liquidated until 2006, as follows:

	<u>Dollars</u>	<u>Lempiras</u>
Excess of expenses at 31/12/05 *	(216,373)	(4,100,273)
(+) Accounts payable to NGOs liquidated	228,317	4,326,601
(-) Balance with banks at 31/12/05 **	3,581	67,861
Adjustments for incorrectly recorded amount	<u>1</u>	<u>20</u>
Beginning balance reconciled at 1/1/06	<u>8,362</u>	<u>158,447</u>

\* Funds paid by USAID with reimbursement No. 5 by check No. 13372 dated 2/3/06.

\*\* Left over funds returned to USAID by check No. 3033885 dated 31/1/06.

**Note 8. DISBURSEMENTS**

During the period audited, the EDUCATODOS Program incurred costs of US\$2,020,589 (L38,290,168), which are broken down as follows:

<u>Description</u>	<u>Dollars</u>	<u>Lempiras</u>
<u>National Technical Coordination</u>		
Basic wages and salaries	24,269	459,888
Local travel expenses	1,931	36,582
Local per diem and other travel expenses	1,122	21,268
Advertising and publicity	<u>1,646</u>	<u>31,200</u>
Total component	<u>28,968</u>	<u>548,938</u>
<u>Administrative and Financial Coordination</u>		
Basic wages and salaries	68,257	1,293,471
Concurrent audit	24,762	469,237
Insurance	50,374	954,595
Local per diem and other travel expenses	18,791	356,093
Personnel training	6,190	117,307
Nonpersonnel services	243,653	4,617,226
Materials and supplies	262,025	4,965,382
Capitalizable assets	<u>283,370</u>	<u>5,369,863</u>
Total component	<u>957,422</u>	<u>18,143,174</u>
<u>Coordination of Planning and Strategic Alliances</u>		

Basic wages and salaries	1,111	21,047
Severance compensation	9,670	183,252
Training services	729	13,824
Advertising and publicity	11,939	226,250
National per diem and other travel expenses	2,601	49,287
Other nonpersonnel services	<u>4,178</u>	<u>79,166</u>
Total component	<u>30,228</u>	<u>572,826</u>
<u>Coordination of Field Operations</u>		
Basic wages and salaries	75,910	1,438,491
Severance compensation	91,694	1,737,602
Local per diem and other travel expenses - Technical team and central office	52,782	1,000,214
Per diem, expenses and other travel expenses - Field coordinator and municipal promoters	73,764	1,397,831
Other nonpersonnel services	81,744	1,549,048
Incentives for facilitators	196,309	3,720,056
Office and teaching supplies	66,315	1,256,660
Advertising and publicity	17,665	334,750
Capitalizable assets	<u>175,075</u>	<u>3,317,667</u>
Total component	<u>831,258</u>	<u>15,752,319</u>
<u>Technical assistance</u>	<u>172,713</u>	<u>3,272,911</u>
Total disbursements	<u>2,020,589</u>	<u>38,290,168</u>



FINANCIAL STATEMENT AUDIT OF USAID/HONDURAS RESOURCES,  
UNDER THE EDUCATODOS PROGRAM, GOH/USAID STRATEGIC OBJECTIVE  
GRANT AGREEMENT No. 522-0436, MANAGED BY THE SECRETARIAT OF  
EDUCATION

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006

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

**Dr. MARLON A. BREVÉ REYES**  
**Secretary of Education**  
**Tegucigalpa, Honduras**

We have audited the fund accountability statement of the GoH/USAID Strategic Objective Grant Agreement No. 522-0436, EDUCATODOS Program, managed by the Secretariat of Public Education for the period January 1 to December 31, 2006, and have issued our report on it dated April 19, 2007. 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 Secretariat of Education 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 Program for the period January 1 December 31, 2006, 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 Program'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 three reportable conditions that are described in the attached findings:

1. The Program's accountant was authorized to sign checks;
2. The Secretariat of Education did not have adequate procedures for managing and controlling incentives for facilitators; and
3. The Secretariat of Education had some weaknesses in the management and control of the warehouse.

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 that the reportable conditions described above are material weaknesses.

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

**Carmen Xiomara Rodezno Oyuela**

Jefe de la Unidad de Auditorías para Proyectos de  
Organismos Internacionales (UAPOI)  
Tribunal Superior de Cuentas  
19 de Abril de 2007