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Auditor General

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HOUSING INVESTMENT GUARANTY PROGRAM

PANAMA

Audit Report Number 80-9

Issue Date November 7, 1979

Area Auditor General, Washington
Agency for International Development
Washington, DC. 20523

HOUSING INVESTMENT GUARANTY PROGRAM

PANAMA

525-HG-008

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HOUSING INVESTMENT GUARANTY PROGRAM

PANAMA

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HOUSING INVESTMENT GUARANTY PROGRAM

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EXECUTIVE SUMMARY

Purpose of Review

A Housing Investment Guaranty Loan, amounting to \$3,400,000, was made to the Panama National Housing Mortgage Bank. The Bank is lending the funds to a local cooperative in Panama to finance the construction of 700 houses. The houses are to be constructed in a poor section of Panama City. This audit was done to test the validity of loan activity and review the effectiveness and efficiency of the cooperative's management.

Progress Toward Developing Sound Cooperative Management Practices

One of the primary purposes of the project is developing the capacity of the Government's housing and finance institutions to administer and replicate cooperative housing projects. We found little measurable progress in developing institutions capable of capital accumulation. In our view, the Nuevo Chorrillo Cooperative needs to improve its administration and management. Collection procedures are wanting, mortgage delinquencies are high, budgeting procedures are not utilized, and the supervision of construction has allowed for closing irregularities. The Cooperative is in a weak working capital position that could adversely affect any future housing guaranty programs through cooperatives in Panama. Moreover, the Bank and the Cooperative have not provided an AID approved project work plan as is required by provisions of the governing agreements. (See pages 3-10)

We discussed these problems with Bank officials and they agreed that the Cooperative needed to make use of existing technical services and comply with the technical service requirements of the implementation agreement. (See page 10)

Other Management Problems

The audit noted other problems that need to be addressed: The project paper called for periodic evaluation of outputs outlined in the logical framework. However, only one such evaluation had been completed up to the date of the audit. Inspection services allowed for incomplete houses to be included in the fourth and fifth closings. (See page 11)

The Ministry of Housing agreed to establish an office or department with responsibility and authority to encourage and develop cooperative sponsored shelter projects and programs. On August 15, 1977, the Ministry of Housing notified the Regional Housing and Urban Development Office (RHUD) that a special office had been created and staffed. However, we found the office had not been assigned adequate personnel to carry out the development function. (See page 12)

Conclusions and Recommendations

The danger exists that the Nuevo Chorrillo Cooperative project of fostering activities to replicate other low cost cooperative programs may fail. Much remains to be done if the project is to be successful. Appropriate actions by the Cooperative are needed to fulfill its responsibilities as outlined in the Implementation Agreement and for improving its administration.

To assist in accomplishing the goals of meeting Panama's housing needs for low income groups, we are recommending the Regional Housing and Urban Development Office in Panama -

- See that Nuevo Chorrillo Cooperative receives technical assistance needed on the administrative and accountability aspects of housing cooperatives. (See page 10)
- Work with the Ministry of Housing to encourage the building of the Government of Panama's housing and finance institutions. (See page 12)

This report has been reviewed in draft by the staff of the Office of Housing. Consideration was given to the comments received to the extent appropriate in the preparation of this final report.

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

HOUSING INVESTMENT GUARANTY PROGRAM -

PANAMA

INTRODUCTION

The Housing Investment Guaranty Program is the principal means by which the Agency for International Development provides shelter assistance to the developing countries. Under this program, the U.S. Government provides a "full faith and credit" guaranty of repayment for long-term commercial rate loans made by private U.S. lenders for housing projects in developing countries.

On June 20, 1977, a loan agreement (HIG-008) for \$3.4 million was signed between the National Mortgage Bank of Panama (Borrower) and the Federal Home Loan Bank of New York (Investor). The Government of Panama entered into a full faith and credit guaranty to AID in United States dollars assuring against any and all losses to AID by virtue of AID's guaranty to the Federal Home Loan Bank of New York. In accordance with the terms and conditions of the Implementation Agreement dated June 20, 1977, between the Investor and Borrower, the Borrower will relend the proceeds of the loan to the Cooperativa de Vivienda Nuevo Chorillo (Cooperative) to provide long-term mortgage financing of dwelling units.

The basic premise underlying this AID project is that by guaranteeing this loan for the construction of about 700 housing units, it would help to achieve a socially motivated, financially sound and well administered housing cooperative; and the ability and willingness of GOP housing institutions to assist and form other similar low cost housing cooperatives. The project cost was estimated to be approximately \$4.1 million of which the Cooperative would provide \$0.7 million in the form of downpayments.

At the close of May 1978, the Borrower had submitted five closings of 469 houses and had drawn \$2.0 million of the loan. The Borrower planned the next closing in September 1978.

Chorrillo is located in a poor section of Panama City; the existing buildings are wooden structures that, over 75 years ago, served as dormitories for the Panama Canal construction workers. Apartments for an entire family are only one or two rooms, kitchens and bathrooms must be shared. The buildings are a fire hazard and the social and

physical living conditions are below any acceptable standard. These families do not have a sufficient income to purchase homes through usual commercial channels and subsidized public housing is insufficient to satisfy the demand.

In response to the housing problem, a group of residents formed a housing cooperative. Presently, the Cooperative has 1,000 active members and 150 member applications are being processed. The project site is 14 kilometers west of the center of Panama City in the area known as Arraijan. A one and a half kilometer paved access road links the project site to the Inter-American Highway.

Project plans call for constructing about 2,000 houses in several stages. The first stage is being financed by the HIG loan and calls for the construction of 700 single family detached units over a 2-1/2 year period. Cooperative members have a choice of selecting: (1) a minimum shelter (single room plus bathroom, unfinished); (2) the same house as (1) with interior partitions; and (3) the same house as (2) but completely finished; and (4) a larger completely finished unit with three bedrooms. The units are being constructed on approximately 300 M² lots. The sales cost of the houses to Cooperative members range from \$4,400 to \$9,357.

A loan for \$750,000, repayable in 25 years at 7 percent interest, was negotiated by the Cooperative from the National Mortgage Bank to initiate the construction and provide construction working capital, depending on the scheduling of construction and occupancy. At the close of December 1977 the loan balance was \$720,000.

On April 8, 1976, the Inter-American Foundation approved a grant for \$739,305 to the Cooperative. The grant was to establish financing for 500 core houses to low-income families, provide membership education training and start-up costs for production and transportation subdivisions of the Cooperative.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

Project Purpose and Goals

The purpose of the project is the development of the capacity within the GOP and its housing finance institutions to administer, finance and replicate other low-cost cooperative programs and increase the availability of shelter units for low income families in Panama. A second objective of the project is a socially motivated and successful administrative organization represented by the housing cooperative. With the successful completion of the first stage of construction, the Nuevo Chorrillo Housing Cooperative will be in a position to offer expanded social services to its members and help them achieve upward mobility within the society. The third project objective is the establishment of a coop office within the Banco Hipotecario Nacional (BHN) in which the BHN will function directly with coops as it does with member savings and loan institutions. Another objective is the establishment of linkages between FUNDAVICO and BHN which will facilitate the identification, promotion and development of housing cooperative organizations, particularly among low-income families, and the design, construction and long-term financing of housing projects affordable by them.

Progress Towards Goals

The development of cooperative institutions capable of capital accumulation to mobilize domestic savings in Panama for housing has made limited progress. We found the Cooperative Nuevo Chorrillo in need of sound and effective management practices. The Cooperative's financial condition as of May 30, 1978, was tenuous. The BHN had established an office to coordinate relations with cooperatives. We saw no indication the office was other than perfunctory, reportedly for want of funds to staff the office.

Cooperative Nuevo Chorrillo - Management Observations and Comments

Our testing of the Cooperative's books, records and procedures indicated the Cooperative needs greater management effectiveness in the area of accounting, collections and delinquency procedures, budgeting, files and records, supervision of housing construction, and internal management reporting.

1. Accounting and Reporting

The Cooperative's accounting firm is not preparing current monthly financial reports. As of early June 1978, the firm had not prepared financial reports for the months of January through May 1978. The accounting firm's representative said the reports had not been prepared because the firm's personnel had been assigned elsewhere.

The Cooperative's manager informed us the financial reports had been received on a timely basis through October 1977. After October the accounting firm began submitting reports two or more months in arrears.

The Cooperative's financial statements do not accurately present the financial condition of the Cooperative. For example, the December 31, 1977, Balance Sheet shows the account, Long-Term Mortgages Receivable (25 years) as a current asset. Only the amount to be collected during the year should be regarded as a current asset under generally accepted accounting principles. The balance sheet carried an incorrect liability amount, \$731,456, for the HIG loan. The correct amount is \$800,000; the difference of \$68,544 represents \$34,000 deducted for the AID guaranty fee and \$34,000 to the Federal Home Loan Bank of New York on account of a commitment and service fee, and \$544 for translation costs. BHN officials said they would discuss the loan balance difference with the Cooperative's manager to clarify that the correct loan liability is \$800,000.

2. Control of Cash Receipt Vouchers

The Cooperative does not maintain reliable control over cash receipt vouchers. The Cooperative's Accountant was unable to account for all cash receipt vouchers that had been issued to date. Although the Cooperative's Accountant had established a system of control, he had not determined if the receipts were accounted for by checking against the controls.

Cooperative cash control procedures call for preparing a pre-numbered cash receipt voucher each month for the amount due on each mortgage. The cash receipts are filed by contract number. The number of accumulated unpaid monthly receipts represents the total amount due under an occupancy contract.

We selectively tested the uncanceled monthly receipts to test the reliability of the system. The Cooperative was not able to account for the receipts for ten contracts. However, after a thorough search of Cooperative files, employees found misplaced receipts for seven contracts, new receipts were made for two contracts, and one contract was left pending.

3. Delinquent Mortgage Accounts

Accounting records for member accounts show a large number of delinquent monthly payments which range in age from one to nine months. The Cooperative needs effective collection procedures that will reasonably assure monthly payments are made by members when due.

Some members have made partial payments of delinquent amounts which were credited to their respective savings accounts. When a member has deposited enough to cover a monthly payment, the amount due should be transferred to the Cooperative's Housing Account and the applicable mortgage balance credited. We noted instances where funds were not being transferred from members' savings accounts. Employees said the transfers had not been made because of other pressing work but that they would begin to transfer savings to the Housing Account to offset delinquencies. Our selective comparison of first closing delinquencies against savings accounts show that members' savings are not enough to offset all the delinquent amounts due.

Delinquent Accounts - 8 to 9 Months (First Closing)

<u>Contract Number</u>	<u>No. of Payments Due</u>	<u>Amount of Savings</u>	<u>Monthly Payment</u>	<u>No. of Payments Due Net of Savings</u>
18	9	\$236.96	\$42.56	5
29	8	- -	42.56	8
49	8	53.00	45.23	7
58	8	44.00	44.29	7
68	8	33.00	42.82	8
74	8	143.50	46.63	5
78	9	- -	34.82	9
86	8	28.24	42.26	8
90	8	134.62	40.38	5
97	9	126.00	41.31	6
105	8	40.10	43.45	8
112	9	- -	43.65	9
115	9	74.00	42.69	8
127	8	- -	48.66	8

The delinquency problem is evident if the actual amount collected on monthly payments from September 1977 through May 1, 1978, is compared to the estimated amount that was due during the same period. We estimate the Cooperative should have collected \$59,305 more during the period than was collected according to Cooperative records.

<u>Number of Monthly Payments Due Each Closing</u>	<u>Closings</u>	<u>Estimated Amount</u>	
9	1	\$ 51,050	
6	2	21,135	
4	3	15,300	
3	4	<u>11,800</u>	
Total		\$ 99,285	
Amount Collected		<u>39,980</u>	40%
Not Collected		<u>\$ 59,305</u>	60%

We discussed the delinquency problem with the Cooperative's Manager. He was aware of the need to improve collection procedures and was planning to employ another person who would be responsible for collections and follow-up on delinquencies. The Manager informed us he was aware the Cooperative's internal reports did not disclose the mortgage amounts past due from members.

4. Operational Budget

The Cooperative's by-laws require the Administrative Committee to prepare an annual operational budget, determine and authorize administrative costs and analyze the Cooperative's financial condition. The Cooperative's Manager said no operating budgets were prepared because the Cooperative had more than enough funds to pay operating obligations. The Treasurer informed us no budgets were prepared because the Cooperative was moving rapidly toward its objective of constructing houses and an operational budget could have hindered the progress.

Cooperative officers do not know the financial condition of the Cooperative, especially the working capital required to complete the 700 houses and continue the second stage construction of 1,400 additional housing units. Urbanization work had been started on the second stage without determining if funds were available to complete the first stage.

In our opinion, the Cooperative will not have the working capital estimated by the Cooperative's Architect/Engineer upon completion of the 700 houses. The Architect/Engineer estimated that the Cooperative would have over \$1,290,000 at the beginning of the second stage of construction from the first bank loan of \$750,000 and \$420,000 from the Inter-American Development Foundation Grant. We estimate the Cooperative could have \$400,000 to \$500,000 in working capital at the close of December 1978. Our estimate is based on the assumption 700 houses will have been completed and the Cooperative reimbursed for the costs.

We met the Cooperative's Manager and discussed the possibility of working capital not being available to continue the construction of houses in stage one and the urbanization work in both the first and second stages. The manager was aware the cooperative was experiencing a shortfall in cash but said there were no plans to diminish construction operations.

We believe Cooperative management should determine construction priorities and prepare an operational budget on an annual basis, showing the probable amounts of cash receipts and payments.

5. Mortgage Down-Payments

Both the Bank and the Cooperative indicate that members purchasing homes have met the down-payment requirements. We observed some instances where the buyers did not meet the minimum down payment of \$510 on a type A house. For example, in the fifth closing, the following contracts were identified as not meeting the down payment requirement.

<u>Contract Number</u>	<u>Self-Help Credit</u>	<u>Cash Deposited</u>	<u>Amount Short</u>
389	250	\$ 30	\$ 230
393	250	200	60
397	250	100	160
400	250	40	220
402	250	0	260
407	250	150	110
408	250	0	260
413	250	0	260
417	250	0	260
429	250	0	260
432	250	0	260
439	250	0	260
443	250	0	260

6. Loan Contract Files

Contract files are not currently maintained. The socio-economic and other background information for contract numbers 150 to 469 were not in the files. The socio-economic information was in folders stacked in various file drawers. Employees said no one in the office had been assigned responsibility for maintaining the files and the filing was done when someone was free of other clerical duties. We discussed this with the Cooperative manager. The manager agreed it was necessary and helpful to have current files and assigned an employee to file the appropriate documents in each contract folder.

7. Eligible Home Owners

The eligibility for housing is determined through information sought on an application form designed to show the applicant's income and credit rating. However, Cooperative employees did not require prospective buyers to complete the application. Employees were not verifying earnings or indebtedness information provided on the application to determine if the information was valid.

The result has been that some approved applicants' reported earnings and ability to meet the required mortgage payments are questionable. For example, one approved applicant disclosed \$200 in monthly earnings doing domestic work, but did not provide the employer on the application. Other applicants reported earnings of over \$200 monthly working independently, but did not clarify how. Other applicants reflected earnings that approximated the monthly mortgage payments. For example, one member paying \$41.07 a month had shown monthly income of \$45 as a domestic worker.

The Cooperative has sold type A houses (price range \$4,411 - \$5,097) to members who disclosed earnings considerably above the Cooperative's family median income of \$275 per month. For example, in the first closing, five of thirty-five applications reviewed disclosed earnings ranging from \$400 to \$550 per month; in the second closing, ten of thirty-three applications reviewed reported monthly family earnings ranging from \$400 to \$610; and in the fourth closing, eight of forty-two families' applications reviewed disclosed earnings ranging from \$400 to \$508 per month. The Project Paper criteria anticipated that applicants earning over \$400 a month would be buying only C-2 type homes (price range \$9,055 - \$9,357) and type A housing was targeted for people earning \$250 or less a month.

8. Supervision of Construction

The Architect/Engineer contract for supervising and inspecting the urbanization construction has expired. The contract was for \$62,000 and covered the period January 1, 1977 to September 30, 1977. Cooperative personnel said the contract had been verbally amended to extend the Architect/Engineer services. At the close of December 1977, the Architect/Engineer had received \$75,750, i.e., \$62,000 under the contract and \$14,750 for services rendered prior to the contract.

No plans or specifications had been designed by the Architect/Engineer for the second stage of urbanization construction. As a result, no one knew the estimated urbanization costs for the second stage or if funds would be available to complete the work. The Architect/Engineer agreed plans were desirable but felt some earth moving could be done before the plans were finalized. The Architect/Engineer had no information on what the second stage earth moving costs were to date.

No progress reports are being prepared on the second stage of construction by either Cooperative or Architect/Engineer personnel.

9. Urbanization Costs

At the close of May 1978, urbanization costs had exceeded Project Paper estimates by about \$458,000 over the estimate of \$1,220,000. It is estimated an additional \$110,000 or more will be required to complete the urbanization work of the first stage.

An analysis made by RHUD's Technical Advisor shows that most of the overrun is due to the cost of work done by Cooperative administration. Originally the Cooperative was to be responsible for installing a water storage tank with pumping equipment and lot grading costing an estimated \$117,000. As the project developed, the Cooperative expanded the work being done by administration to include earth moving that was not done by construction contracts. At the close of December 31, 1977, the urbanization work done by administration had cost \$356,000, an overrun of \$239,000.

The overrun in urbanization costs is, in part, due to a lack of control by both Cooperative and Architect/Engineer Personnel over the work being done by administration and to a certain extent the increase in cost of materials, supplies, and services. The Cooperative manager informed us that he did not know the status of the urbanization construction progress because no progress reports were submitted to him by the Architect/Engineer, nor had he requested periodic progress reports on the construction. The Architect/Engineer indicated they were not responsible for construction work by administration and do not maintain an accounting of accumulated costs.

The Cooperative, using rented equipment, had started earth moving operations for the second stage urbanization construction.

10. Technical Assistance

The Cooperative has not utilized the technical assistance capability of the Panamanian Foundation for Cooperative Housing (FUNDAVICO). FUNDAVICO is a technical service organization for cooperative housing programs and is presently administering several cooperative housing projects. Implementation Agreement Section 5.11, Sub-Borrower Technical Service Agreement, requires the Cooperative to contract FUNDAVICO for technical assistance in the areas of collection and payment, accounting and documentation maintenance, delinquency procedures and documentation and in promotional efforts. On July 30, 1977, the Cooperative signed a contract with FUNDAVICO for a six-month period with the contract to begin on the day the Cooperative requests FUNDAVICO services. The contract provided for FUNDAVICO to study the Cooperative and advise on administering the housing cooperative, accounting, education, budgeting, reporting and other organizational areas. At the close of May 1978, the Cooperative had not requested FUNDAVICO services.

We discussed with Bank officials the Cooperative's administrative and organizational problems and the Cooperative's difficulty in meeting payments of principal and interest to the Bank. Bank officials agreed the Cooperative should use FUNDAVICO's technical services and informed us they would request Cooperative officers to comply with Section 5.11 of the Implementation Agreement. On July 5, 1978, at a meeting held at the RHUD office, the Cooperative's manager agreed to request FUNDAVICO's technical services and FUNDAVICO's chief agreed to furnish personnel as needed.

Recommendation No. 1

RHUD/Panama actively monitor Section 5.11 of the Implementation Agreement to assure the Nuevo Chorillo Cooperative receives needed technical assistance.

Project Work Plan

The Bank and the Cooperative have not provided an AID approved project work plan as required by Sections 4.02(D) of Conditions Precedent to the First Disbursement and 5.03 of the Implementation Agreement. The plan was to identify unit construction sites, the planned community facilities and related infrastructure to be provided to the project, the estimated cost and cash flow needs and completion timetables. On November 24, 1977, the Cooperative submitted a work plan to RHUD for review and approval. On December 6, 1977, RHUD informed the Cooperative's manager that additional information and changes were needed to the work plan before it could be approved. No additional effort was provided to complete the plan by the Cooperative.

The plan submitted to RHUD included the locations and sizes of 617 lots instead of 700 lots called for by the project proposal. A revised lot plan was prepared by the Cooperative, but it shows only 653 lots. Cooperative officials said the other 47 lots will be located in the second phase construction area. There is no information available on the 47 lots because the Architect/Engineer has not prepared plans and specifications for the second phase.

1. Project Site

Seasonal rains have caused soil erosion at the site. Many water and sewer pipes connecting to houses are exposed and the lots are deeply rutted.

Originally the GOP, through the Ministry of Education, was to construct a school. However, a seven-classroom primary school was constructed by the Cooperative at the site at a cost of \$26,300. The teacher in charge of the school said additional classrooms were needed. Double sessions are required because of the large number of students attending the school. The Cooperative's Architect/Engineer indicated there was enough land at the school site to construct about six more classrooms. A commercial site had been designated but no improvements had been made. The Cooperative had opened a small store in one of the houses and stocked it with essential basic home items.

Recreational areas have been constructed and land set aside for this purpose. There is no community center at the site although the school is used as a community center at the present time. The Cooperative's manager said a community center is planned in the second phase construction area.

2. Project Evaluation

The Project Paper called for periodically evaluating project progress toward meeting the outputs outlined in the logical framework. The Bank was to submit a monthly progress report on construction, cooperative membership, disbursements, home completion and collections. To assure project evaluation, Section 5.12 of the Implementation Agreement, provided for establishing an evaluation program as an integral part of the project. The evaluation program was to include during the implementation of the project and at one or more points thereafter: (a) evaluation of progress toward attainment of project objectives; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to overcome such problems, in this or any other projects; and (d) evaluation of the project's impact. An evaluation undertaken and completed in November 1978 showed substantial improvement in the shelter of the residents of Nuevo Chorillo and concluded that the project's impact had been highly positive.

3. Inspection Services

Inspection services by the Ministry of Housing are required to assure houses are completed in accordance with the plans and specifications of the project. We found that houses included in the fourth and fifth closings, and certified as completed, were without roofs. Electrical services were not in working order and streets and curbing around the houses were not completed. Twelve of 57 type A houses included in the fifth closing were without roofs. There are over 200 houses that have been completed or are in the process of completion that do not have electricity. Although occupancy contracts were signed, buyers cannot occupy the houses due to the lack of electricity.

RHUD personnel have been concerned about the inspection of the project as required by Section 5.07 of the Implementation Agreement. The Ministry of Housing was to provide the services of a full-time professional architect or engineer to inspect all physical construction of dwelling units and related urbanization and certify compliance to approved plans and specifications. In October 1977 RHUD requested the Bank to provide copies of the inspector's reports. No inspector's reports have been submitted to RHUD other than the Ministry of Housing Inspector's certificate for each closing.

We met with the Ministry of Housing and Bank inspectors to discuss the reasons for certifying incomplete houses as complete. The Ministry's Inspector said he was aware the houses were incomplete, utilities not working and urbanization work pending, but certified the houses met plans and specifications because occupancy contracts had been signed.

Department of Cooperatives

The Implementation Agreement, Sections 4.02(J) and 5.02, called for the Ministry of Housing to establish a special office with responsibility and authority to encourage and develop cooperative-sponsored shelter projects and programs. The office's functions were to stimulate the construction of cooperative housing projects, analyze the feasibility of such projects, and channel financing for the projects through the Bank. On August 19, 1977, the Ministry of Housing informed RHUD a special office was created and staffed to develop cooperative housing projects.

In discussions with Ministry of Housing personnel, we were informed the office (Physical Programming) had not been assigned sufficient personnel to carry out the functions of stimulating construction of cooperative housing projects or making feasibility studies of projects because of a proposed change in the law governing the development of cooperatives. Housing officials pointed out that the National Directorate of Cooperatives, ministry of Agricultural Development, is the government entity responsible for promoting and developing cooperative projects and programs. The GOP has proposed legislation to create a National Institute for Cooperatives that would coordinate cooperative activities located in different GOP Ministries. The proposed legislation is now being studied by the GOP Legislative Commission and a decision should be made in the near future on the proposed legislation. Once the law is formalized the Ministry of Housing plans to create and staff an office that will meet more fully the Implementation Agreement's requirements.

Recommendation No. 2

RHUD/Panama work with the Ministry of Housing to encourage the institution building advocated as one of the prime goals of the project.

Bridge Construction

Section 5.05 of the Implementation Agreement required the GOP to construct a temporary all-weather bridge across the Rio Aguacate before July 31, 1977, and a permanent bridge to the project site prior to December 31, 1978. Construction of the bridge was started by the GOP but in October 1977 RHUD personnel observed construction on the abutments of the bridge had stopped. The Bank was informed by RHUD the lack of the bridge was seriously obstructing the efficient implementation of the project and requested the Bank to assure completion of the bridge. In November 1977, the Bank advised RHUD the GOP, through the Ministry of Public Works, had decided to only construct a permanent bridge and allocated funds to do the construction. The total costs for the bridge were estimated to be \$150,000. The Cooperative contributed \$50,000 toward the construction costs. The bridge was inaugurated by the GOP in early July 1978.

GOP Audits and Review of Nuevo Chorrillo

An audit was made by the National Directorate of Cooperatives, Ministry of Agriculture in 1977. The review covered the period January 1, 1976 to December 31, 1976. The auditor's report disclosed a net loss of \$20,833 from Cooperative operations, but did not regard the loss as significant.

The National Mortgage Bank's Fiscal and Supervision Department made a review of the books and records of the Cooperative for the period October 1, 1974 to June 30, 1977. The auditors were not able to give an opinion on the Cooperative's financial condition because of their limited audit scope and significant accounting entries that were omitted from the accounting records. The auditors reported that the books and records were in arrears four months. The Cooperative's manager informed us he was not aware of the contents of the Bank's audit report because a copy of the report was not sent to him.

PURPOSE AND SCOPE

The Auditor General has made an initial audit of Housing Guaranty (HIG) Loan No. 525-HG-008. The loan, in the amount of \$3,400,000, was made to Panama National Housing Mortgage Bank (Bank). The proceeds of the loan provide long-term financing for housing in Panama. The Bank is lending LaCooperativa de Vivienda Nuevo Chorrillo (Cooperative) the loan funds to enable the Cooperative to finance the construction of 700 houses.

The purpose of our audit was to test and review activity represented by the \$2.0 million in funds drawn down for long-term mortgage financing through May 30, 1978; the status of the housing and urbanization works,

the effectiveness, efficiency and economy of the Cooperative's management in implementing the construction and organizational and procedural systems.

We reviewed the Cooperative's books and records, operational procedures and practices. We made an on-site inspection of the construction progress. We interviewed Ministry of Housing, Bank, Cooperative and AID Regional Housing (RHUD) officials as needed.

HOUSING INVESTMENT GUARANTY PROGRAM

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REPORT RECIPIENTS

Assistant Administrator, Bureau for Development Support (AA/DS)	2
Director, Office of Housing (DS/H)	2
Panama Desk (LAC/SA)	1
Director, USAID/Panama	5
Area Auditor General/LA	2
Deputy Administrator	1
Office of Legislative Affairs (AA/LEG)	1
Office of Financial Management (OFM)	1
Auditor General	2
AAG/EA	1
AAG/NE	1
AAG/EAFR	1
AAG/Egypt	1
AAG/W	1
AG/IIS	1
AG/PPP	1
AG/EMS	12
DS/DIU	4