PD-ABB-311

ISN: 67249

AUDIT OF JAMAICA
HOUSING GUARANTY PROGRAM
PROJECT NUMBER 532-HG-012

Audit Report 1-532-90-15
July 3, 1990

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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July 3, 1990

MEMORANDUM

TO: RHUDO/Caribbean Director Acting, George Deikun

FROM: RIG/A/T Acting, Lou Mundy

SUBJECT: Audit of Jamaica's Housing Guaranty Program

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of Jamaica's Housing Guaranty Program. Five copies of the audit report is enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to this report as Appendix 1. The report contains fifteen recommendations; all except Recommendations 4, 6, and 8 concern your office. Recommendations 12c, 13b, 15a,and 15b are resolved and closed upon issuance of the report. Recommendations 1a, 1b, 3c, 5b, 7, 10, and 12d are unresolved. All other recommendations are resolved and can be closed upon our receipt of relevant documentation and or the completion of promised action. Please advise me within 30 days of any additional actions taken to implement the resolved recommendations and any further information you might want me to consider on the unresolved recommendations.

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

AGENCY FOR INTERNATIONAL DEVELOPMENT

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MEMORANDUM

TO: A.I.D. General Counsel, Howard M. Fry

FROM: RIG/A/T Acting, Lou Mundy Lou Mundy

SUBJECT: Audit of Jamaica's Housing Guaranty Program

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of Jamaica's Housing Guaranty Program. A copy of the audit report is enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to this report as Appendix 2. The report contains fifteen recommendations; Recommendations 4, 6, and 8 concern your office. Recommendation 4 is resolved and closed upon issuance of the report. Recommendations 6 and 8 are unresolved. We will continue to work with RHUDO/Caribbean to resolve the issues in these unresolved recommendations. Please advise me within 30 days if there is further information you might want me to consider on the unresolved recommendations.

AUDIT OF JAMAICA
HOUSING GUARANTY PROGRAM
PROJECT NUMBER 532-HG-012

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AUDIT OF JAMAICA
HOUSING GUARANTY PROGRAM
PROJECT NUMBER 532-HG-012

GLOSSARY

BOJ	Bank of Jamaica
CHFC	Caribbean Housing Finance Corporation
EDCO	Estate Development Company
GOJ	Government of Jamaica
HTF	Housing Task Force
JMB	Jamaica Mortgage Bank
MOC/H	Ministry of Construction/Housing
MOFP	Ministry of Finance and Planning
NHT	National Housing Trust
RHUDO/Caribbean	Regional Housing Urban Development Office for the Caribbean
RIG/A/T	Regional Inspector General for Audit/ Tegucigalpa
USAID/Jamaica	United States Agency for International Development for Jamaica

EXECUTIVE SUMMARY

The Housing Guaranty Program is the principal mechanism A.I.D. uses to provide low-income housing in developing countries. The purpose of the Housing Guaranty Program (HG-012) in Jamaica is to improve living conditions of low-income families by providing housing shelters and related services. To accomplish this purpose, A.I.D. issued guarantees of $40 million to finance shelter solutions and the Government of Jamaica contributed $35 million. From December 1983 until December 1989, $22 million in Housing Guaranty Program funds were disbursed.

The Housing Guaranty Program has made contributions to help alleviate the shortage of housing in Jamaica. The HG-012A component made 895 loans for start-a-home and 346 loans for home improvement. However, if the program is to remain financially sound and realize its potential then RHUDO/Caribbean and USAID/Jamaica are going to have to overcome several serious problems.

The Office of the Regional Inspector General for Audit/Tegucigalpa made a program results audit of the Housing Guaranty Program in Jamaica from August to December 1989. The audit found that program losses could decapitalize the financial institution implementing the program and it was not known whether the Government of Jamaica would honor its agreement to reimburse these losses. Even though RHUDO/Caribbean had substantially revised the program in 1985, the audit found the following problems.

-- The viability of the program could be threatened because the Caribbean Housing Finance Corporation had not pressed the Government of Jamaica for reimbursement of losses even though it was approaching the point of default on the loan (see Finding 1).

-- Weak mortgage collection efforts by the Caribbean Housing Finance Corporation resulted in an unacceptable arrearage rate (see Finding 2).

-- Accounting systems to control the $40 million in program funds were inadequate and required independent audits were not being performed (see Finding 3).

-- The program was not targeted as much as possible to benefit low-income families because of a General Counsel interpretation of Housing Guaranty Program legislation (see Finding 4).

-- The Housing Guaranty Program lost approximately $6.7 million in funds because the Ministry of Construction/Housing improperly retained the proceeds from the sale of housing units (see Finding 5).

-- A prior borrower was decapitalized because the Ministry of Construction used approximately $8 million in funds budgeted to repay Housing Guaranty Program loans for other purposes (see Finding 6).

-- A $3 million home-improvement loan component should be terminated because it was poorly managed and was being administered by a GOJ ministry instead of the private sector as was planned (see Finding 7).

-- The Estate Development Company could not account for $763,636 in program funds (see Finding 8).

-- Excessive cash advances made to participating financial institutions earned $290,568 in windfall profits for the institutions (see Finding 9).

-- Caribbean Housing Finance Corporation lost substantial revenue because beneficiaries received loan funds or houses but the paperwork to effect collections was not processed (see Finding 10).

-- The program was also losing money because a large inventory of unsold or damaged housing units existed (see Finding 11).

-- Institutions selecting beneficiaries of housing units used incorrect income criterion to determine applicant eligibility (see Finding 12).

-- GOJ subsidies for land and housing sales prices needed to be addressed in a subsidy reduction plan (see Finding 13).

The report makes 15 recommendations to improve program implementation and accountability over program funds. See Appendix 3 for a listing of audit recommendations. The report also presents compliance and internal control issues and several other pertinent matters which RHUDO/Caribbean and USAID/Jamaica need to address.

A draft of this report was provided to RHUDO/Caribbean, USAID/Jamaica and the A.I.D. General Counsel for comment. Their comments were considered in preparing the final report. See Appendices 1 and 2 for a complete text of their responses to the audit report.

Office of the Inspector General

Office of the Inspector General
June 29, 1990

AUDIT OF JAMAICA
HOUSING GUARANTY PROGRAM
PROJECT NUMBER 532-HG-012

PART I - INTRODUCTION

A. Background

The Housing Guaranty Program is the principal mechanism A.I.D. uses to provide low-income shelter assistance in developing countries. Under this program, a private-sector financial institution in the United States provides long-term financing at commercial interest rates to a corresponding institution (referred to as the borrower) in a developing country to undertake housing and housing-related projects. The U.S. Government provides a "full-faith and credit" guaranty of repayment of principal and interest to the lender. This guaranty means that the U.S. Government will have to pay the U.S. investor should the Government in the developing country default on the payment of principal and interest. In turn, the Government in the developing country provides a full-faith guaranty to repay the United States should the borrower default on repayment of the loan.

The present borrower for the Housing Guaranty Program in Jamaica is the Caribbean Housing Finance Corporation (CHFC). CHFC is considered to be the project manager for the private sector component of the program. The MOC(H) is the project manager for the public sector component. RHUDO/Caribbean is the principal A.I.D. organization with oversight responsibility. However, USAID/Jamaica also has a management role as they have overall responsibility for U.S. foreign assistance activities in Jamaica.

RHUDO/Caribbean has been implementing Housing Guaranty Programs in Jamaica since 1978. On December 23, 1983 it signed HG-012 the Housing Guaranty Program which is the principal subject of this report (our audit also reviewed certain aspects of HG-010 and HG-011, previous Housing Guaranty Programs). A.I.D. issued guaranties of $40 million to help finance this program and the Government of Jamaica (GOJ) contributed $35 million.

In September 1985, RHUDO/Caribbean substantially revised the program. The revision divided HG-012 into three subprograms--HG-012A, B, and C. The HG-012A represented activity which took place between the authorization in 1983 and the revision in 1985. The HG-012B provides funds to lenders to finance housing developed by the private sector and the HG-012C promotes housing and housing-related services through the public sector. The goal of HG-012 is to provide housing solutions[1] that improve the living conditions of low-income families.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa audited the Housing Guaranty Program in Jamaica in accordance with generally accepted government auditing standards. Audit work was performed in Kingston, Jamaica from August to December 1989. The audit covered program activities from December 1983 until December 1989 during which time $22.0 million of Housing Guaranty Program funds were disbursed. The specific objectives of this audit were to determine whether:

-- The program was financially viable,

-- Aggressive mortgage collection procedures had been instituted,

-- Adequate accounting systems and controls were in place,

-- Housing solutions were awarded to eligible beneficiaries, and

-- Program implementing activities complied with the terms and conditions of their agreements.

To accomplish these objectives we conducted interviews with officials from RHUDO/Caribbean, USAID/Jamaica, Government of Jamaica, and the various financial institutions implementing the program. We reviewed pertinent program files and records at all of these organizations. We analyzed the accounting systems and records at all entities which received program funds. We reviewed

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[1] In this report the various types of Housing Guaranty Program outputs will be collectively referred to as housing solutions or schemes.

1,025 loan files (100 percent of HG-012A and HG-012B loans) to determine the eligibility of recipients. We reviewed collection records of 1,029 mortgages (100 percent of loans in arrears more than 3 months) for HG-010, HG-011, and HG-012A to determine arrearages. We also reviewed 33 individual mortgage files (from a universe of 1029 files in arrears more than 3 months) to determine the sufficiency of mortgage collection efforts.

Our examination of internal controls was limited to a review of the adequacy of (1) accounting systems, (2) procedures for selecting housing beneficiaries, and (3) procedures for collection of mortgages.

AUDIT OF JAMAICA
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PROJECT NUMBER 532-HG-012

PART II - RESULTS OF AUDIT

The audit found that certain program losses could decapitalize CHFC, the Jamaican financial institution which borrowed the Housing Guaranty Program funds from the U.S. investor. It was not known whether the Government of Jamaica would honor its agreement to reimburse these losses. Although the program is incurring substantial losses the U.S. Government has not had to make any payments to the U.S. investors in accordance with their "full faith guaranty". The Government of Jamaica, to date, has made the required payments to the lenders on behalf of Jamaica Mortgage Bank and the Caribbean Housing Finance Corporation.

Even though RHUDO/Caribbean had substantially revised the program in 1985, the audit found significant problems in the various areas reviewed under the audit objectives.

-- The viability of the program could be threatened because CHFC had not pressed the Government of Jamaica for reimbursement of losses even though it was approaching the point of default on the loan (see Finding 1).

-- Weak mortgage collection efforts by CHFC resulted in an unacceptable arrearage rate (see Finding 2).

-- Accounting systems to control the $40 million in program funds were inadequate (see Finding 3).

-- A large number of housing units were awarded to ineligible beneficiaries with income above the median level for Jamaica (see Finding 4).

-- Nine other serious problems were harming the program because implementing parties had not complied with terms of program agreements (Findings 5-13).

The report makes 15 recommendations to correct these problems. When implemented, these recommendations should substantially improve program implementation and enhance controls and accountability over program funds. See Appendix 3 for a listing of audit recommendations.

Despite program problems, the audit found that the Housing Guaranty Program has made contributions to help alleviate the shortage of housing in Jamaica. The HG-012A component produced 895 start-a-homes[2] and 346 upgrading solutions. Although progress is very slow under HG-012C, eventually this component could provide 4,375 settlement upgradings;[3] 1,936 service sites;[4] and 272 start-a-homes. It is difficult at this time to quantify the output of HG-012B; however, 294 loans to low-income households for home improvements, build-on-own land schemes, and mortgages for open market purchases have been made.

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2 A start-a-home is a basic core unit of about 250 square feet. It consists of a small bathroom, a kitchen alcove and a single room.

3 Settlement upgradings consists of infrastructure improvements and provision of freehold title in low income squatter settlements.

4 Sites and services include the development of infrastructure for housing lots and assistance to buyers to build a home thereon.

A. Findings and Recommendations

1. Financial Viability of the Program Is Uncertain

As required by the Housing Program Agreement, the Ministry of Finance and Planning (MOFP) signed an agreement with the program's borrower to reimburse it for program losses. Our audit found that there are many negative factors affecting the financial viability of the program and CHFC's ability to pay its upcoming loan installment. We found that similar factors had decapitalized the prior borrower, Jamaica Mortgage Bank (JMB), and thus could do the same to the present borrower, CHFC. Since the MOFP did not honor its loan servicing agreement with JMB, it is uncertain whether it will honor its agreement with CHFC. To date the MOFP has not responded to various attempts to recover certain program losses and establish a reimbursement mechanism. As a result, the financial viability of the program is uncertain.

Recommendation No. 1

We recommend that RHUDO/Caribbean in consultation with USAID/Jamaica:

a. ensure that the Ministry of Finance and Planning and the Caribbean Housing Finance Corporation work out a mechanism for accumulating, reporting, and clearing losses incurred under the program which should be reimbursed under the loan servicing agreement,

b. take measures to ensure that the Ministry of Finance and Planning honors the loan servicing agreement and reimburses the losses incurred by the Caribbean Housing Finance Corporation, and

c. deauthorize the remaining housing guaranties in the event the Ministry of Finance and Planning cannot or will not honor the loan servicing agreement.

Discussion

A housing guaranty program can be a risky venture for the financial institution which borrows the funds from U.S. investors. Full cost recovery is difficult because substantial losses can result from exchange rate fluctuations, interest rate subsidies, and mortgage delinquencies. Such losses are generally cushioned against by having the foreign Government and the borrower enter into a loan servicing agreement whereby the Government guarantees to reimburse the borrower for losses incurred from managing the program.

The Housing Program Agreement contained a provision requiring the Government of Jamaica (GOJ) and the CHFC to enter into this type of agreement. The MOFP and CHFC finalized this agreement on December 23, 1987. This agreement states in part that:

> ...the Ministry of Finance and Planning hereby gives its irrevocable and unconditional undertaking that in the event of CHFC suffering loss as a result of any change in the value of the Jamaican dollar in relation to the US dollar when repayment of the above loans are to be made to the US Investor or Investors such loss shall be made good by appropriate payments to CHFC.

Similarly, irrevocable and unconditional guarantees were also made to cover interest rate losses and losses arising from the failure of beneficiaries to pay their mortgages.

Our audit found that there are many negative factors affecting the financial viability of the program and CHFC's ability to pay its upcoming loan installment. The most important factors are:

-- The program has a very serious arrearage problem. Arrearages over 3 months total $1.1 million (see page 15) and represent a very large loss of revenue for the CHFC. With no effective collection system in place these losses will increase and continue to be a drain on the program.

-- Poor administration of Ministry of Construction/Housing (MOC/H) loans is negatively affecting the CHFC's cash flow. The $681,065 in home improvement loans and 67 mortgages which were not processed (please see pages 60-61) represented a substantial loss for the CHFC.

-- Even though exchange rate losses are covered under the loan servicing agreement, CHFC's failure to seek reimbursement for them is aggravating their financial position. The October 1989 devaluation of the Jamaican dollar resulted in a $2.1 million loss for CHFC.

-- Although interest rates can vary, those charged by the MOC/H for housing schemes or housing improvement loans have been lower than the interest rate CHFC has to pay the investor. MOC/H charges 6, 8 or 10 percent on its loans, whereas CHFC pays the investor a floating rate which is close to 10 percent.

-- As of June 30, 1989, the Estate Development Company (EDCO) owed CHFC $254,545 in interest on $6.1 million in loans. EDCO made no provision to pay this interest because it felt CHFC should seek reimbursement for this interest from the MOFP. In July 1989 CHFC sought reimbursement for this debt from the MOFP but as of February 1990 (7 months later) had received no response.

Financial viability also appears dubious for the future according to long-range cash flow projections performed by an A.I.D.-funded advisor for the Housing Guaranty Program. The projections showed that future profits would not occur. Considering the most optimistic circumstances, HG-012B (private sector) might break even after several years. These same optimal circumstances showed that HG-012C (public sector) would always incur large deficits.

Another provision in the loan servicing agreement required CHFC to establish an exchange rate equalization fund and an interest rate loss fund[5] out of program profits. These funds were to cushion against losses incurred by the program. These two funds were never established since the program had not generated any profits. Furthermore, the general manager of CHFC could not envision the program ever generating the necessary profits to establish these funds.

As a result of substantial losses and poor prospect for future profits, the financial viability of the program is threatened and CHFC could face decapitalization.

CHFC has made its previous semi-annual installments to the investor by using loan principal, interest earned from deposits in the escrow account, and interest earned on certificates of deposit. However, the general manager of CHFC told us they would not be able to make the December 1989 payment to the investor as they were short $580,000. We attempted to determine the magnitude of losses CHFC was incurring and how much was reimbursable under the loan servicing agreement. However, the only quantitative data CHFC had on program losses was the $254,545 in interest owed by EDCO.

Although the program is incurring substantial losses the U.S. Government has not had to make any payments to the U.S. investors in accordance with their "full faith guaranty". The Government of Jamaica, to date, has made the required payments to the lenders on behalf of Jamaica Mortgage Bank and the Caribbean Housing Finance Corporation.

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5 The interest rate fund was premised on the expectation that profits could be generated through fluctuations in interest rates. This did not materialize.

The loan servicing agreement should reimburse program losses but it lacks a reimbursement mechanism. No mention is made as to accumulating losses by line items, time frames for setting these losses, and procedures for settlement. Furthermore there were no procedures for reporting losses to RHUDO/Caribbean for their review.

In September 1989 we brought the issue of CHFC's potential decapitalization to RHUDO/Caribbean's attention. It took prompt action to start the process of resolving this problem. As a result of this, in October 1989 CHFC wrote a letter concerning its losses and the overall viability of the program to the MOFP. In December 1989 USAID/Jamaica also wrote a letter to the MOFP regarding program losses and the need to establish a reimbursement mechanism. At the close of our audit the MOFP had not responded to these letters (we understand that as of February 1990 they had still not responded) and no one knew whether the MOFP would or could honor the loan servicing agreement.

We are skeptical as to whether the MOFP will honor the loan servicing agreement. They did not honor a prior loan servicing agreement with the Jamaica Mortgage Bank (see Finding 6). We met with the Budget Director of the MOFP to try to determine its intentions; however, this did not provide any insight.

A critical element to any housing guaranty program is the loan servicing agreement. In our opinion, unless its provisions are honored, the program could fail to reach its objectives and CHFC might be decapitalized. Consequently, we feel USAID/Jamaica and RHUDO/Caribbean should continue to press to ensure that it is honored. If the MOFP cannot or will not honor its provisions then RHUDO/Caribbean should deauthorize the remaining funds.

Management Comments

RHUDO/Caribbean and USAID/Jamaica disagreed with Recommendations 1a and 1b as they were written. They felt that since A.I.D. was not a party to the Loan Servicing Agreement they could not act independently to enforce it. A.I.D. can enforce the Housing Program Agreement, however they feel that the MOF's failure to honor the Loan Servicing Agreement did not appear to violate the Housing Program Agreement. Consequently, they felt the recommendations should be reworded to state "encourage" the MOFP to take the recommended action.

Nevertheless, on the issue of establishing a mechanism for clearing losses (Recommendation 1a) the RHUDO/Caribbean response described several actions underway to accomplish this. A letter and a PIL were issued requesting the MOFP and CHFC to prepare an addendum to the agreement describing how the guaranty will function. Additionally, high level discussions were held and a mechanism for reimbursing program shortfalls had been identified.

With regard to honoring the Loan Servicing Agreement (Recommendation 1b) the Mission response stated that USAID/Jamaica, RHUDO/Caribbean and CHFC had pressed the MOFP verbally and in writing to honor this agreement. The Mission Director reviewed the matter on several occasions and wrote the Minister of Finance concerning their obligations under the program. As a result of these efforts, RHUDO/Caribbean feels the parties to the Loan Servicing Agreement are working out a solution to make up program shortfalls.

In response to the recommendation to deauthorize the remaining funds if the loan servicing agreement is not honored (Recommendation 1c in the draft report) RHUDO/Caribbean stated that all loans authorized had already been borrowed. Consequently there was no need for this recommendation.

RHUDO/Caribbean and USAID/Jamaica did not feel that the program viability was threatened because of the possible default of CHFC. They felt that CHFC had continued to service its loan obligation and was not in a default situation. They also noted that the GOJ was also current on their HG payments.

Office of Inspector General Comments

We are not recommending that A.I.D. act independently to enforce the Loan Servicing Agreement. The Housing Program Agreement requires all parties to execute the program in a manner which will ensure the successful completion of the program. We believe this provision gives A.I.D. the right to take steps to ensure that a very critical aspect of the program is implemented. If the GOJ cannot or will not honor a loan servicing agreement then perhaps A.I.D. should reconsider whether there should be a Housing Guaranty Program in Jamaica.

In any event, we agree with the approach taken thus far by RHUDO/Caribbean, USAID/Jamaica, and the CHFC to correct this problem. Based upon reported progress made it might be just a matter of time before this issue is fully resolved. Recommendations 1a and 1b are unresolved and may be closed when the mechanism for clearing losses is established and the MOFP fulfills its obligations under the loan servicing agreements.

With regard to Recommendation 1c we feel that any remaining funds should be deauthorized if the loan servicing agreement is not honored. At the conclusion of our field work in December 1989, RHUDO/Caribbean officials told us that approximately $12.5 million had not been loaned. However, the Mission response now indicates that all funds have already been borrowed. Recommendation 1c is resolved and can be closed when we receive evidence that all loans authorized under the program were borrowed as of May 11, 1990.

We disagree with the RHUDO/Caribbean contention that program viability is not threatened because of the possible default on the part of CHFC. Throughout our review this problem was consistently highlighted as the most critical issue facing the program. We believe the following facts clearly support this position.

-- The General Manager of CHFC told us they were approaching default because of the losses incurred by the program.

-- CHFC had been making its semi-annual repayments by using the principal of the loan and the interest earned on funds in the escrow account.

-- The prior borrower (JMB) of program funds had been decapitalized because of the same program losses. The Loan Servicing Agreement was never honored for this borrower.

-- As mentioned in the RHUDO/Caribbean response, CHFC had billed the MOFP for J$7 million (U.S. $1 million) in unpaid interest charges and has now been trying to recover these funds for 11 months.

Based on these facts we do not feel that CHFC can continue to absorb such losses in the future.

2. Mortgage Arrears Are Excessive

The Housing Program Agreement requires implementing parties to carry out the program with diligence and efficiency, a requirement which encompasses establishing effective loan collection procedures. We found that an unacceptably high delinquency rate of 47 percent existed for mortgages under HG-010, HG-011 and HG-012A. A variety of reasons exist for excessive arrears; however, nearly all point to the lack of an aggressive collection effort. The adverse effect of poor collections could be severe -- the CHFC will either be de-capitalized or the National Treasury of Jamaica will have to make large subsidies to pay the U.S. investors.

Recommendation No. 2

We recommend that RHUDO/Caribbean obtain a strong commitment from the Government of Jamaica to undertake a vigorous collection program. This commitment should be demonstrated by the development of a comprehensive mortgage collection plan and the provision of personnel, operating funds, and policy support to make the plan viable.

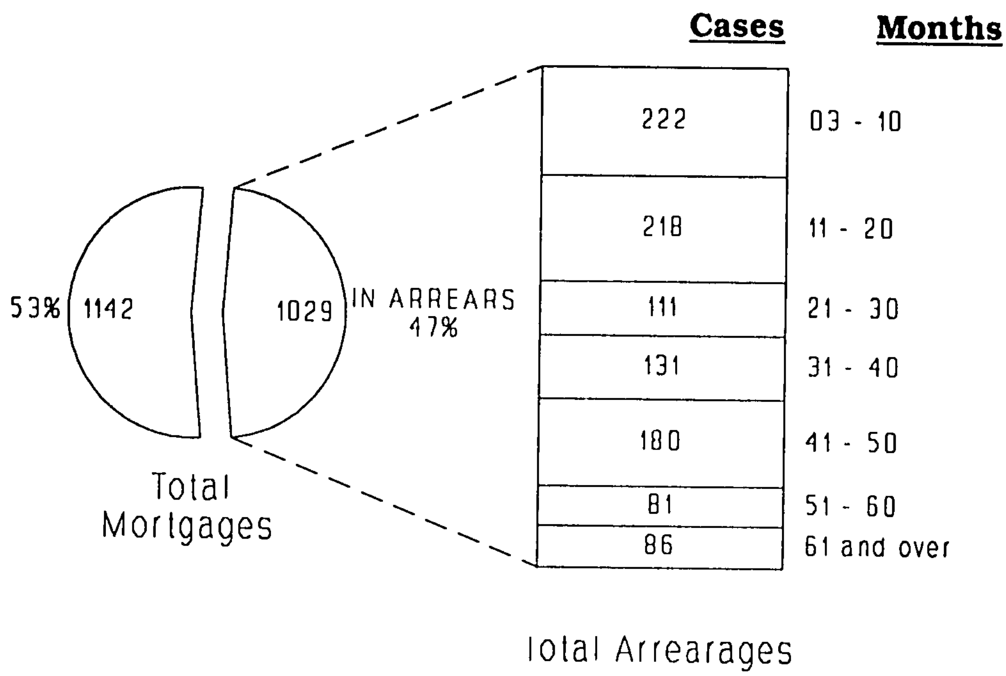
Discussion

Funds borrowed by CHFC from an investor in the U.S. are used to finance the construction of housing units. The sale of the units to low-income families generates mortgages which should produce cash reflows to repay the investor for the next 25 years. CHFC has the responsibility to collect monthly mortgage payments. A fundamental requisite to a viable housing loan program is an effective mortgage collection plan.

Section 7.04 of the Housing Program Agreement requires the borrower to carry out the program with diligence and efficiency. This section also requires parties to "provide qualified and experienced management...cause the Program to be operated and maintained in such manner as to assure the continued and successful achievement of the purposes of the program."

To determine how well CHFC was effecting mortgage collections, we analyzed the loan portfolio for HG-010, HG-011, and HG-012A. Our analysis revealed that the delinquency rate was unacceptably high. We noted that 1,029 mortgages (47 percent of the 2,171 housing guaranty mortgages serviced by CHFC) were in arrears for more than 3 months. The value of these arrearages as of October 31, 1989 was approximately $1,050,276 (see Exhibit 1).

ANALYSIS[1] OF ARREARAGES IN HOUSING GUARANTY MORTGAGES SERVICED BY CHFC



Data as of October 31, 1989

In addition to the high number of mortgages in arrears, another disturbing fact was the length of time they had gone unpaid with no foreclosure action. As the graph indicates, 347 loans had been in arrears over 41 months. Additional analysis of the 86 loans shown to be in arrears for over 61 months disclosed that 44 loans had been in arrears for more than 6 years.

Our audit surfaced five reasons why arrearages were so high. When considered in their totality, these reasons point out that CHFC has no effective mortgage collection plan in place.

CHFC Collection Efforts Are Weak - We reviewed the case history of 33 mortgages deeply in arrears to determine what collection action had been taken. When a mortgagee fails to make payments, CHFC usually takes two actions. First, it sends a computer generated notice to the individual which states his account is in arrears. Second, after being in arrears for several months, a letter is sent to the mortgagee warning him that his house could be sold at public auction (this was not done in all cases).

Such measures are ineffective. Loan files indicated that very frequently--about half the time--these notices or warning letters were returned by the post office as being "uncollected by addressee". We also noted instances where one or two years had passed without any correspondence between CHFC and the delinquent mortgagee. We concluded that, other than issuing routine warning letters, CHFC does not take any meaningful action to collect on delinquent accounts.

Insufficient Loan Collection Staff - CHFC does not have staff sufficient to effect a higher collection rate. The 8 persons in the collection department have to service 16,000 mortgages. The majority of their time is spent processing paperwork rather than pursuing meaningful collection measures. Although CHFC agreed that insufficient collection staff was a major problem, it had no plans to increase the number of collectors. The general manager of CHFC told us that they could not add more people because it would reduce their profit margins.

Failure to Foreclose on Delinquent Mortgages - As discussed earlier, the CHFC has never foreclosed on an HG mortgage--even when the mortgagee is 6 years behind in payment. Before CHFC can begin foreclosure or sell the property at public auction, it has to receive permission from the MOC/H.

Even if permission was granted, it is unlikely that foreclosure would be pursued. CHFC's capability to foreclose is hampered because it does not have titles to the properties. According to the general manager of CHFC, it has titles to no more than 50 percent of the housing units and no titles for the upgrading schemes. Also, the general manager stated that foreclosure is too costly and time consuming and anyway CHFC does not have the money to pay the legal costs.

CHFC Does Not Visit Delinquent Mortgagees - When a mortgagee is heavily in arrears and warning letters are ignored or undeliverable it seems logical that the collector would visit the person's house to discuss payment. However, the CHFC has never visited a delinquent mortgagee's home. On occasion, the CHFC and the MOC/H jointly requested the delinquent mortgagee to come to a Jamaica Parish Office to discuss payment. When this was done, positive results were achieved.

Lack of Contact with Mortgagees - The general manager of CHFC believes a major problem affecting mortgage collections is that the

MOC/H owns the mortgages. The MOC/H selects the scheme location, determines eligibility, selects beneficiaries, obtains addresses of applicants, etc. When the time comes for CHFC to begin loan servicing, it has no established contact with the mortgagees thereby complicating collection efforts.

The result of the five factors cited above is a failure to collect mortgage payments--a failure which will have a very adverse affect on the financial viability of the program and CHFC. As mentioned earlier, the amount of arrears was $1,050,276 and will continue to grow as long as ineffective collection procedures are in place. Such loss of program revenue could lead to the decapitalization of CHFC. The financial difficulties of CHFC will be lessened if the GOJ honors its commitment under the loan servicing agreement.

We recognize that a certain amount of arrears will occur and a limited subsidy may be required. However, the Jamaican National Treasury should not be expected to subsidize such flagrant delinquency. Furthermore, CHFC could lose their incentive to aggressively collect loans if they are reimbursed for all uncollectible accounts. The GOJ needs to institute much stronger collection measures to abate this arrearage problem.

RHUDO/Caribbean believes the new Minister of Construction recognizes the need to strengthen collection efforts. During an initial meeting with RHUDO/Caribbean, the Minister emphasized the need to rectify the collection problem. Also, RHUDO/ Caribbean plans to address the arrearage problem in HG-013.

Management Comments

RHUDO/Caribbean and USAID/Jamaica concurred with this finding and recommendation. They requested the GOJ to undertake a vigorous collection program by developing a comprehensive mortgage collection plan and providing the personnel, operating funds, and policy support to make this plan viable. They also offered to provide technical assistance to the MOC(H) and CHFC to assist in the development of this program.

Office of Inspector General Comments

Recommendation 2 is resolved. When fully implemented, the action requested by RHUDO/Caribbean should substantially reduce the arrearage problem. We will close this recommendation when we receive evidence that the comprehensive collection plan has been developed and the personnel/funds/policy support required to implement this plan have been provided.

3. The Financial Management System For Program Funds Is Inadequate

Generally accepted accounting principles and Housing Program Agreements require recipients of program funds to: (1) establish adequate accounting records, (2) safeguard program funds, and (3) perform required independent audits. Our audit disclosed that: program implementing institutions had inadequate accounting records, program funds were commingled with other monies, and required independent audits were not performed. Additionally, the audit found that a computer purchased to handle the entire HG program accounting system was not fully operational. These serious program weaknesses existed because of a lack of oversight and guidelines by RHUDO/Caribbean and the CHFC. As a result, $40 million in program funds are not being properly accounted for and are thus highly susceptible to fraud, abuse, and mismanagement.

Recommendation No. 3

We recommend that RHUDO/Caribbean:

a. issue appropriate guidelines requiring all recipients of Housing Guaranty Program loans to: (i) establish separate accounting records which adequately account for and report on the receipt and use of funds and (ii) deposit program funds into separate bank accounts and ensure that funds already disbursed are reconciled with remaining balances being deposited into such separate bank accounts,

b. establish procedures requiring the review of a financial institution's accounting systems prior to its acceptance as a participant in the program,

c. request a RIG/A/T supervised non-Federal audit of the entities receiving disbursements of Housing Guaranty Program funds,

d. develop an operational plan, along with a time table for implementation, which outlines how the Caribbean Housing Finance Corporation will use its personal computer to manage the Housing Guaranty Program, and

e. develop a more effective monitoring system for itself and the Caribbean Housing Finance Corporation to ensure that these guidelines, systems, and procedures are implemented and updated.

Discussion

The $40 million of HG-012 funds which finance construction of housing schemes (the total could reach $90 million with HG-013 funding) flow from an escrow account in the U.S. to the Bank of Jamaica where the dollars are converted into local currency. The local currency then flows to CHFC who in turn makes loans to GOJ entities or private-sector financial institutions participating in the program. Including CHFC, there were seven financial intermediaries at the time of our audit.

Such protracted accountability, coupled with an environment of high risk for abuse, makes it mandatory that recipients of funds have adequate accounting systems in place. These systems should be augmented by effective monitoring mechanisms and periodic external audit.

Our audit identified deficiencies in the accounting systems and oversight mechanisms of program participants. Specifically:

-- accounting records were inadequate,

-- program funds were commingled,

-- independent audits were not performed, and

-- the program computer was not effectively utilized.

Accounting Records Were Inadequate - To ensure the desired levels of accountability, Section 705.B of the Housing Program Agreement requires each party to:

> Maintain, or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Program, the Loan and this Agreement, adequate to show, without limitation, the receipt and use of funds, the relending of such funds, and the receipt and use of goods and services acquired under the Loan.

The accounting records at the GOJ entities and private financial institutions did not comply with the previously cited Housing Program Agreement provision. Although they had automated systems, their computers had not been programmed to provide sufficient reports to assist program managers or to report the correct status of loans. We found a variety of conditions at the seven participating financial institutions:

-- At CHFC, records were not posted in a timely manner. The program could not distinguish between program schemes and mortgages and those from their other activities. The system did produce a quarterly management report on a loan by loan basis.

-- The Jamaica Teacher's Association Housing Cooperative had not established any accounting records for program funds received or loans made.

-- EDCO's accounting system had not been posted for more than six months. The system produced no reports for managers. A recent independent audit of the accounting records disclosed serious problems in nearly all phases of the system's operations.

-- Although the city of Kingston Credit Union had a modern computer system it had not processed any program accounting information.

-- The Cooperative Credit Union League was six months behind in posting its accounting records. Since the Housing Program Agreement was initiated during a period when no posting was done, no records were created for program funds.

-- The Urban Development Corporation did not have separate accounting records for program funds. Although its accounting system could produce a report on program expenses by housing scheme it required a week to develop this information.

-- The Ministry of Construction had stopped posting their manual accounting records in June 1989 because they were converting to an automated system. This new system was not operational at the end of our field work in December.

Aside from the generalized requirement in the program agreement, we could find no other guidance provided to the participating financial institutions on how to establish the program's financial operations. The CHFC had never visited financial institutions receiving loans to determine whether the funds were properly accounted for and being used for the sole purpose of financing the housing program. Funds can easily be misappropriated when records are not established or are inadequately kept.

Moreover, poor financial records can also lead to inaccurate reporting of the program's status. For example, one financial institution reported to the CHFC that they had loaned approximately $727,273 to beneficiaries. We asked this institution how much they had loaned and they gave us a different amount. When we tried to reconcile the difference, the institution came up with still another different amount loaned. The actual amount of loans was finally determined to be $72,727 and not the reported $727,273.

Program Funds Were Commingled - The Housing Program Agreement requires that:

> The borrower and other parties implementing the agreement will use the proceeds of the loan, or any and all currencies exchanged for the United States dollars received under the loan, for the sole purpose of financing the program in accordance with and subject to the provisions of this agreement. To carry out the program or cause it to be carried out with due diligence and efficiency in conformity with sound technical financial management practices.

Our audit found that CHFC and all other participating institutions had commingled program funds with other monies. Loan agreement provisions require the program to be carried out with sound financial management practices, a requirement which encompasses establishing separate bank accounts. The above provision does not mandate separate bank accounts. However, recipients of program funds are required to use the loan proceeds for the sole purpose of financing the program. The use of separate bank accounts would greatly facilitate the monitoring of compliance with this requirement.

We believe that separate accounts are particularly desirable under this program. GOJ organizations such as the Ministry of Construction, Estate Development Company, and Urban Development Corporation are hard pressed for operating funds and pressures could exist to use program funds for unintended purposes. Also, the $763,636 advanced to EDCO which we could not reconcile (see page 38) might have been prevented if separate accounts had been established.

Independent Audits Were Not Performed -- Section 7.05(B) of the Housing Program Agreement stipulates that:

> Such books and records will be audited regularly in accordance with generally accepted auditing standards, and maintained for three (3) years after the date of program completion.

Section 7.05(D) provides that:

> until the loan is fully repaid, arrange to have such books and records audited annually by independent auditors in

accordance with generally accepted auditing standards. Such audit shall provide segregated accounting and comments regarding the loan and shall be submitted annually to A.I.D.

Guidelines to comply with the above provisions should require independent audits to: (1) certify an accountability for the housing guaranty program funds, and (2) meet the basic audit standards of the U.S. Comptroller General. An audit which does not meet these two requirements is inadequate for A.I.D. audit purposes.

Our audit disclosed that the requirement for independent audit of program funds had not been met. The only audit report we could find was an audit of CHFC's financial statements. We reviewed this report and could not determine whether the program funds were even included in the audit.

We could not locate any guidelines issued by RHUDO/Caribbean or the CHFC to participating institutions which explained the audit requirements they had to meet. The institutions will be audited by their own accounting firms; however, it is unknown to what extent these audits will focus on program funds or whether the audits will meet the requirements of the U.S. Comptroller General.

In our opinion the audit requirements for the Housing Program Agreement can best be achieved through the use of the RIG/A/T non-Federal audit program. Audit work could be tailored to meet specific RHUDO/Caribbean needs such as ensuring that accounting systems are adequate, program reports are accurate and timely, funds are properly accounted for, beneficiaries meet eligibility requirements, etc. Finally, the work would be performed in accordance with U.S. Comptroller General standards.

The Program Computer Was Not Effectively Utilized - RHUDO/Caribbean used development assistance funds to purchase a personal computer along with a software package for CHFC's use in managing the entire accounting for the Housing Guaranty Program in January 1989. In February 1989, a consultant was hired to assist CHFC in preparing a computerized monitoring system for the program. Although there was no written agreement as to how the hardware/software package should be utilized, RHUDO/Caribbean and CHFC officials stated that it was understood that the computer would be used to handled the entire Housing Guaranty Program accounting system.

Our audit found that as of December 1989 the computer was only being used to prepare a quarterly report for the program. This was the major accomplishment of the consultancy mentioned above. CHFC officials told us that there was no action underway to more effectively utilize the computer because of a heavy workload, a shortage of staff, and delays caused by Hurricane Gilbert.

In our opinion, one year is more than sufficient time for CHFC to make this computer fully operational. If it is not effectively utilized rapidly, A.I.D.'s investment in hardware/software will be wasted. Furthermore, the benefits of a modern, separate accounting system will not be attained.

The four deficiencies discussed above can be attributed to a lack of oversight and guidelines by RHUDO/Caribbean and CHFC. Additionally, monitoring by CHFC and RHUDO/Caribbean did not correct these deficiencies. Because of inadequate accounting and internal control weaknesses, funds are not properly controlled and program managers do not have the needed assurances that funds are being utilized as intended.

It is essential that effective accounting system and oversight be in place for a large Housing Guaranty Program. The amount of funds involved is large and the risk environment for abuse is high. The recommendations we have made to correct the deficiencies discussed above should substantially improve program accountability.

Management Comments

The Mission concurred with the finding and Recommendations 3a, 3b, 3d, and 3e. They have issued a series of project implementation letters and have taken various additional steps to implement our recommendations. Also, the Mission reported substantial progress in completing the corrective action.

Office of Inspector General Comments

We consider Recommendations 3a, 3b, 3d, and 3e to be resolved. We will close them after our receipt and review of the relevant PILs as well as other documents to support (1) the establishment of separate accounting records and bank accounts (2) guidelines being issued for reviewing applicant accounting systems (3) the development of an operational plan and program design for the computer and (4) the monitoring systems are in place.

Management Comments

RHUDO/Caribbean did not concur with Recommendation 3c as written. They contended that the Housing Program Agreement only requires

"Jamaica parties" to the agreement to have their records audited annually by independent auditors and not the subborrowers. They suggested the recommendation be reworded to request that an independent audit of CHFC be performed.

Office of Inspector General Comments

We acknowledge that the Housing Prog. .m Agreement requires the "Jamaican parties" to the Agreement to be audited annually. However, this provision fails to take light of the fact that the subborrower level is where the funds are utilized and are most susceptible to abuse. It does not make sense to omit audit requirements for the real users of program funds. In our opinion, audit coverage is inadequate unless it provides assurances on the utilization of A.I.D. funds. Consequently, Recommendation 3c remains unresolved.

4. Present Interpretation of Beneficiary Eligibility Appears to Contradict Legislation and Congressional Intent

A November 1986 legal opinion of the A.I.D. General Counsel interpreted the statutory "suitability" criterion of Title III, Section 223(J) of the Foreign Assistance Act as being met if the housing is designed and built to be affordable by the target class. The Foreign Assistance Act intended that households below the median income level would be the target group for housing guaranty funds. Our audit found that the HG-012C Housing Program Agreement allows families with income above the median level to be eligible beneficiaries. RHUDO/Caribbean entered into this agreement because of the November 1986 General Counsel opinion. As a result, Housing Guaranty Program benefits for low-income families--the legislation's target group--are being reduced.

Recommendation No. 4

We recommend that the A.I.D. General Counsel review the Congressional intent of housing guaranty program legislation to determine whether the benefits of the program should be directed toward individuals whose income falls below the median for the country.

Discussion

In recent years, RIG/A/T audits of Housing Guaranty Programs have identified large numbers of beneficiaries whose income was above the median level. In responding to these findings, RHUDO has contended that Section 223(J) of the Foreign Assistance Act of 1961, as amended, requires them to provide housing which is affordable and accessible to low-income people; however, this does not mean that low-income families have to purchase or occupy these units. A November 1986 legal opinion of the A.I.D. General Counsel affirmed this position by stating that the statutory "suitability" criterion of Section 223(J) "is met if the housing is designed and built to be affordable by the target class."

A.I.D. foreign assistance projects and programs are generally designed to assist the poor people in underdeveloped countries. Accordingly, A.I.D. Policy Paper on Shelter, Handbook 7, and other Housing Guaranty Program directives generally state that the benefits of the program are to be directed toward persons below the median income level for the country. In Jamaica, the median income level was defined as J$18,000 (U.S.$3,273).

In our opinion Congressional intent of Title III, Sections 221-223 of the Foreign Assistance Act is that shelter solutions should not only be suitable to families with income below the median but also sold to and occupied by this target group. Section 221, Housing Guaranties states:

> ...While recognizing that most financing for such housing must come from domestic resources, the Congress finds that carefully designed programs involving United States capital and expertise can increase the availability of domestic financing for improved shelter and related services for low-income people by demonstrating to local entrepreneurs and institutions that providing low-cost shelter can be financially viable.

Section 222(b) of the F.A.A. further states that activities carried out under this section should emphasize:

> (1) projects which provide improved home sites to poor families on which to build shelter and related services;
>
> (2) projects comprised of expandable core shelter units on serviced sites;
>
> (3) slum upgrading projects designed to conserve and improve existing shelter;
>
> (4) shelter projects for low-income people designed for demonstration or institution building purposes; and
>
> (5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor.

The housing program agreement for HG-012C defines eligible beneficiaries as:

> Section 5.02. <u>Standards, Affordability and Eligibility of Beneficiaries</u>.
>
> A. It is understood that United States legislation governing A.I.D. requires that the benefits of the Program, to the extent financed by the Loan, <u>are affordable by, and accessible to, families earning less than the median income in Jamaica</u> [Emphasis added]. Such households are referred to in this Agreement as "Eligible Beneficiaries." The mutually agreed upon median income applicable to this Program is set forth in Annex A.

B. The Jamaican Parties agree to manage the Program so that its benefits, to the extent financed by the Loan, <u>are affordable by, and accessible to, Eligible Beneficiaries</u> [Emphasis added].

Compare this with prior housing program agreement provisions. HG-012A, in Section 5.02. <u>Standards, Affordability and Eligibility of Beneficiaries,</u>. defined eligible households as:

A. It is understood that United States legislation governing A.I.D. requires that the benefits of the Program, to the extent financed by the Loan, <u>flow directly to households earning less than the median income in Jamaica</u> [Emphasis added]. Such households are referred to in this Agreement as "Eligible Beneficiaries." The mutually agreed upon median income applicable to this Program is set forth in Annex A.

B. The Jamaican Parties agree (a) to manage the Program so that its benefits, to the extent financed by the Loan, flow to Eligible Beneficiaries, (b) to assure that Program costs will be kept at a level to insure that Program benefits <u>are affordable to the Eligible Beneficiaries</u> [Emphasis added]. For purposes of determining affordability to Eligible Beneficiaries, the monthly payments and charges for housing under the Program for Eligible Beneficiaries should not exceed the percentage of the monthly income of such Beneficiaries as set forth in Annex A.

Under HG-012A low income families constitute the eligible beneficiary target group. Under HG-012C, anyone can purchase them, regardless of income level. In our opinion, this expansion of the eligibility criteria redirects the program benefits away from low-income families who under legislation are the identified beneficiary group.

Beneficiary eligibility should be determined by the total gross income of the beneficiary household. This information was not available for all beneficiaries. However, our audit in Jamaica found that when only the income of one family member of a household is considered, 27 percent of the beneficiaries had income above the median income level. This percentage would undoubtably be higher if we could have determined the gross income of all beneficiary households. For example, in the case of start-a-homes marketed by the Housing Task Force we were able to determine the total income of the household. In this case we found that 141 of 294 start-a-homes or 48 percent were awarded to individuals above the median income level. Our prior audits of the Housing Guaranty Program in Honduras and Panama also found an excessive number of housing units being awarded to individuals with income above the median level for the country (Audit Reports 1-522-86-06 and 1-525-87-29).

Another disturbing fact is the high income level of some of the recipients of the shelter units. Although the median income level for Jamaica is set at J$18,000 (U.S.$3,273) numerous houses were awarded to individuals well above this level. RHUDO/Caribbean officials feel some units may have been sold to ineligible people because the houses were located in poor areas which made them difficult to sell. The chart below demonstrates some of the recipients of shelter schemes who had high income:

NUMBER OF BENEFICIARIES [1] WITH INCOME WELL ABOVE THE MEDIAN LEVEL OF J$18,000 (U.S.$3,273)

Range of Income	No. of Individuals
J$25-35,000 (US$4,545-6,364)	21
J$36-50,000 (US$6,545-9,091)	12
J$51-70,000 (US$9,273-12,727)	5
J$71-100,000 (US$12,909-18,182)	3
> 100,000	2[2]
TOTAL	43

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1 The schemes these individuals received housing units from were Bushy Park, Yallahs, Old Harbour Villa, and Friendship Meadows.

2 Income for these 2 individuals was J$135,200 (US$24,522) and J$208,000 (US$37,818).

It is difficult to believe that Congress, when enacting Section 223(J), intended that families with incomes significantly above the median level would be the beneficiaries of housing financed by the Housing Guaranty Program. This seems inconsistent with the objectives of the program as stated in Title III, Section 221-223, of the F.A.A.

The fact that a large number of families with above median-income receive housing units appears to be acceptable based on the November 1986 A.I.D. General Counsel legal opinion and the provisions of current Housing Program Agreements. However, this seems inconsistent with the legislation and Congressional intent and results in reducing the Housing Guaranty Program benefits for low-income families--the target group of eligible beneficiaries identified under the Foreign Assistance Act.

In our opinion, the Housing Guaranty Program is designed to provide housing to low-income families to help alleviate their housing problems. Sections 221 and 222(b) clearly contemplate that the purpose of the Housing Guaranty Program is to provide affordable shelter to families. Thus it would follow that Section 223(J) means the guarantees must be used for providing housing which is not only affordable to low-income families but which is also owned and occupied by these families.

Management Comments

In response to this recommendation, the A.I.D. General Counsel reaffirmed its position that Housing Guaranty financed housing need only be affordable to the target group and does not have to be sold to and occupied by families below the median income level. They declined to undertake another review of the Congressional intent of Housing Guaranty legislation.

Office of Inspector General Comments

We are disappointed with the General Counsel's position on this matter. In Jamaica, as well as in other countries where we have audited Housing Guaranty programs, there is a very critical shortage of adequate housing for low income families. However, we continue to find that the benefits of the Housing Guaranty Program are not being directed as much as possible to this target group. We do not accept the General Counsel's interpretation of the Congressional intent of the "suitability" provision in Section 223(J). However, we feel it would be more productive to challenge his opinion at a later date through a vehicle other than this audit report. Therefore, Recommendation 4 is closed upon issuance of this report.

5. The Ministry Of Construction/Housing Improperly Retained Housing Program Funds

Under HG-011 and HG-012A the MOC/H sold 671 start-a-homes for $6.7 (J$36.1) million to the National Housing Trust (NHT). Our audit found that the total sales proceeds were retained by the MOC/H, consequently no reflows, in mortgages or in cash, were returned to the Housing Guaranty Program. The Memorandum of Agreement between CHFC and MOC/H requires the MOC/H to pay CHFC an amount equal to the value of the properties disposed of by cash sales. However, MOC/H officials told us they sold the units to the NHT as an alternative way to generate operating funds for the MOC/H. As a result, the Housing Guaranty Program has lost a substantial amount of funds, losses which contributed to the severe financial problems of the borrowers implementing the program.

Recommendation No. 5

We recommend that RHUDO/Caribbean:

a. ensure that procedures are instituted which will ensure that the proceeds from any future sales to the National Housing Trust are returned in total to the borrower, and

b. seek restitution either in the form of cash or mortgages from the MOC/H for the proceeds improperly retained.

Recommendation No. 6

We recommend that the A.I.D. General Counsel review the situation discussed in Finding 5 and determine whether further corrective action is required.

Discussion

The Housing Guaranty Program operates under the precept that loan funds received from U.S.investors will be used to finance the construction of shelter solutions. The sale of the units generates cash or mortgages which maintain the financial viability of the program and its implementing institutions.

During the past several years the MOC/H sold start-a-homes constructed with program funds to the National Housing Trust (NHT). The NHT paid the MOC/H for the units in cash. Our audit found that the MOC/H kept these sales proceeds and neither mortgages nor cash flowed back to the Housing Guaranty Program. The chart below demonstrates the magnitude of these sales.

SCHEDULE OF START-A-HOMES
SOLD TO THE NATIONAL HOUSING TRUST
UNDER HG-011 AND HG-012A

	Scheme	No. of Units	Unit Price	Total Selling Price
HG-011	Simmonds Land Park	20	$ 9,684	$ 193,680
HG-011	Darliston Ph. II	20	8,123	162,460
HG-011	Landillo Phase II	30	12,596	377,880
HG-011	Bethel Town	20	7,799	155,980
HG-012A	Old Harbour Villas	80	9,818	785,440
HG-012A	Friendship Meadows	80	9,818	785,440
HG-012A	Old Harbour Bay	121	9,818	1,187,978
HG-012A	Yallahs	120	9,818	1,178,160
HG-012A	Bushy Park	180	10,364	1,865,520
	TOTALS	671		$6,692,538

Section 5 of the Memorandum of Agreement between the CHFC, the MOC/H, and the Ministry of Finance and Planning (MOFP) contained the following provisions:

> (ii) Where MOC/H disposes of lots or units by cash sales MOC/H undertakes to pay CHFC an amount equal to the value of the properties disposed of.
>
> (iii) The funds collected by the CHFC under 5(i) and (ii) will be used to service the 532-HG-012C Loan.

We attempted to track the flow of sales proceeds from the NHT to the CHFC. However, the funds received by the MOC/H were never sent to the CHFC. The sales proceeds were processed in the same manner as normal MOC/H owned mortgages with funds being deposited into its cash account. Since the funds were deposited into the MOC/H's general cash account we could not readily determine what use had been made of the money except in one instance. The one we did identify was the MOC/H's use of the sales proceeds to pay a $2.5 million settlement claim for a breach of contract with A.H. Buildings Jamaica Ltd. This unintended use of Housing Guaranty Program sales proceeds was authorized by the Cabinet Submissions No. 219/MC-21/87 and 220/MC-22/87, dated July 16, 1987.

Officials at the MOC/H told us they sold the housing units to the NHT as an alternative way to generate operating funds for the Ministry. In their opinion, they received limited budgetary support from the MOFP and needed the proceeds from these sales to continue their housing program. They told us the funds were used for additional housing construction or to pay general operating expenses of the MOC/H.

A MOC/H official told us they probably should have established an amortization fund with the proceeds to make periodic payments to the CHFC. However, this was never done. The USAID technical assistance advisor stated that at one point an amortization-type fund had been set up; however, the fund's principal was quickly depleted as it was used for other purposes.

Such retention of sales proceeds by the MOC/H has caused the Housing Guaranty Program to lose a substantial amount of funds urgently needed to make loan repayments. The sales of start-a-home should have created 671 mortgages which would generate monthly flows of revenue for the borrowers for the next 15 to 25 years. This was a factor contributing to the decapitalization of the prior borrower.

Another harmful effect of these sales is that as an intermediary the NHT increased the sales price of the units when it resold them to low-income families by $727 per unit. Although we were told this increase was to cover NHT's administrative costs, the end result is that low-income families pay a higher price for the units.

In conclusion, the retention of sales proceeds by the MOC/H could represent a material breach of the Housing Program Agreement. The MOC/H should be required to reimburse the Housing Guaranty Program for the funds they improperly retained. Additionally, we feel the A.I.D. General Counsel should review these sales practices and subsequent use of proceeds for budgetary support to determine whether additional corrective measures are necessary.

Management Comments

RHUDO/Caribbean did not concur with the wording of Recommendation 5a because they doubt if they have the right under the Housing Program Agreement to ensure that the MOC(H) perform its contractual obligations. However, they recommended that a formal procedure and agreement be established to ensure that proceeds from future sales go to the borrower. RHUDO/Caribbean also issued a project implementation letter to the GOJ alerting them to their commitment to use loan proceeds for the sole purpose of financing the program.

Office of Inspector General Comments

We have retained the wording of our original recommendation because we believe that all sales proceeds must be used for the sole purpose of financing the program and hence must be returned to the borrower. Additionally, the action requested by RHUDO/Caribbean of the GOJ, when implemented, should satisfy the intent of our recommendation. Therefore Recommendation 5a is resolved and will be closed when we receive evidence that an agreement, in writing, has been reached which establishes procedures which ensures that sales proceeds are returned to the borrower.

Management Comments

RHUDO/Caribbean and USAID/Jamaica agreed with the intent of Recommendation 5b but did not concur with its wording. They doubted whether A.I.D. had the rights under the Housing Program Agreement to require that the MOC(H) perform its contractual obligations to the JMB. They contend that since they were not a party to agreements between the MOC/H and the NHT they, therefore, cannot mandate any actions. However, they attempted to recover the funds by issuing a PIL to the GOJ recommending that they reimburse the HGP for the $6.7 million in sales proceeds they retained.

RHUDO/Caribbean also informed us that in prior years the MOC(H) was permitted by the GOJ to retain the proceeds from sales of publicly financed housing schemes in lieu of an allocation from the national budget. The new Permanent Secretary of the MOC(H) thought that the sale of HG-financed units to the NHT might have been included in this arrangement. If this were the case, then repayment of the $6.7 million would be the responsibility of the GOJ. RHUDO/Caribbean had requested more information from the GOJ on this matter.

Office of Inspector General Comments

Although A.I.D. is not a party to agreements between the MOC(H) and the NHT it does not mean they cannot take measures to ensure that HG Program sales proceeds are used for program purposes. Under the Housing Program Agreement the proceeds of the loan are to be used for the sole purpose of financing the program in accordance with the agreement. In our opinion, the retention of sales proceeds violates the provisions of the Housing Program Agreement and as such A.I.D. has the right to seek restitution. Consequently, we are retaining our recommendation.

We agreed with the Mission's initial approach to try and recover these funds. Additionally, the new information furnished by RHUDO/Caribbean concerning the possibility that the GOJ could have responsibility for repayment, could affect the approach to resolve this problem. Recommendation 5b remains unresolved until we receive further information concerning the MOC(H) response to this

PIL and further clarification as to who has responsibility for repayment.

Management Comments

In response to Recommendation 6, the General Counsel stated it was not clear whether the MOC/H had violated the Memorandum of Agreement. The Memorandum of Agreement cited in the report is between CHFC and the MOC(H) and pertains to HG-012C sales proceeds. The sales proceeds in question pertain to units financed under HG-011 and HG-012A when the Jamaica Mortgage Bank was the borrower.

The General Counsel also informed us that it was RHUDO/Caribbean and USAID/Jamaica's view that the corrective actions taken appeared likely to remedy the situations without the intervention of the General Counsel. If the corrective action did not resolve the situation to the satisfaction of RHUDO/Caribbean and USAID/Jamaica then the General Counsel would be prepared to consider with RHUDO/Caribbean and USAID/Jamaica whether remedial action by A.I.D. was possible.

Office of Inspector General Comments

We are aware that the cited Memorandum of Agreement pertains to HG-012C and the CHFC. We were not able to locate the Memorandum of Agreement with JMB for HG-011 and HG-012A. The HG-012C agreement was cited to show that provision had been made to require the sales proceeds to be returned to the borrower. We would think that a similar agreement with the same provisions exists for sales made while JMB was the borrower.

Nevertheless, the central issue remains that Housing Guaranty sales proceeds were not returned to the program and were not used for the sole purpose of financing the program as required by the agreement. Also, we are not certain whether the reported steps taken by RHUDO/Caribbean to correct this problem will produce the desired results. Consequently, we consider Recommendation 6 to be unresolved. After agreement is reached with RHUDO/Caribbean and an assessment of progress is made on this issue we can determine whether General Counsel involvement is warranted.

6. The Ministry of Construction/Housing Used Funds Budgeted for Program Loan Repayments for Other Purposes

The MOC/H owes $8 million in principal and interest on $35 million borrowed from the Jamaica's Mortgage Bank (JMB) under HG-010, HG-011 and HG-012A. Although the GOJ gave an unconditional guaranty that it would reimburse losses incurred by the JMB from managing the program, it has not honored this agreement. The GOJ national budget earmarked $8 million to repay the HG loans to JMB; however, the MOC/H apparently used these funds for other purposes. As a result, JMB was decapitalized.

Recommendation No. 7

We recommend that RHUDO/Caribbean take action which will ensure that the Ministry of Construction/Housing utilizes any funds budgeted for housing guaranty loan repayments for that purpose.

Recommendation No. 8

We recommend that the A.I.D. General Counsel review the situation discussed in Finding 6 and determine whether additional corrective measures are necessary.

Discussion

The borrower under a housing guaranty program assumes substantial risks due to losses which can result from exchange rate fluctuations, interest rate subsidies, and high mortgage arrears. To cushion against such losses the Government and the borrower enter into a loan servicing agreement whereby the Government pledges to reimburse the borrower for losses incurred. Accordingly, the financial integrity of the program and the borrower is maintained.

The JMB was the borrower for HG-010, HG-011 and HG-012A. Under these programs, JMB in turn loaned $35 million (J$109.4) to the MOC/H. As of October 1989, the MOC/H owed JMB $8 million (J$44 million) in principal and interest.

The general manager of JMB told us they made numerous attempts during the past two years to get the MOC/H to honor this debt; however, the MOC/H has either refused or been unable to pay. JMB has also sought reimbursement from the Ministry of Finance and Planning (MOFP) under the provisions of their loan servicing agreement. However, the MOFP has not made reimbursement because it feels the MOC/H has responsibility for payment.

The Budget Director of the MOFP told us the GOJ national budget contained a line item for repayment of housing guaranty loans. Our review of GOJ national budgets and discussions with MOC/H officials revealed that $8.0 million was budgeted for and $8.6 million was received by the MOC/H for housing guaranty loan repayment for fiscal years 1988/89 and 1989/90.

Instead of using these funds to repay the housing guaranty loans received from JMB, the MOC/H used the funds for other purposes. Consequently, JMB did not have the funds to repay its loan from the U.S. investor. The Bank of Jamaica paid the investor and credited JMB's cash account. The amount JMB was unable to cover was charged to an over-draft account which, in essence, placed JMB in a decapitalized condition.

Failure to repay loan with funds budgeted for this purpose led to the decapitalization of the borrower.

Section 7.04 of the Housing Program Agreement requires implementing parties to carry out the program with diligence and efficiency. This section also requires parties to "provide qualified and experienced management... cause the Program to be operated and maintained in such manner as to assure the continued and successful achievement of the purposes of the program." In our opinion, both the failure of the MOC/H to repay JMB and the failure of the MOFP to honor the loan servicing agreement are contrary to the provisions of the agreement. Such failure to execute the program properly have harmed the Housing Guaranty Program.

Failure to use these funds as budgeted is closely related to the improper retention of NHT sales proceeds (see page 28). In our opinion, both of these situations could be material breaches of the Housing Program Agreement. As in the prior finding, we feel the A.I.D. General Counsel should review this area to determine if additional corrective action is necessary and what should be done to ensure that the GOJ honors the provisions of the agreement in the future.

Management Comments

RHUDO/Caribbean and USAID/Jamaica agreed with the intent of Recommendation 7 but did not concur with the way it was worded. They did not feel they could intervene in the issues of the GOJ to the extent necessary to "ensure" that budgeted funds be utilized for their intended purpose. However, they issued a program implementation letter requesting the MOC/H to establish a loan repayment plan and policy. Additionally, the Ministry of Finance and Planning is to establish, based upon shortfall projections provided by CHFC, a line item in the national budget for the HG-012 program.

Office of Inspector General Comments

Recommendation 7 is unresolved. We are not asking RHUDO/Caribbean to directly intervene in the budgetary affairs of the GOJ. However, we do feel they should take as strong an action as possible to correct a serious problem which has hurt this program. There is a possibility that the action taken by RHUDO/Caribbean, when fully implemented, could produce the desired results. However, we cannot tell whether the requested loan repayment plan and policy applies only to CHFC and HG-012C or if it also pertains to JMB and the HG-011 and HG-012A loans.

Recommendation 7 can be closed when we receive further clarification/ evidence that (1) the proposed loan repayment plan and policy applies to HG-011, HG-012A, and HG-012C loans, (2) the MOC(H) has established this loan repayment plan and policy, and (3) the MOFP has agreed to allocate funds in the national budget for repayment of HG-011 and HG-012 loans.

Management Comments

In responding to Recommendation 8 the General Counsel informed us that it was RHUDO/Caribbean and USAID/Jamaica's view that the corrective actions already taken appeared likely to remedy those situations without the intervention of the General Counsel. If this action did not resolve the situation to the satisfaction of RHUDO/Caribbean and USAID/Jamaica then the General Counsel would be prepared to consider with RHUDO/Caribbean and USAID/Jamaica whether remedial action by A.I.D. were possible.

Office of Inspector General Comments

We are not certain whether the corrective action planned by RHUDO/Caribbean will correct this situation and hence obviate the need for General Counsel intervention. Consequently, we consider Recommendation 8 to be unresolved. After assessing progress made by RHUDO/Caribbean, we will determine whether General Counsel involvement is warranted.

7. A Home-Improvement Loan Component Should Be Terminated

The MOC/H is not administering the $3 million home-improvement loan component adequately. Although the Housing Program Agreement envisioned that this component would be implemented by the private sector, the MOC/H was not able to finalize an agreement with a private institution to administer this component. Consequently, A.I.D. is providing funds which permit a GOJ ministry to administer a program normally handled by the private sector. Additionally, MOC/H's poor management of the home-improvement loan component has hurt the Housing Guaranty Program.

Recommendation No. 9

We recommend that RHUDO/Caribbean issue a Project Implementation Letter which terminates the home-improvement loan component of the program.

Discussion

Low-income families in Jamaica frequently have difficulties obtaining financing to make improvements or perform maintenance to their houses. Consequently, HG-012C reserved a minimum of $3 million for a home-improvement loan component referred to as the Housing Assistance Program. The MOC/H had assumed complete responsibility for administering this program.

Our audit found that the MOC/H has done a poor job of administering the program. To illustrate:

-- Collections could not be made on approximately $681,065 of loans because the MOC/H never processed the paperwork,

-- The MOC/H charged interest rates of 6, 8 or 10 percent on these loans whereas credit unions lend at 12 percent and building societies lend at 19 percent. This is, in effect, a subsidy which is discouraged by A.I.D. policy, and

-- The MOC/H approved some loans where prospects for loan repayment was dim--since the borrower did not have a job or had a very low income.

The Housing Program Agreement apparently envisioned that this component would be implemented by the private sector. Section II-3 of Annex A states:

> This component may include loans for materials and maintenance and may be implemented through credit unions,

building societies, commercial banks and other private lending institutions either through a loan guarantee program or by providing funds directly to lending institutions for on-lending.

Officials at the MOC/H told us they made an attempt to have the Jamaica Cooperative Credit Union League administer the home-improvement loans. However, negotiations were unsuccessful. Rather than continue to negotiate or select a different financial institution, the Minister of Housing decided his ministry would operate the loan program, a decision RHUDO/Caribbean apparently concurred with.

In our opinion, A.I.D. should not be the source of funding which permits a government ministry to handle a function which could and should be managed by the private sector. In its development work, A.I.D. seeks to increase the ways it can channel assistance to and through nongovernmental organizations. This home-improvement loan program appears to be one of the ways RHUDO/Caribbean can make better use of the private sector. We believe a private-sector financial institution would probably do a much better job of running the program since they have the financial incentive to manage the program correctly.

The MOC/H's poor administration will not permit cost recovery and will aggravate the precarious financial viability of the program. We feel this component of the program should be terminated. The remaining funds should be utilized for site improvement or squatter upgrading schemes.

Management Comments

RHUDO/Caribbean and USAID/Jamaica concurred with this recommendation. Program implementation letters were sent to the MOC(H) requesting them to terminate the component and reprogram the funds to activities such as serviced housing sites. Additionally, the MOC(H) wrote a letter stating they agreed to suspend the program at the current level of approved loan commitments.

Office of Inspector General Comments

The reported action is sufficient to resolve Recommendation 9. We will close the recommendation upon our receipt and review of the relevant PILs and responses from the MOC(H).

8. The Estate Development Company Could Not Account For Certain Program Funds

The Estate Development Company (EDCO) could not account for $763,636 of the $6.1 million advanced to them by CHFC to finance the construction of housing guaranty schemes. Relevant Housing Program Agreements require EDCO to use the proceeds of the loan for the sole purpose of financing the program, in conformity with sound technical, financial and management practices. There are serious weaknesses in EDCO's accounting system--weaknesses which prevented EDCO or us from satisfactorily accounting for these advances. As a result, $6.1 million in program funds are not properly controlled and $763,636 remain unaccounted for.

Recommendation No. 10

We recommend that RHUDO/Caribbean contract with an independent accounting firm for an audit of program funds disbursed to the Estate Development company and curtail further disbursements until the aforementioned audit is completed and the Estate Development Company has established an adequate accounting system.

Discussion

The MOC/H selects the shelter schemes which are to be constructed under the public-sector component of the program. After a scheme is approved, EDCO, a GOJ parastatal, has responsibility for planning and supervising the construction of the units. In order to finance this construction, EDCO receives advances of Housing Guaranty Program funds from the CHFC.

Between November 1988 and June 1989 the CHFC advanced $6.1 million (J$33.5 million) to EDCO to finance the construction of housing schemes. As of June 1989, $3.4 million (J$18.9 million) of this amount had been expended on these schemes. At this same point in time, EDCO's on-hand balance (deposited in a checking account or certificate of deposits) of these advances was only $1.9 million (J$10.4 million)--thus there was a shortfall of $763,636 (J$4.2 million).

Section 7.04 of the Project Implementation Agreement requires the borrower, and other parties implementing this agreement to:

> Carry out the Program 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, plans specifications, contracts, schedules or other arrangements, and with any

modifications therein, approved by A.I.D. pursuant to this Agreement.

Use the proceeds of the loan, or any and all currencies exchanged for the United States Dollars received under the Loan, for the sole purpose of financing the Program in accordance with and subject to the provision of this Agreement.

Such requirements are not satisfactorily met when serious accounting deficiencies exist. We brought the $763,636 shortfall to the attention of EDCO officials in September 1989 and requested an explanation. Their explanation was not satisfactory. We requested additional explanation but at the close of our field work in December 1989, the shortfall was still unresolved.

The cause of this shortfall is still not known and needs further investigation. The source of the problem could be EDCO's poor accounting records. Its records had not been posted for several months, bank statements had not been reconciled for more than a year, and funds were commingled.

EDCO took steps to improve their accounting system--key personnel were removed and an outside accounting firm analyzed the accounting system. Since this is an area with high risk potential, we feel RHUDO/Caribbean should take immediate measures to reconcile these advances made to EDCO.

Management Comments

RHUDO/Caribbean and USAID/Jamaica did not concur with the wording of Recommendation 10. In lieu of the independent audit we recommended, they requested EDCO to prepare a certified statement reporting the status of all advances received from CHFC. EDCO requested their accounting firm (Touche, Ross, Thornburn and Co.) to prepare a reconciliation of HG funds. Touche Ross certified that a bank certification of deposits presented fairly the total receipts and disbursements for the period of time EDCO received advances from CHFC.

On March 30, 1990 representatives from RHUDO/Caribbean and USAID/Jamaica met with two RIG/A/T auditors to discuss this reconciliation. According to the Mission response, this meeting concluded that the statement was an adequate accounting for the funds advanced. Consequently, RHUDO/Caribbean issued a PIL accepting the reconciliation and hence now holds the position that an independent audit is not necessary since the issue is resolved.

The remainder of the Mission response detailed measures taken or planned to be taken to improve EDCO accounting records.

Office of Inspector General Comments

Neither of the two RIG/A/T auditors who attended the March 30, 1990 meeting to discuss the reconciliation statement have any recollection whatsoever of a conclusion that the statement was an adequate accounting for funds advanced to EDCO. In fact, their recollection of the meeting's conclusion was that the reconciliation statement along with other relevant information should be forwarded to RIG/A/T along with the official Mission response to the draft report. Upon receipt of this information it was to be evaluated to determine if it would satisfy the intent of Recommendation 10.

The alternative recommendation suggested by RHUDO/Caribbean (review EDCO's accounting practices to determine their adequacy) will not satisfy the intent of our recommendation. We want to ensure ourselves that the funds advanced to EDCO have been used only for program purposes and have been fully accounted for. The alternative action taken by RHUDO/Caribbean might produce the desired results, however, we need to closely examine work done to conclude that funds have been properly accounted for.

Consequently, Recommendation 10 remains unresolved until we have had the opportunity to closely examine the reconciliation statement; receive information on the scope of work performed by Touche, Ross, Thornburn and Company to make this certification; and review whatever additional supporting information RHUDO/Caribbean has which indicates that EDCO has satisfactorily accounted for all advances.

9. Interest Earned On Excessive Cash Advances Should Be Capitalized

The Housing Program Agreements permit participating institutions to receive cash advances based upon agreed cash flow needs not to exceed a six month period. Participating institutions received excessive cash advances because they did not prepare cash flow projections of their funding needs. As a result, these institutions earned $290,568 in windfall profits--profits which should be capitalized to produce more housing units.

Recommendation No. 11

We recommend that RHUDO/Caribbean:

a. issue to all participating institutions appropriate guidelines which require that future advances of program funds be justified and approved based upon institution's six-month cash flow needs as supported by a project implementation plan,

b. not approve further cash advances until the existing ones have been exhausted,

c. determine by institution the amount of interest earned from advances held by the subborrowers in excess of the terms stipulated in the loan agreements and recover and capitalize a like amount from the respective institution, and

d. issue a program implementation letter to clarify and ensure that net interest earned on advances outstanding beyond the period prescribed in the loan agreements should be returned to the program to produce more housing solutions.

Discussion

The CHFC borrows housing guaranty funds from an investor in the United States. In turn, CHFC enters into loan agreements with GOJ organizations or private financial institutions to finance loans or construction for low-income housing. Periodically, CHFC makes advance disbursements of cash to the participating institutions.

Such disbursements are to be based upon the institution's cash flow needs for a six month period. Section 4.02 of the Housing Program Agreement for HG-012B (Private Sector) states the following:

> A.I.D. may approve requests for advance disbursement up to an initial amount not in excess to Two Million Five Hundred Thousand U.S. Dollars (US$2,500,000)...Such initial advance

and any additional advances shall be based upon agreed cash flow needs of the Program as appearing in the Program Implementation Plan Section 5.02) for periods not to exceed six (6) months.

The Housing Program Agreement for HG-012C (Public Sector) basically contains the same provisions (although the amounts differ).

Our review showed that the advances made by CHFC were excessive to the six months needs of the institutions, as demonstrated by the following chart:

SCHEDULE OF ADVANCES
MADE TO PARTICIPATING INSTITUTIONS

Institution	Date of Advance	Amount of Advance	Advance Used 9/30/89	Elapsed Time Period
City of Kingston Cooperative Credit Union	11/23/88	$ 909,091	$ 318,388	10 months
EDCO	11/11/88	3,181,818	3,000,000[1]	7 months
EDCO	2/24/89	1,090,909	441,693	4 months
EDCO	6/23/89	1,818,182		7 days
JTA Housing Cooperative Ltd.	11/23/88	781,818	88,485	10 months
Jamaica Cooperative Credit Union League	6/20/89	905,797	57,627	3 months
Urban Development Corp.	6/20/89	1,630,435	833,724	3 months

[1] EDCO expenditures were only available as of 6/30/89.

Although the amounts advanced to EDCO and Urban Development Corporation appear to be somewhat reasonable, those made to the other three institutions are clearly excessive.

One reason for excessive advances was that cash flow projections were not always prepared. CHFC did comply with the Housing Program Agreement and submitted a cash flow projection as a part of their implementation plan. However, our audit found that only one of the participating institutions had submitted a cash flow projection to CHFC to support one of the advances it had requested. CHFC disbursed the total amount requested by these institutions without requiring any supporting justification.

Another factor contributing to this problem was the lack of appropriate guidelines for participating institutions concerning requesting and justifying advances. Aside from the criteria in the Housing Program Agreements, neither RHUDO/Caribbean nor CHFC have issued guidelines concerning advances to participating institutions. The agreements between CHFC and these institutions are also silent with respect to justifying advances. As a final point, our review noted that CHFC was not complying with the program agreements as they allowed institutions 12 months to use an advance rather than the 6 months stipulated in the agreements.

As a result of these excessive advances, funds could have been used to make loans for unintended purposes. Also, participating institutions earned windfall profits on the excess funds. The following chart demonstrates the amount of interest earned by those institutions that placed their advances in certificates of deposit.

SCHEDULE OF INTEREST EARNED ON ADVANCES INVESTED IN CERTIFICATES OF DEPOSIT

Beneficiary	Interest received as of	Amount Received
JTF Housing Cooperative	9/30/89	$98,904
City of Kingston Cooperative Credit Union Ltd.	9/30/89	98,214
Jamaica Cooperative Credit Union League	9/30/89	45,055
Estate Development Co. (EDCO)	8/30/89	48,395
TOTAL		$290,568

In our opinion, interest earned from the excessive advances should be capitalized and used to produce additional low-income housing schemes as little or no interest would have been earned on these funds had CHFC made reasonable advances. The program agreement states that implementing parties will use the proceeds of the loan for the sole purpose of financing the program in accordance with the agreement. The Program should not include an unanticipated means of producing revenue for participating institutions.

Management Comments

RHUDO/Caribbean and USAID/Jamaica concurred with Recommendations 11a and 11b. They issued PILs requesting CHFC to instruct all participating institutions to prepare six month cash flow projections and not to make further advances until they had proof that prior tranches were fully disbursed. CHFC also agreed to amend appropriate guidelines to reflect these changes.

Office of Inspector General Comments

The reported actions taken resolve Recommendations 11a and 11b. We will close the recommendation upon our receipt and review of the referenced PILs and other supporting documentation.

Management Comments

RHUDO/Caribbean agreed with the intent of Recommendation 11c but did not concur with the way it was worded. They did not feel they had the authority to take the actions recommended because they are not a party to the loan agreement linking CHFC and the subborrowers. Furthermore, CHFC contends that subborrowers cannot be held accountable for interest earned on these excessive advances because the loan agreements called for twelve month advances. Nevertheless, RHUDO/Caribbean issued a PIL requesting an accounting for interest earned after a twelve month period and stated this amount would be capitalized for additional loans.

Office of Inspector General Comments

We agree with RHUDO/Caribbean's approach to handling the interest earned from excessive advances. Particularly, since they have taken measures to avoid this situation in the future. Recommendation 11c is resolved and will be closed when we receive the accounting from each institution which received excessive advances and evidence that interest earned after twelve months has been capitalized for additional loans.

Management Comments

RHUDO/Caribbean did not concur with the Recommendation 11d as worded, however, they agreed with its intent to tighten financial management of the loans CHFC makes to borrowers. They felt the recommendation should be reworded to state "net interest earned on advances outstanding beyond the period prescribed in the loan agreements should be returned to the program." They also issued a program implementation letter to put this requirement into effect.

Office of Inspector General Comments

We concur with RHUDO/Caribbean suggested re-wording of the Recommendation 11d and have changed it accordingly. We consider the recommendation resolved and will close it upon receipt and review of the referenced PIL.

10. Mortgages and Loans Were Not Processed and Collected in a Timely Manner

Our audit found that the MOC/H paid $681,065 to home-improvement loan beneficiaries but because of an alleged lack of staff failed to process the paperwork necessary to begin collection action. Likewise, 67 houses were sold but due to negligence, the mortgages were not sent for collection. Prudent debt collection policy requires collection action to begin within a month of the disbursement of cash to beneficiaries. As a result of MOC/H poor management, the CHFC has lost a substantial amount of revenue needed to make loan repayments to the U.S. investor.

Recommendation No. 12

We recommend that RHUDO/Caribbean:

a. issue a project implementation letter which establishes a requirement that all loan files/mortgages be transferred to the Caribbean Housing Finance Corporation within one month of the delivery of the unit/cash or the signature of the mortgagee, whichever occurs first,

b. ensure that Caribbean Housing Finance Corporation and the Ministry of Construction/Housing reach an agreement on loan file transfer,

c. take immediate action to ensure that all documentation for home-improvement loans already finalized is processed and the loan files are sent to the Caribbean Housing Finance Corporation for collection, and

d. instruct the Caribbean Housing Finance Corporation to determine the interest lost because of these delays and submit a claim to the Ministry of Finance and Planning under their loan servicing agreement.

Discussion

The CHFC has the responsibility for collecting monthly payments for home-improvement loans. However, the Office of the Housing Assistance Program (a unit within the MOC/H) has the responsibility to select beneficiaries and process the documentation in connection with these loans. Between February 1988 and June 1989, the MOC/H approved and disbursed $681,065 (J$3, 45,858) for home-improvement loans.

Although the Office of the Housing Assistance Program had disbursed $681,065 to beneficiaries, it had not finished processing loan documents for any of these loans. Consequently, for as long as 16 months after the funds were disbursed loan files had not been sent to CHFC for collection servicing. MOC/H officials stated the causes as: insufficient staff to process the loan documentation and the lack of an agreement for transmitting loan files to CHFC. Although the MOC/H promised prompt corrective action, the loan files still had not been sent for collection at the end of our field work--two months after we brought it to their attention.

Poor loan administration was also prevalent at the Housing Task Force (HTF) the MOC/H entity responsible for the sale of housing units. Even though the HTF had completed processing paperwork for 67 mortgages it had not forwarded the files to CHFC for collection. After we brought this to the HTF's attention, it forwarded these mortgages to CHFC. HTF officials stated they did not forward the mortgages because they were waiting for additional files to be processed. We attribute this failure to negligence--the mortgages had been sitting for seven months.

We were not able to find any guidelines from RHUDO/Caribbean or CHFC for when mortgages/loan files should be forwarded for collection servicing. However, it seems reasonable that collections should commence within one month of the disbursement of cash or the signing of the mortgage. Prudent banking/debt collection policy requires immediate collection of outstanding loans. As a result of MOC/H failure to submit loan files and mortgages, the CHFC has lost a considerable amount of revenue needed to make loan repayments to the U.S. investor.

Management Comments

Management concurred with Recommendations 12a and 12b and issued program implementation letters requesting a written procedure between MOC(H) and CHFC for transferring loans within a one month timeframe and procedures for transferring completed loan files for collection. They will also review a draft Loan Transfer Agreement to ensure its completeness and that it is being followed.

Office of Inspector General Comments

The reported actions are sufficient to resolve Recommendations 12a and 12b. We will close these recommendations upon our receipt and review of the relevant program implementation letters and the referenced Loan Transfer Agreement.

Management Comments

Management concurred with Recommendation 12c. Since the completion of our field work, 218 Housing Assistance Program loan files (about half) and 211 of 270 starter home mortgages have been forwarded to CHFC for collection. RHUDO/Caribbean will continue to monitor the processing and transfer of the remaining loans.

Office of Inspector General Comments

Recommendation 12c is closed upon issuance of this report based on the reported progress achieved and the promised continued monitoring by RHUDO/Caribbean for the remaining loans.

Management Comments

RHUDO/Caribbean and USAID/Jamaica concurred with Recommendation 12d and instructed CHFC to determine the amount of interest lost due to transfer delays and to seek recovery from the MOF. The CHFC has determined the amount of interest lost. The remainder of the Mission response discusses RHUDO/Caribbean and USAID/Jamaica's attempts to get the MOFP to honor the terms of the Loan Servicing Agreement.

Office of Inspector General Comments

Based upon the Mission response we are not sure if CHFC has submitted a claim to the MOFP for interest lost due to transfer delays. Additionally, a mechanism has still not been established for settling these losses and it remains to be seen whether the MOFP will honor the Loan Servicing Agreement. Consequently, Recommendation 12d is unresolved until we receive additional information as to whether CHFC sought and received recovery from the MOF.

11. Unsold Or Damaged Houses Should Be Marketed

Our audit identified a large inventory of unsold or damaged start-a-homes and unsold upgraded lots which existed from various schemes under HG-011 and HG-012A. Housing schemes should be promptly marketed so that cash reflows can be generated to maintain the financial viability of the program. The principal reasons why units remain unsold are the MOC/H did not market residual units in certain schemes, EDCO had not repaired damaged houses so that they could be sold, and it was difficult to sell upgraded lots because work was completed and individuals were already living on the land before sales agreements were signed. Failure to sell these units, valued at approximately $1,016,776, has deprived the program of a substantial amount of funds.

Recommendation No. 13

We recommend that RHUDO/Caribbean:

a. establish a time-frame with the Estate Development Company for repairing houses with construction defects and those damaged by Hurricane Gilbert so that they can be sold by the Housing Task Force,

b. instruct the Ministry of Construction/Housing to review unsold units already awarded to individuals to determine whether the sale is still possible. If not, instruct the Housing Task Force to find a new buyer for those mortgages which are not already in process, and

c. issue a program implementation letter to the Ministry of Counstruction/Housing which formalizes the use of pre-sales agreements for upgraded lots and also monitor the use of these agreements to determine if they are being properly utilized and are accomplishing the desired results.

Discussion

The Housing Guaranty Program in Jamaica provides financing to construct start-a-homes, sites and services lots and settlement upgradings. When construction of these housing solutions is finished, the Housing Task Force in the MOC/H has responsibility for marketing them to low-income Jamaican families. The sale of the units is within the program goal of improving living conditions of low-income persons and also generates the funds to maintain the program. The Housing Program Agreement contains provisions that requires prompt sale of housing schemes, sales that will generate funds to help maintain the financial viability of the program.

Our review of Housing Task Force records disclosed that a large, and very expensive inventory--approximately $1.0 million of unsold housing solutions existed (see Exhibit 2). Although many of these units are occupied and sale attempts are in process, they remained unsold at the time of our audit.

Our audit surfaced four reasons why units remain unsold. First, the MOC/H is not very effective when it comes to selling the small, residual units which remain in schemes. Second, a large number of houses cannot be sold because EDCO has not corrected construction defects or repaired damages caused by Hurricane Gilbert. Third, the sale of units awarded to certain beneficiaries could not be finalized.

The final reason is more complex and difficult to resolve. The large number of unsold units in upgrading schemes exist, in large part, because the work was finished prior to the signing of the sales agreements with beneficiaries. Since many of the individuals were living on the land prior to the upgrading they are reluctant to purchase the land at this point in time.

RHUDO/Caribbean recommended that the MOC/H avoid such predicaments in the future by executing sales agreements prior to upgrading the land. This could be a remedy; however, at this point we do not know if it has been put into effect and whether it is working satisfactorily. Consequently, we feel it would be very beneficial if RHUDO/Caribbean issued a program implementation letter prescribing the use of presale agreements and then periodically follow-up on the situation to determine if the MOC/H is accomplishing the intended results.

We were told the MOC/H is presently trying to sell the upgraded plots to the people living on them. This could be a long, difficult process. Consequently, we are not making any recommendation on these upgraded lots other than that RHUDO/Caribbean should continue to monitor this area and facilitate the process if possible.

Failure to promptly sell housing schemes deprives the Housing Guaranty Program of critically needed revenue. Additionally, the goal of the project--providing Jamaicans with housing--is not being achieved. Consequently, we feel RHUDO/Caribbean should ensure that these unsold units are marketed.

Management Comments

Management concurred with Recommendation 13a. RHUDO/Caribbean sent a PIL to the MOC(H) requesting them to analyze, on a scheme by scheme basis, units requiring repairs and additional work and prepare a schedule for completing the work.

Office of Inspector General Comments

Recommendation 13a is resolved; however, based upon the Mission's response, we cannot tell whether a timeframe was established for repairing houses with construction defects or those damaged by Hurricane Gilbert. Additionally, we cannot tell whether action has been or will be taken to do the repair work. We will close this part of the recommendation when we receive additional information on the time-frame and action taken to repair defective and/or damaged houses.

Management Comments

RHUDO/Caribbean and USAID/Jamaica concurred with Recommendation 13b. A PIL was issued asking the MOC(H) to analyze units not yet sold due to documentation problems and prepare a schedule for marketing all unsold units. The MOC(H) informed RHUDO/Caribbean that of the 561 unsold units noted in the draft audit report, 287 have been sold. The remaining unsold units will be monitored in the Quarterly Report.

Office of Inspector General Comments

Based upon reported progress on selling these unsold units we are closing Recommendation 13b. However, we suggest that RHUDO/Caribbean continue to monitor the remaining 274 unsold units until sales are consummated.

Management Comments

RHUDO/Caribbean and USAID/Jamaica concurred with Recommendation 13c and issued a PIL requesting the MOC(H) to formalize the use of pre-sales agreements. These agreements have already been used for 211 starter homes.

Office of Inspector General Comments

Based upon the reported action taken we consider that Recommendation 13c is resolved. We will close the recommendation after our receipt and review of the referenced PIL.

12. Inappropriate Income Criterion Was Used To Determine Eligibility

RHUDO/Caribbean established the median income level for Jamaica at J$18,000 ($3,273). Our audit found that organizations selecting housing beneficiaries were using different criteria to determine income-level eligibility--none of which were correct. This happened because RHUDO/Caribbean issued guidelines which told banks, building societies, and credit unions that they were free to calculate household income according to their own underwriting criteria. As a result of using these guidelines, people above the median income level could be selected for housing instead of the more needy applicants meeting the income criterion.

Recommendation No. 14

We recommend that RHUDO/Caribbean rescind their August 1988 guidelines and issue new instructions to all entities selecting beneficiaries to calculate the upper income limit based on the gross income of all family members in the household.

Discussion

A.I.D.'s Policy Paper on Shelter states that "shelter programs must benefit, directly or indirectly, households below the median income level of the country or city of concern." Consequently, a housing guaranty program must determine what is the median income level for the country or city. In turn, institutions selecting housing beneficiaries must determine the income level of applicants in order to see if they exceed the established median. In October 1986 RHUDO determined that the median income level for Jamaica was J$18,000 ($3,273).

Whether an applicant's income exceeds the median income level depends to a large extent on the criterion used by the selecting institution to calculate income. Our audit found that the private-sector institutions selected beneficiaries using different criteria to calculate applicants income--none of which were correct. We found that four institutions were including only the gross income of the applicant and were excluding the income of other members of the household. Another institution was using net income of the applicant after deducting items such as taxes, legal expenses, etc. At still another institution, the loan files frequently contained no information on applicant's income. For the public-sector component of the Program, an MOC/H official managing the Housing Assistance Program told us they used only the applicants income because if they were to use gross income of the household the majority of their applicants would be ineligible.

RHUDO/Caribbean issued guidelines in August 1988 which state:

> In the case of defining household income, our concern is that the beneficiaries fall below the median income figure. The banks, building societies and credit unions are free to calculate household income according to their own underwriting criteria. USAID's only requirement is that the institutions provide the Caribbean Housing Finance Corporation with a statement that, according to their calculations and judgment, the loans made using the HG funds do not contravene the median income limit.

These guidelines explain why the private-sector institutions were using different methods to calculate applicant income. In our opinion, all entities selecting program beneficiaries should use the same income criteria--gross income of the household. Otherwise, applicants with household income in excess of J$18,000 ($3,273) could be awarded housing over more needy persons who meet the program's eligibility criteria.

Management Comments

RHUDO/Caribbean and USAID/Jamaica concurred with Recommendation 14. A program implementation letter was issued rescinding the prior guidelines and instructing institutions to use the standard method of median household income calculation recommended by the audit. These guidelines are to be incorporated into the new program guidelines being prepared by CHFC.

Office of Inspector General Comments

We consider the action taken to be sufficient to resolve Recommendation 14. We will close the recommendation after our receipt and review of the cited PIL.

13. Subsidies for Land and Housing Sales Prices Should Be Addressed in HG-013

Because A.I.D. policy generally discourages government subsidies, RHUDO/Caribbean's HG-013 Program has a component which addresses the targeting and reduction of subsidies. Our audit found that the GOJ subsidizes the cost of land and the sales prices of low-income housing units. Both a RHUDO/Caribbean sponsored study to determine the magnitude of MOC/H subsidies and the HG-013 project paper made no mention of land and sales price subsidies. Consequently, if RHUDO/Caribbean wants to develop the total subsidies associated with the housing program and develop a comprehensive reduction strategy then these two additional elements should be included in the HG-013 program.

Recommendation No. 15

We recommend that RHUDO/Caribbean:

a. develop the total costs associated with land and sales prices subsidies, and

b. include these elements in the subsidy reduction strategy of the HG-013 sector project.

Discussion

A.I.D. policy generally discourages government subsidies. Section III(8) of the A.I.D. Policy Paper on Shelter states the following:

> 8. Excessive Subsidies
>
> The needs of the developing countries for shelter are vast compared to the availability of resources for meeting them. Therefore, the prerequisite for any successful housing policy addressing the needs of the poor majority is recognition by the government concerned that programs dependent on public subsidies can only make a small dent in the huge need for improved shelter. Their only realistic goal is to undertake shelter construction at standards which are to be affordable by poor families without the necessity for subsidies. The pre-conditions for self-sustaining programs on a scale large enough to have an appreciable impact on shelter requirements include sound pricing policies and cost recovery.

Our audit found that the MOC/H sold housing units to beneficiaries for less than the cost of construction. Additionally, the cost of the land was not included in the sales price. The magnitude of the sales price subsidy is shown in Exhibit 3.

Although it is difficult to get precise data on the amount of the land subsidy, the GOJ land contribution for HG-012C was valued at $20 million. Also, a recent newspaper article set the land value of a 2-3 bedroom house provided by the NHT at approximately $18,182. Land values vary significantly throughout Jamaica. The Housing Guaranty Program has schemes island-wide and the land cost for many of these schemes could be much lower. Nevertheless, the land subsidy could be very significant.

RHUDO/Caribbean sponsored a study to determine the magnitude of subsidies in the MOC/H program. This study concentrated on interest rate and mortgage collection subsidies. We were told that sales price and land subsidies were not studied.

RHUDO/Caribbean recognizes that the subsidy elements in MOC/H schemes should decrease and has included such a component in the HG-013 sector project. This component intends to develop a phased-plan for subsidy reduction with an initial objective of establishing an accounting system that identifies, by type of solution, the extent of subsidies. We could not find any mention of a sales price or land subsidy in the project paper.

We endorse RHUDO/Caribbean efforts to identify and work toward a reduction of subsidies. However, if they are to develop a comprehensive subsidy-reduction strategy then land and sales price should be taken into account.

Management Comments

RHUDO/Caribbean and USAID/Jamaica concurred with Recommendation 15a and 15b. Discussions have been held with GOJ officials which led to a consensus on the need to examine subsidy reduction in the areas of land and sales prices. These two subsidy elements will be included in the policy agenda for the HG-13 program.

Office of Inspector General Comments

Based upon reported action taken Recommendation 15 is closed upon issuance of the report.

B. Compliance and Internal Controls

1. Compliance

The review of compliance was limited to the areas effected by our audit work in answering the objectives identified in this report. The audit identified five compliance issues. First, institutions receiving Housing Guaranty Program funds had not been audited as required by agreements (Finding 3). Second, the proceeds from the sale of housing units were improperly retained by the MOC/H (Finding 5). Third, the MOFP had not complied with loan servicing agreement provisions to reimburse certain losses incurred by Jamaica Mortgage Bank (Finding 6). Fourth, the Housing Assistance Program was being administered by a GOJ Ministry and not a private-sector financial institution as required by the agreement (Finding 7). Finally, institutions received cash advances in excess of their six-month needs (Finding 9).

2. Internal Controls

The review of internal controls was limited to the areas effected by our audit work in answering the objectives identified in this report. The audit disclosed seven internal control weaknesses. First, the borrower under the program had not established adequate procedures to effect loan collections (Finding 2). Second, financial management systems for controlling program funds were inadequate. Accounting systems were weak, program funds were commingled, a personal computer purchased to provide program accountability was underutilized, and annual audits of the program were not performed (Finding 3). Third, RHUDO/Caribbean and CHFC did not have effective monitoring systems to assure that certain program guidelines, procedures, and systems were implemented (Findings 3 and 11). Fourth, funds budgeted to repay housing guaranty loans were used for other purposes (Finding 6). Fifth, the Estate Development Company did not have an adequate accounting system to account for program funds (Finding 8). Sixth, guidelines were not in place to ensure that loans were processed and sent for collection in a timely manner (Finding 10). Seventh, income criteria issued for determining the eligibility of beneficiaries was inappropriate (Finding 12).

C. **Other Pertinent Matters**

Issue 1 - Our audit attempted to determine whether technical assistance provided under Project No. 067 to support the Housing Guaranty Program was performed in accordance with the terms of the contract (PADCO contract No. 532-0067-C-00-0006-00). However, our ability to assess contractor performance was limited because the scope of work provisions in the technicians contract were poorly written. These provisions were very vague and generally stated the technician would "assist" in a variety of tasks. In our opinion, the technician could have satisfied the terms of his contract by simply attending a few meetings. If RHUDO/Caribbean awards a new contract for technical assistance to support HG-013 then a much more precise scope of work should be written--a scope of work which clearly states not only what the technician should do but also provides means to measure performance.

Issue 2 - Under HG-012C, RHUDO/Caribbean and USAID/Jamaica are trying to move the MOC/H away from start-a-homes and shift program emphasis towards squatter upgrading/sites and services lots. Several GOJ officials told us they did not agree with this shift because the upgraded lots could develop into slums. In our opinion, there are steps that RHUDO/Caribbean could now take to help ensure that its strategy is accepted and the upgraded lots do not decline. The timely provision of instruction through inputs such as technical assistance, demonstration lots, or pamphlets could provide important guidance to owners on how to improve or maintain the property.

Issue 3 - A.I.D. Handbook 3 prescribes the use of project committees to provide technical advice and assistance to project officers. Although these committees are widely used by USAID/Jamaica for development projects, RHUDO/Caribbean used them infrequently for its Housing Guaranty Programs. Members of the project committees for HG-012B and HG-012C told us that the committees had not been used very frequently (members could only recall one meeting for each component). These committees could provide valuable expertise to the project officers. In our opinion, the representatives from the Controller's Office and the Office of Engineering could have been very helpful to this Housing Guaranty Program.

Issue 4 - During our audit we had difficulty locating a plan for the schemes to be developed under the HG-012C component--a plan which identifies schemes to be constructed, number of units in each scheme, start dates, completion dates, etc. We were told that the schemes which were in the existing plan had been incorporated over time. The MOC/H added or dropped schemes as implementation progressed. In our opinion, RHUDO/Caribbean could facilitate the timely completion of this component if they "locked in" the existing schemes in the plan and added a requirement that any additions or deletions could only be made with RHUDO/Caribbean approval.

Management Comments

In response to Issue 1 RHUDO/Caribbean stated the terms of reference for the contract were purposefully written with flexible language in order to give maximum ability to modify and adopt contractor function to unforeseen issues and opportunities. In their opinion, given the nature of the technicians work, it would have been difficult and counterproductive to be more specific on the scope of work.

Office of Inspector General Comments

We do not agree with the RHUDO/Caribbean position on this matter. Standard contract modification procedures allow the flexibility required to modify and adopt contractor functions to unforeseen events. Both A.I.D. and contractors benefit when contract provisions spell out precisely the roles and responsibilities of both parties to the contract. We continue to believe that if another contract is awarded then all parties would benefit from a much more precise and contractible scope of work.

Management Comments

RHUDO/Caribbean did not respond to Issue 2.

In response to Issue 3 RHUDO/Caribbean stated the RHUDO and the HGP are fully integrated into the operations and management oversight of USAID/Jamaica. They stated that a review of the HGP is undertaken by USAID management every six months.

Office of Inspector General Comments

We are talking about the use of project committees by RHUDO project officers in this issue and not the Mission's semi-annual review of projects. Officials from the Office of Program, Development and Support, Engineering Office and Controllers Office told us very little use had been made of the established project committees for HG-012. We feel these committees are an excellent forum to identify and resolve project problems and should be an excellent source of expertise in the implementation of this program.

Management Comments

In response to Issue 4 RHUDO/Caribbean stated that such a plan was submitted for all current and past programs and had been updated on several occasions. They also exercise full approval authority over this plan.

Office of Inspector General Comments

We do not think the plan RHUDO/Caribbean mentions contains the information we are talking about. During our audit we tried to determine specific details on each of the schemes in the HG-012 program. RHUDO/Caribbean referred us to the Planning and Development Collaborative International (PADCO) Chief of Party as being the source of this information. This individual told us the information was not available. He also told us about schemes being added and dropped from the program by the MOC(H), particularly when there was a change of Government. In subsequent discussions with the RHUDO Director about this issue he stated that we should recommend "locking in" the present schemes to avoid any future changes to the program by the MOC(H).

AUDIT OF JAMAICA
HOUSING GUARANTY PROGRAM
PROJECT NUMBER 532-HG-012

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

SUMMARY OF ARREARS AT CHFC IN EXCESS OF 3 MONTHS (AS OF OCTOBER 31, 1989)

Housing Guaranty Loan	Units Sold	Units in Arrears	Amount of Arrears
HG-010			
Upgrading Lots	1,136	677	$ 884,606
HG-011			
Start-a-Home	101	30	23,722
Upgrading Lots	571	182	82,889
HG-012A			
Start-a-Home	294	126	57,832
Upgrading Lots	69	14	1,227
TOTALS	2,171	1,029	$1,050,276

EXHIBIT 2

INVENTORY OF UNSOLD HOUSING SOLUTIONS

HG-011

Scheme	Units Not Sold	Unit Price	Total Value
Start-A-Home			
Darliston	1	$ 8,182	$ 8,182
Upgraded Lots			
McKay Lands	8	1,555	12,440
Rectory Lands	145	1,299	188,355
Red Hills Road	12	4,466	53,592
75-77 Waltham Park Road	4	1,254	5,016
81-91 Waltham Park Road	4	1,372	5,488
Whitehall Avenue	58	1,351	78,358
York Town	45	957	43,065
Subtotal			$394,496

HG-012A

Scheme	Units Not Sold	Unit Price	Total Value
Start-A-Home			
Old Harbour Bay	1	$ 9,818	$ 9,818
Bushy Park	6	10,364	62,184
Yallahs	13	10,182	132,366
Upgraded Lots			
Inspectors Land	264	1,583	417,912
Subtotal			$ 622,280
Grandtotal			$1,016,776

EXHIBIT 3

SCHEDULE OF SALES PRICE SUBSIDY FOR HG-011 AND HG-012A START-A-HOMES

Scheme	Total No. of Units	Unit Cost[1] of Construction	Unit Price[2] to NHT	Subsidy by Unit	Total Subsidy
HG-011					
Simmonds Land Park	36	$18,687	$8,364	$10,323	$371,628
Darliston Ph. II	40	5,455	8,182	(2,727)	(109,080)
Landillo Ph. II	146	13,450	8,908	4,541	662,986
Bethel Town	40	9,091	8,182	909	36,360
HG-012A					
Old Harbour Villas	140	11,039	9,818	1,221	170,940
Friendship Meadows	100	10,364	9,818	546	54,600
Old Harbour Bay	221	10,942	9,818	1,124	248,404
Yallahs	180	11,414	9,818	1,596	287,280
Bushy Park	254	10,652	10,364	288	73,152
TOTAL					$1,796,270

Subsidy as a percentage of total project cost 13.84%
(Total Project Cost $12,978,327)

1 The unit cost of construction includes off-site infrastructure costs which we could not readily quantify and subtract from the unit cost.

2 According to RHUDO/Caribbean Deputy Director, this price combines both fair market value and prior construction costs.

M E M O R A N D U M

Date: May 11, 1990

Reply to
Attn of: Marylin Zak, ADIR, USAID/Jamaica M. Zak

George Deikun, ARHUDO/CAR G. Deikun

Subject: Response to Draft Audit Findings

To: Coinage Gothard, RIG

Attached is the Mission's response to the recent Regional Inspector General's draft audit report of the Jamaica Housing Guaranty Program.

In this response we request that some recommendations be closed based upon actions taken to date. We have also identified actions which will serve to close other recommendations in the near future.

Our response notes areas where we have a different point of view with respect to RIG's interpretation of our legislative requirements and those under the Housing Program Agreements.

We request that the headline on the cover page of the audit refering to the viability of the program be removed because it is incorrect. We have demonstrated in our response to the first audit recommendation, that the program viability is not threatened because of possible default on the part of CHFC. Not only is CHFC current on all HG payments, but the GOJ is also current on all HG payments. The Bank of Jamaica continues to make payments on behalf of the GOJ for both CHFC and the Jamaica Mortgage Bank.

We would like to take this opportunity to thank you and your staff for your assistance in taking a more in-depth look at our Programs and to compliment your staff on the professional and collegial manner in which they accomplished their task.

We hope RIG's positive and constructive approach, which enabled us to take corrective action to close many of the recommendations prior to receipt of the draft report, will continue as we arrive at a mutual understanding on the differences of interpretation which remain outstanding.

USAID/JAMAICA AND RHUDO/CAR MANAGEMENT COMMENTS ON RIG AUDIT OF JAMAICA HOUSING GUARANTY PROGRAM (532-HG-012)

1. Program Overview

The AID shelter and urban development programs in Jamaica are managed by the Regional Housing and Urban Development Office for the Caribbean. A.I.D.'s shelter activities emerged, during the early 1960's, in response to the shortage of adequate shelter in the rapidly-expanding population centers of developing countries. The Housing Guaranty Program (HGP) has traditionally been the primary source of financing for A.I.D.'s shelter and urban development programs. The HGP provides a U.S. Government guaranty to private investors in the U.S., who make loans available to developing countries. Although these loans carry current U.S. market interest rates, these interest rates are considerably lower than those at which borrowing governments could access U.S. private capital without the U.S. Government guaranty. Typical loan terms are 30 years with 10 year grace periods on principal repayments at variable or fixed interest rates. Since 1965, the HGP has provided over US$125 million in guaranteed loans to Jamaica in support of its shelter and urban development needs. Jamaica has been a key recipient and participant under the HGP. It is consistently current on required payments to U.S. private investors and has maintained a record of creditworthiness.

The HG projects have assisted the Government of Jamaica (GOJ) with its policy and programmatic priorities in the shelter sector, which currently are: (a) to shift the public sector role from the direct production and financing of shelter to one of facilitating and encouraging an increased role for the private sector in the delivery and financing of shelter for the urban poor; and (b) to concentrate public sector efforts and financing on the provision of those services, such as serviced land, infrastructure, water and sanitation, which are the appropriate role for the public sector. The projects have assisted the public sector to define and clarify national housing and urban development policies and investment strategies and have provided direct financial support for (a) the production of shelter solutions such as core housing, urban upgrading, serviced sites and water and sanitation facilities and (b) facilitated the entrance of the private sector into the financing and production of similar shelter solutions for Jamaican low income groups.

Currently the Jamaica HG shelter sector portfolio consists of (a) Jamaica Shelter Sector Support, 532-HG-012 ($46,000,000), the subject of this audit, supported by the development assistance (DA)-funded Low Cost Shelter Development TA Project, 532-0067 ($2,581,000), to assist the Government of Jamaica in the implementation of its National Shelter Policy through stimulation of an increased private sector role and (b) Jamaica Shelter and Urban Services Policy Program, 532-HG-013 ($21,250,000), supported by the DA-financed Technical Support Project, 532-0149 ($600,000), to produce a self-sustaining delivery system for shelter, water, sewerage and other urban services meeting the needs of the urban poor.

2. Program Accomplishments

A. Shelter Construction and Financing

The HGP in Jamaica has produced approximately 12,493 shelter solutions, inclusive of the first $10,000,000 Public Sector component of HG-012. The $20,000,000 Basic Shelter component of HG-012 is currently producing a mix of 6,398 shelter solutions while reinforcing and building the capacity of public sector institutions to plan, design and execute affordable shelter solutions. The $10,000,000 Private Sector component is expected to make approximately 5000 loans to low income families for home improvements, mortgages, land purchase and home construction. This Program has demonstrated that the private sector financial institutions are able to move their markets down the income scale and begin to serve low income households. Some of the more traditional and conservative financial institutions have recognized the potential for developing new markets and have entered the Program, thus expanding the pool of financial resources available to the poor to finance their shelter needs.

All of solutions, financed through the HGP in Jamaica, have been designed to be affordable to families earning below the median household income nationwide and the active program represents a step forward for the private sector's increasing role in providing access to financing for shelter for the poor.

B. Policy Accomplishments

The HGP in Jamaica seeks to work with the public and private sectors to facilitate policy, institutional and regulatory changes in shelter and related services delivery so as to make these basic needs more accessible by low income families. Prior to 1983, the HGP in Jamaica supported the Government's efforts to (a) upgrade existing settlements, including squatter settlements, by providing basic infrastructure and legitimizing occupancy and effecting cost recovery by selling serviced sites to inhabitants and (b) provide access to a new fully serviced housing lot with property title and a basic one-room core house which could be expanded as family income increased over time. The HG-012 Program, originally designed in 1983, continued to support this objective. However, rap y changing economic circumstances in Jamaica made the provision of serviced sites with core houses too expensive. The solution was no longer affordable to most households below the median income.

In recognition of this affordability issue and in light of dwindling public sector resources available for shelter development, USAID assisted the GOJ to elaborate a national shelter strategy designed to reorient public sector involvement in shelter development. The emphasis of this strategy is on providing more affordable shelter solutions for a greater number of the urban poor by using public resources to do what the public sector alone can do which is the provision of basic infrastructure and to stimulate formal and informal private sector (including self-help) intitiative for the construction of housing units on those sites. The strategy recognized the need to create incentives for the private sector to increase its role in the direct production of shelter and related services by making changes in the regulatory environment. It was believed that by using public sector resources to promote access to land and infrastructure that these limited resources would have the maximum impact on guiding urban growth and limiting the development of squatter settlements and irrational land use patterns.

The current HGP portfolio supports this strategy, which was officially adopted by the Jamaican Cabinet of Ministers in 1985. The HG-012 Program contributes to the production of solutions consistent with this strategy as well as giving Jamaican private and public institutions further experience with the low cost shelter development. However, AID has also targeted HG resources to be used through a sectoral, non-project assistance mode in order to leverage the necessary policy, institutional and regulatory changes to implement fully the strategy and create a self-sustainable system for shelter delivery. The $21,250,000 HG-013 Jamaica Shelter and Urban Services Policy Program is implementing this approach and focuses on the servicing of land and infrastructure extension

The policy changes and institutional strengthening which have taken place under the HG Program in Jamaica have required significant and sustained technical assistance and training, financed through development assistance funds allocated to both USAID/Jamaica and RHUDO/Caribbean.

B. USAID and RHUDO/CARIBBEAN MANAGEMENT COMMENTS ON THE AUDIT FINDINGS AND RECOMMENDATIONS

Recommendation 1

"We recommend that RHUDO/Caribbean in consultation with USAID/Jamaica: (a) ensure that the Ministry of Finance and Planning and the Caribbean Housing Finance Corporation work out a mechanism for accumulating, reporting and clearing losses incurred under the program which should be reimbursed under the loan servicing agreement; (b)take measures to ensure that the Ministry of Finance and Planning honors the loan servicing agreement and reimburses the losses incurred by the Caribbean Housing Finance Corporation; and (c) deauthorize the remaining housing guaranty funds in the event the Ministry of Finance and Planning cannot or will not honor the loan servicing agreement."

Response to Recommendation 1

We cannot concur with Recommendation 1 as it is current written, for two reasons:

First, Recommendations 1a and 1b of the audit report appear to assume that A.I.D. can enforce the Loan Servicing Agreement. If so, the report overstates A.I.D.'s legal rights. A.I.D. is not a party to the Loan Servicing Agreement and cannot act independently to enforce it. A.I.D. can enforce the Housing Program Agreement, but the MOF's failure to honor the Loan Servicing Agreement does not appear to violate the HPA. On the contrary, CHFC, the borrower, is current on all HG payments. CHFC has pressed the MOF verbally and in writing to honor the Loan Servicing Agreement. Indeed, because of CHFC's efforts, and the efforts of RHUDO and USAID, the parties to the Loan Servicing Agreement are currently working out a solution to make up for shortfalls in the Program.

Secondly, deauthorization of the remaining HG loan funds, as suggested in Recommendation 1c, is not possible, as all loans authorized under the Program have already been borrowed.

Nevertheless, we believe that the issue is serious enough to warrant bringing it to the attention of the Minister of Finance. The USAID Mission Director reviewed this matter on several occasions and wrote to the Minister of Finance on December 1, 1989, to raise the obligation of the MOF under this Program with him. This letter described the concerns of USAID in regard to the long term financial viability of the CHFC, and specfically the problem of deficits in the public sector component of the program. The letter described the responsibility of the parties to the loan servicing agreement, and requested that the MOF and CHFC prepare an addendum to their Loan Servicing Agreement, which will describe how the guaranty will function, and how the CHFC will call upon it. Following up on this action, PIL No. 14, under the Private Sector Program, signed by the Mission Director, was sent to the MOF on April 24, 1990, to reiterate our concern with this issue and to urge the MOF that it set up a plan to cover CHFC losses under the Program.

The Loan Servicing Agreement provides for the MOF to make up any shortfalls between loan reflows collected by the CHFC from sub-borrowers and the Jamaican dollar equivalent necessary to service the loan through the Bank of Jamaica (BOJ). The Agreement provides for shortfalls due to exchange rate fluctuations, interest rate shortfalls, late payments and arrearages on collections. This Agreement also calls for the establishment of two buffer funds: an Exchange Equalization Fund and an Interest Loss Reserve Fund. These funds are to be capitalized from a percentage of profits earned by the CHFC on the Program. However, to date, no profits have been earned and therefore these funds have not been capitalized. It is our position and that of CHFC that the MOF is completely liable for any shortfalls in payments by the CHFC.

To date, the CHFC has continued to service its loan obligations and is not in a default situation. CHFC has also billed the MOF for a total of approximately J$7 million (current value of US$1 million) in interest charges that have not yet been paid by the MOF. CHFC has not incurred any liabilities with respect to foreign exchange fluctuations.

The billings by CHFC and USAID's corrective action led to high level discussions between the CHFC, MOF, Ministry of Construction (Housing) (MOC(H)) and the Estate Development Company (EDCO). These meetings served as a basis of briefing the leadership in the MOF on their obligations. The CHFC Managing Director informed us that, proceeding from these meetings, a mechanism for reimbursement of CHFC for shortfalls in the Program had been identified. It was resolved that CHFC would put together a cash flow plan for the life of the HG-012 Program which would highlight expected financial shortfalls so that these could be properly budgeted for in the national consolidated budget. Budget warrants could then be issued based upon a financial accounting to the MOF by the CHFC.

USAID and RHUDO have pursued the issue of this recommendation to the maximum extent possible considering that USAID/RHUDO are not parties to the Loan Servicing Agreement. As such, we do not have any basis to take actions beyond those described above. We therefore request:

(1) that Recommendation 1a be revised to read as follows: "encourage the Ministry of Finance and Planning and the Caribbean Housing Finance Corporation to work out..." <u>etc</u>;

(2) that Recommendation 1b be revised to read "take measures to encourage the Ministry of Finance and Planning to honor..." <u>etc</u>;

(3) that Recommendation 1c be deleted from the audit report; and

(4) that, based upon the activities of RHUDO and USAID to this date, Recommendation 1 be closed.

Otherwise, we request that this recommendation be excluded from the audit report, since it is based upon an invalid premise.

<u>Recommendation 2</u>

"We recommend that RHUDO/Caribbean obtain a strong committment from the Government of Jamaica to undertake a vigorous collection program. This committment should be demonstrated by the development of a comprehensive mortgage collection plan and the provision of personnel, operating funds, and policy support to make the plan viable."

<u>Response to Recommendation 2</u>

We concur with this recommendation. We have issued PIL No. 14, under the Basic Shelter Program, on April 20, 1990, requesting a strong commitment from the GOJ to undertake a vigorous collection program, which could build upon and systematize those efforts already underway. We have further indicated that this commitment would be demonstrated by the development of a comprehensive mortgage collection plan and the provision of personnel, operating funds and policy support to make the plan viable. We have highlighted that an important feature of any collection system is the need for the MOC(H) to empower the CHFC with the authority to foreclose on delinquent loan beneficiaries. USAID has offered to provide technical assistance to the MOC(H) and CHFC in the development of a comprehensive collection program.

These measures will promote improved cost recovery at the level of the MOC(H) and indirectly for the National Treasury. However, weak levels of collections, contrary to the statements in the audit findings, should not affect repayment of the A.I.D. guaranteed loan to the U.S. investors. The GOJ, through the BOJ, services the U.S. dollar debt obligations created by the HGP regardless of the amount of local currency recovered by CHFC, and is current on payments to U.S. investors. CHFC is a loan servicing agency and collects a fee as a percentage of collections. As such, it does not own mortgages and does not carry the risk of non-payment and arrearages.

The Minister of Construction (Housing), who is the mortgagor for MOC(H)-financed projects, has publicly and in meetings with USAID officers, made his position clear with respect to wanting to improve and increase collections on public sector housing schemes. To this end, the MOC(H) has, in the last year initiated programs to improve collections which seek to place greater responsibility in private sector hands. One program is administered by the private City of Kingston Credit Union (COK), the largest credit union in Kingston. CHFC and the MOC(H) began a collaborative program in July 1989, where CHFC staff goes to the MOC(H) field offices in the different parishes and calls in loan beneficiaries to request payment. This has already been done in ten parishes and has resulted in increased collections. CHFC has transmitted this new collection strategy to us in writing. In addition, the National Housing Trust (NHT) has begun a stepped-up collection programs and will be reopening its field offices to facilitate this. Based upon the corrective actions taken to date by the GOJ and USAID, we request that this recommendation be closed.

Recommendation 3a

"We recommend that RHUDO/Caribbean issue appropriate guidelines requiring all recipients of Housing Guaranty Program loans to: (i) establish separate accounting records which adequately account for and report on the receipt and use of funds and (ii) deposit program funds into separate bank accounts and ensure that funds already disbursed are reconciled with remaining balances being deposited into such separate bank accounts."

Response to Recommendation 3a

We concur with this recommendation. We issued Private Sector Program PIL No. 9, dated January 17, 1990 and PIL No. 15, dated April 23, 1990. We held discussions with CHFC and the sub-borrowers concerning the establishment of separate bank accounts and accounting records for HG funds. All the institutions agreed to implement this. Based on the agreement of all parties concerned to implement these guidelines, we request that this part of the recommendation be closed.

It should be noted, however, that the Housing Program Agreement only called for the borrower--CHFC--to set up a separate bank account and accounting procedures for HG funds. As such, current practice by the CHFC and sub-borrowers is fully consistent with the Agreement. However, we have issued these new instructions to both CHFC and the sub-borrowers for the sake of improved program management and implementation.

Recommendation 3b

"We recommend that RHUDO/Caribbean establish procedures requiring the review of a financial institution's accounting systems prior to its acceptance as a participant in the program."

Response to Recommendation 3b

We concur with this recommendation. These procedures will improve program management and implementation even though it is not a requirement under the Housing Program Agreement. We have issued PIL No. 15, under the Private Sector program, on April 23, 1990, requesting CHFC to set up guidelines to review applicant institutions' accounting systems and establish that they are acceptable. Once these guidelines are issued to participating institutions and to applicants to the program, we believe that the audit recommendation should be closed.

Recommendation 3c

"We recommend that RHUDO/Caribbean request a RIG/A/T supervised non-Federal audit of the entities receiving disbursements of Housing Guaranty funds."

Response to Recommendation 3c:

We do not concur with this recommendation as written. The Housing Program Agreement calls for the "Jamaican parties" to "maintain books and records relating to the program" and to "arrange to have such books and records audited annually by independent auditors in accordance with generally accepted auditing standards. Such audit shall provide segregated accounting and comments regarding the Loan and shall be submitted annually to A.I.D." The term "Parties" is defined in Section 1.01.A to mean "the parties to [the Housing Program] Agreement." It is clear, therefore, that the audit provisions of the HPA do not refer to books and records maintained by the sub-borrowers.

Consequently, we suggest that the recommendation be reworded to read "We request that RHUDO/Caribbean request an independent audit of the HG program at CHFC with a level of detail which will satisfy generally acceptable auditing principles." We have issued PIL No. 9, under the Private Sector program, dated January 17, 1990, to CHFC requesting that they attend to this. We are providing technical assistance to CHFC to prepare the appropriate terms of reference for its auditors to expand upon the CHFC's annual independent audit. This work is being carried out during May 1990. Once this is complete, this part of the recommendation should be closed.

We do not agree that these audits should be required of the sub-borrowers. The instructions to those institutions concerning implementation of acceptable accounting systems and separate bank accounts for HG funds should ensure ease of monitoring of HG funds use.

Recommendation 3d

"We recommend that RHUDO/Caribbean develop an operational plan, along with a time table for implementation, which outlines how the

Caribbean Housing Finance Corporation will use its personal computer to manage the HG Program..."

Response to Recommendation 3d

We concur with this recommendation. We have issued PIL No. 9 to CHFC, under the Private Sector program, dated January 17, 1990, instructing CHFC to prepare this plan. We will be providing CHFC with technical assistance during May 1990, to prepare this plan as well as terms of reference for computer program design. Once this plan and terms of reference are completed, we believe that this recommendation should be closed.

Recommendation 3e

"We recommend that RHUDO/Caribbean develop a more effective monitoring system for itself and the Caribbean Housing Finance Corporation to ensure that these guidelines, systems, and procedures are implemented and updated."

Response to Recommendation 3e

We concur with this recommendation and the need to update guidance which has already been provided. We have issued Private Sector program PIL's No. 9, dated January 17, 1990, and No. 15, dated April 23, 1990, outlining this request to CHFC and promising our support in the form of technical assistance to prepare these guidelines. We have also discussed this matter with CHFC, which has agreed to the preparation of guidelines. We have developed a scope of work for technical assistance which will begin in May 1990. Once the guidelines have been prepared and distributed to the participating and applicant institutions, this part of the recommendation should be closed.

We would like to point out, however, that we worked diligently with CHFC, assisted by several U.S. financial consultants, to establish proper management procedures as part of the Program Implementation Plan. This work was undertaken as a condition precedent to any disbursement of funds to the CHFC. This Program Implementation Plan contained a set of guidelines, instructing potential participants on loan application procedures, rules governing the use of the funds and how eligibility of beneficiaries should be determined. In promoting this Program among financial institutions, CHFC sent copies of these program guidelines to all interested institutions as well as including them as part of its transmission of loan approval.

Recommendation 4

"We recommend that the A.I.D. General Counsel review the Congressional intent of Housing Guaranty program legislation to determine whether the benefits of the program should be directed towards individuals whose income falls below the median for the country."

Response to Recommendation 4

A.I.D. General Counsel is responding to this recommendation separately.

Recommendation 5a

"We recommend that RHUDO/Caribbean ensure that procedures are instituted which will ensure that the proceeds from any future sales to the National Housing Trust are returned in total to the borrower..."

Response to Recommendation 5a

We do not concur with this recommendation as it is currently worded. We doubt whether AID has rights under the Housing Program Agreement to 'ensure' that the MOC(H) perform its contractual obligations. We offer the following alternative wording: "We recommend that RHUDO/Caribbean urge the MOC(H) to institute procedures which will facilitate the return in total to the borrower of any proceeds from future sales to the National Housing Trust."

We believe that this is a serious issue. Accordingly, we have recommended that a formal procedure and agreement be established between the CHFC and MOC(H)/EDCO for the sale of any future shelter units financed under the current HG-012 Program. This will ensure the reflow of funds baçk to the current Borrower, CHFC.

We have issued Project Implementation Letter No. 15 under the Basic Shelter Program on April 18, 1990, which alerts the GOJ to its commitment as stated in Section 7.04 (C) of the HG-012 Housing Program Agreement. This calls for the use of proceeds of the loan for the sole purpose of financing the Program in accordance with the the Agreement. We recommended that the MOC(H) and EDCO direct proceeds of the sale of shelter units to flow directly to the CHFC. We suggested a mechanism by which the CHFC be made party to the sales agreements between the MOC(H)/EDCO and NHT. In these instructions, we also recognized the fact that EDCO/MOC(H) should receive a fee for project development and construction management. We recommended that this fee should be negotiated between EDCO and the CHFC and be paid to EDCO out of the proceeds of the sale of units to the NHT. Once the GOJ has notified us of their agreement with the above procedures in writing, this recommendation can be closed.

Recommendation 5b

"We recommend that RHUDO/Caribbean seek restitution either in the form of cash or mortgages from the MOC/H for the proceeds improperly retained."

Response to Recommendation 5b

We do not concur with this recommendation as it is presently worded. We doubt whether AID has rights under the Housing Program Agreement to require that the MOC(H) perform its contractual obligations to the JMB, or that this method of approach would be most effective under the circumstances. However, we concur in the intent of the recommendation and we offer the following alternative wording: "We recommend that RHUDO/Caribbean attempt to persuade the relevant institutions to make restitution to the JMB either in the form of cash or mortgages from the MOC(H) for the proceeds improperly retained."

In that sense, we have issued PIL No. 15, under the Basic Shelter program, to the GOJ on April 18, 1990, recommending that the MOC(H) reimburse the HGP for the full amount of US$6,692,538 in proceeds from sales of starter homes to the NHT. We advised that these proceeds should be provided to an amortization fund set up specifically for this purpose at the MOC(H) and used for loan repayments under the HGP.

From a legal point of view, we are not party to agreements between the MOC(H) and the NHT and therefore cannot mandate any actions. As a clarification, the transactions in question were undertaken when the Jamaica Mortgage Bank (JMB) was the Borrower under the HGP, and not with the CHFC, as stated by the auditors. Furthermore, in discussions following up on the audit findings between RHUDO and MOC(H) staff, we learned that in past years, the MOC(H) has been permitted by GOJ Ministerial Cabinet to retain the proceeds from sales of publicly financed housing schemes in lieu of an allocation from the national consolidated budget. Subject to confirmation, we were informed by the new Permanent Secretary of the MOC(H) that the sales of HG-financed units to the NHT under HG-011 and HG-012A might have been included in this arrangement. If this is the case, the onus of repayment of the US$6,692,538 to the JMB rests with the MOF rather than the MOC(H). We have requested further clarification of this matter from the GOJ. In light of the actions taken by RHUDO up to this point, we believe that the recommendation as amended should be closed, or if not amended, that it be striken from the audit report.

<u>Recommendation 6</u>

"We recommend that the A.I.D. General Counsel review the situation discussed in Finding 5 and determine whether further corrective action is required."

<u>Response to Recommendation 6</u>

This recommendation is being responded to by A.I.D. General Counsel separately.

<u>Recommendation 7</u>

"We recommend that RHUDO/Caribbean take action which will ensure that the Ministry of Construction/Housing utilize any funds budgeted for housing guaranty loan repayments for that purpopse."

<u>Response to Recommendation 7</u>

We do not concur with this recommendation as it is presently worded. A.I.D. has no authority to intervene in the budgetary issues of the Government of Jamaica to the extent that would be necessary to 'ensure' that the MOC(H) utilize budgeted funds for their intended purposes. However, we concur with the intent of this recommendation to avoid decapitalization of borrower institutions and offer the following alternative wording: "We recommend that RHUDO/Caribbean take action which will clearly state AID's concern and which will enhance the probabilities that the Ministry of Construction/Housing utilize any funds budgeted for Housing Guaranty loan repayments for that purpose."

We have issued PIL No. 16, under the Basic Shelter program, dated April 20, 1990, requesting that the MOC(H) put into place a HG loan repayment plan and policy, to be communicated in writing to all interested parties. This policy will indicate the time frame for providing CHFC with funds budgeted for repayment of loans made to the EDCO, the project implementing arm of the MOC(H). The MOF should, based upon program projections to be provided by the CHFC, establish a line item for the HG-012 Program in the national consolidated budget. This will cover the program shortfalls. We have called MOF attention to the fact that this was not done in the past and that CHFC should receive all budgeted funds due to it.

Once the CHFC program projections are prepared and sent to the MOF and the MOF has agreed in writing to CHFC to allocate funds in the national budget for repayment of loans under the HG-012 Program, the recommendation can be closed.

Recommendation 8

"We also recommend that the A.I.D. General Counsel review the situation discussed in Finding 6 and determine whether additional corrective measures are necessary."

Response to Recommendation 8

This recommendation is being responded to by A.I.D. General Counsel separately.

Recommendation 9

"We recommend that RHUDO/Caribbean issue a Project Implementation Letter which terminates the home-improvement loan component of the program."

Response to Recommendation No.9

We concur with this recommendation. The Housing Program Agreement calls for implementation of this component by a private sector financial institution, as reflected in Annex A: Section II-3.

We issued PIL No. 10 under the HG-012 Basic Shelter Program requesting that the MOC(H) suspend the HAP at the then current obligation levels. On February 9, 1990, the MOC(H) wrote us, agreeing to suspend the program at the current level of approved loan commitments. Relying on the RIG audit findings, on April 20, 1990, we issued PIL No. 16 under the HG-012 Basic Shelter Program, requesting that the MOC(H) terminate the HAP at the previously stated levels and reprogram these funds to other eligible activities, such as the production of serviced housing sites.

In the interim, we have been working with the MOC(H) to rectify the problems related to the processing of loan documents and their transmission to the CHFC. This has produced tangible results. In February, 1990, the MOC(H) submitted 218 loans totalling J$3,521,00 (US$640,000), roughly half the expected number of loans under the HAP, to the CHFC to proceed with collection of payments. These loans are now being serviced by the CHFC and have been accepted by RHUDO for liquidation of Program advances to the MOC(H). We also issued PIL No. 17 under the HG-012 Basic Shelter Program on April 12, 1990 which requests the MOC(H) to inform us of the procedures and time frame it expects to use to complete and transmit to CHFC the remaining loan files under the HAP program. We requested that these procedures be systematized so that they can be tracked in the HG-012 Basic Shelter Quarterly Report prepared by the MOC(H).

We believe that these corrective actions resolve the issues outlined in this audit finding and recommendation. We therefore request that this recommendation be closed.

Recommendation 10

"We recommend that RHUDO/Caribbean contract with an independent accounting firm for an audit of program funds disbursed to the Estate Development Company and curtail further disbursements until the Estate Development Company has established an adequate accounting system."

Response to Recommendation No. 10

We do not concur with this recommendation as written and suggest that it be reworded to read: "RHUDO is requested to review EDCO's accounting practices to determine their adequacy to account for HG Program funds."

The original recommendation was based upon an audit finding that EDCO was unable to account for J$4,200,000 (US$763,636) of the overall advance of J$33,500,000 (US$6,100,000). Immediately upon discovery of this problem, we issued PIL No. 11 on December 22, 1989, under the HG-012 Basic Shelter Program, which requested that the MOC(H) prepare a certified statement to USAID as to the status of all advances received from CHFC under the HG-012 Program. EDCO immediately directed their accounting firm, Touche, Ross, Thornburn and Co., to prepare a reconciliation of HG funds. On March 14, 1990, we received a statement accounting for J$32,636,290 in disbursements by EDCO for eligible activities under the Program in addition to a bank certification of deposit which together constitute an amount in excess of the J$33,500,000 disbursed to EDCO as an advance by CHFC. The certification, signed by the local office of Touche, Ross, Thorburn and Company, states that "the statement presents fairly the total receipts and disbursements for the period November 1, 1988 to January 31, 1990", the period of time during which EDCO received advances, approved by RHUDO, from the CHFC.

On March 30, 1990, the Acting RHUDO Chief, USAID/Controller and RIG Auditor Thomas Golla met to review the submission by EDCO of March 14, 1990 for the reconciliation of its advances under the HG-012 Program prepared by Touche, Ross, Thorburn and Company. The meeting concluded that the statement was an adequate accounting of funds advanced. Subsequently, on April 23, 1990, RHUDO issued PIL No. 13 to the MOC(H) under the HG-012 Basic Shelter Program which accepted the reconciliation prepared by Touche Ross. Under these circumstances, we do not believe an independent audit commissioned by RHUDO is necesssary since the issue has been resolved.

Our understanding is that the problem was due to delays in posting bills, rather than to any serious inadequacy in the EDCO accounting system. If the system had been functioning more efficiently, the problem would have been noted internally. Our PIL No. 13 requested that EDCO: (a) create separate accounting records for HG funds; (b) initiate the necessary actions to segregate HG funds into separate bank accounts and ensure that funds already disbursed are reconciled with remaining balances being deposited into such separate bank accounts; and (c) continue to undertake required independent audits of HG Program accounts and funds as measures to strengthen EDCO's current system for account for HG resources.

A review of the financial systems in place at EDCO was conducted by a financial analyst from PRE/H on May 8, 1990. He interviewed the accounting consultant who has been working on improving EDCO accounting systems since November, 1989. He provided RHUDO with printouts of the complete general and subsidiary ledgers for HG programs that have been installed. They include a complete accounting by project and cost item. Once a project is completed, the system shows a termination cost that will reconcile with loan financing provided by CHFC. Therefore, the required separate accounts are now in place.

EDCO has also agreed to provide an overall balance sheet and source and use of funds statement to RHUDO on a quarterly basis, as part of our regular reporting requirement. Finally, the Board of Directors of EDCO has agreed to open a separate bank account to be used exclusively for HG funds. RHUDO will be provided with certification from their bank that this account has been opened. The EDCO consulting accountant, in conjunction with Touche, Ross, Thorburn, and Co. has completed audited financial statements for FY 88, and is working to complete FY 89 and FY 90. These financial statements will also be audited by Touche. EDCO is expected to respond to our PIL with a letter describing these activities and forwarding printouts of the general and subsidiary ledgers, as well as a manual of instructions. Based on these actions, we request that this recommendation be closed.

Recommendation 11a

"We recommend that RHUDO/Caribbean issue to all participating institutions appropriate guidelines which require that future advances of program funds be justified and approved based upon the institutions' six-month cash flow needs as supported by a project implementation plan."

Response to Recommendation 11a

We concur with this recommendation. We have issued PIL No. 8, under the Private Sector Program, on November 29, 1989, requesting CHFC to instruct all participating financial institutions of the need to prepare six month cash flow projections and that program funds advanced must be utilized within a six month period. CHFC agreed to amend its loan documentation to reflect this, since current documentation allows institutions twelve months to use the advance. CHFC will incorporate these projections into its revised program implementation plan prior to the next disbursement request. Based upon these actions, we request that this recommendation be closed.

Recommendation 11b

"We recommend that RHUDO/Caribbean not approve further cash advances until the existing ones have been exhausted."

Response to Recommendation 11b

We concur with this recommendation. We have issued PIL No. 8, under the Private Sector program, on November 29, 1989, instructing CHFC that institutions should not receive further advances until they had provided proof of full disbursement of prior tranches. CHFC has informed existing sub-borrowers of this change and has amended program guidelines to reflect this. This recommendation should be closed.

Recommendation 11c

"We recommend that RHUDO/Caribbean determine by institution the amount of interest earned from excessive advances and recover and capitalize a like amount from the respective institution..."

Response to Recommendation 11c

We do not concur with this recommendation as it is presently worded. A.I.D. has no authority to take the actions recommended since we are not a party to the loan agreements linking CHFC and the sub-borrowers. However, we agree with the intent of the recommendation and offer the following alternative language: "We recommend that RHUDO/Caribbean assist the CHFC to determine by institution the amount of interest earned from advances held by the sub-borrowers in excess of the terms stipulated in the loan agreements and to recover and capitalize a like amount from the respective instutitions..."

While we have requested that CHFC amend these documents to reflect a six month outstanding period for new borrowers, CHFC has informed us that institutions cannot be held accountable for this prior to the amendment, because of the existing signed loan agreements calling for twelve month advances.

We have issued PIL No. 13 on April 24, 1990, under the Private Sector program, instructing CHFC to request that the sub-borrowers provide for an accounting of net interest earned on the advance balance of undisbursed HG funds after twelve months, and to credit their HG accounts with this volume of capital, to be on-lent and disbursed for eligible loans. These amounts will be net of the 10.5% interest being paid to CHFC. Once RHUDO and CHFC have received an accounting from the institutions and their written agreement to reinvest these proceeds for additional loans meeting HG program criteria, we can close the recommendation.

Recommendation 11d

"We recommend that RHUDO/Caribbean issue a program implementation letter to clarify and ensure that any interest earned from advances is returned to the program to produce more housing solutions."

Response to Recommendation 11d

We do not concur with this recommendation as stated. For the reasons mentioned above, the recommendation should state that net interest earned on advances outstanding beyond the period prescribed in the loan agreements should be returned to the program to produce more housing solutions. Accordingly, we have issued PIL No. 13 on April 24, 1990, under the Private Sector program, instructing the sub-borrowers. We believe that it is difficult to justify a request that institutions return all interest earned on advances to the Program. It is accepted financial practice to place any excess funds not being immediately used into interest-bearning accounts. This is sound financial management. Any provision prohibiting institutions from doing so would be contrary to established financial management principles. In addition, the sub-borrowers are paying 10.5% interest on these funds to CHFC. As such, the transfer of funds between CHFC and sub-borrower financial institutions is consistent with normal banking practices and obligations in Jamaica, and not a means for participating financial institutions to gain wind-fall profits from their involvement in the HG Program.

As a general statement regarding the legal issues underlying this audit recommendation, we agree with its intent to tighten financial management by the CHFC of loans it makes to sub-borrower financial institutions. However, we wish to clarify that the HG-012 Housing Program Agreement for the Private Sector Program Program is applicable only to the Jamaican Parties to the Agreement which, in regard to the issue at hand, relates only to the CHFC, not every sub-borrower under the Program.

We believe that with the amendment of program guidelines to provide for 25% tranches of advances and advance periods reduced to six months that there will be little opportunity for interest earnings beyond what would be considered customary.

We believe that these actions fulfill the purpose of the audit recommendation to tighten CHFC's management of borrowed funds, and request that this recommendation be closed.

Recommendation 12a

"We recommend that RHUDO/Caribbean issue a project implementation letter which establishes a requirement that all loan files/mortgages be transferred to the Caribbean Housing Finance Corporation within one month of the delivery of the unit/cash or the signature of the mortgagee, whichever occurs first..."

Recommendation 12b

"We recommend that RHUDO/Caribbean ensure that an agreement is reached between the Caribbean Housing Finance Corporation and the Ministry of Construction/Housing for transferring loan files..."

Recommendation 12c

"We recommend that RHUDO/Caribbean take immediate action to ensure that all documentation for home improvement loans already finalized is processed and the loan files are sent to the Caribbean Housing Finance Corporation for collection..."

Response to Recc. · lations 12a, 12b and 12c

We concur with these recommendations and the need to establish a procedure which ensures that completed loans and mortgages are transmitted to the CHFC by the MOC(H) and EDCO within one month. On December 22, 1989, we issued PIL No. 10, under the HG-012 Basic Shelter Program, requesting that the MOC(H) Marketing Task Force work with the CHFC to set up a system and procedures which would permit the transfer of completed loan files to the CHFC within one month of their execution. Since the field visits by the RIG auditors, significant progress has been made in forwarding loans to the CHFC for collection. To date, 218 loans totalling J$3,521,000, or nearly one half of those expected to be financed under the HAP, have been transferred to CHFC. Additionally, 211 of 270 starter home mortgages have also been forwarded to the CHFC for collection.

Furthermore, on April 12, 1990, we issued PIL No. 17 under the HG-012 Basic Shelter Program, requesting a written procedure between CHFC and the MOC(H) for the transfer of loans for collection to the CHFC within a one month timeframe. We will review the draft Loan Transfer Agreement to insure its completeness, and verify that both parties will follow it. By means of the HG-012 Basic Shelter Quarterly Reports prepared by the CHFC, MOC(H) and EDCO, we will be able to monitor the pace of processing and transfer to the CHFC of the remaining loans under the HAP and other components of the HG-012 Basic Shelter Program.

Based on this series of actions, the first three parts of Recommendation 12 should be closed.

Recommendation 12d

"We recommend that RHUDO/Caribbean instruct the Caribbean Housing Finance Corporation to determine the interest lost because of these delays and submit a claim to the Ministry of Finance and Planning under their loan servicing agreement."

Response to Recommendation 12d

We concur with this recommendation and have instructed CHFC accordingly. CHFC has determined the amount of interest lost to date on these transfer delays. On November 22, 1989, the General Manager of CHFC met with the Acting RHUDO Chief and the USAID Mission Director to discuss this issue and outline an appropriate course of action to gain the compliance of the MOF with the Loan Servicing Agreement. On November 28, 1989, with our endorsement, CHFC submitted an invoice to the MOF for J$2,238,517.85. This sum was for interest on the J$33,500,000 advanced to EDCO in three tranches to initiate activities under the HG-012 Basic Shelter Program.

On December 1, 1989, the USAID Mission Director wrote to the Minister of Finance on these issues, and described the concerns of USAID in regard to the long term financial viability of the CHFC, and specficially the problem of deficits in the public sector component of the program. The letter described the responsibility of the parties to the loan servicing agreement, and requested that the MOF and CHFC prepare an addendum to their Loan Servicing Agreement, which will describe how the guaranty will function, and how the CHFC will call upon it.

There has been attention paid to the issue by all parties. CHFC has been requested by the MOF to do a complete accounting of expected payment shortfalls from participating institutions so that these amounts may be reflected in the national consolidated budget. We believe that the issue is being resolved by the MOF and a systematic approach to budgeting for shortfalls will be established in the near future. Nonetheless, we have persevered with the MOF in expressing our concern for the need for the MOF to honor the terms of the Loan Servicing Agreement. This is clearly stated in PIL No. 14 under the Private Sector Program, to the Financial Secretary of the Ministry of Finance, and signed by the USAID Director, dated April 24, 1990.

Based upon the series of actions taken to date by CHFC and by USAID, we request that this audit recommendation be closed.

Recommendation 13a

"We recommend that RHUDO/Caribbean establish a time frame with the Estate Development Company for repairing houses with construction defects and those damanged by Hurricane Gilbert so that they can be sold by the Housing Task Force..."

Recommendation 13b

"We recommend that RHUDO/Caribbean instruct the Ministry of Construction/Housing to review unsold units already awarded to individuals to determine whether the sale is still possible. If not, instruct the Housing Task Force to find a new buyer for those mortgages which are not already in process..."

Response to Recommendations 13a and 13b

We concur with these recommendations. We issued PIL No. 18 on April 12, 1990, under the Basic Shelter program, instructing the MOC(H) to (1) prepare a scheme-by-scheme analysis of units not yet sold due to documentation problems and those requiring repairs and additional work and (2) prepare a schedule for completing work on damaged units and a schedule for marketing all unsold units.

The MOC(H) has responded by reviewing marketing progress to date on unsold units, and a progress report has been drafted for submission to the RHUDO. This report will then be included as a component of the Quarterly Report on HG-012C by the MOC(H). The Ministry has notified RHUDO that of the total of 561 unsold units and serviced sites noted in the draft audit report, 287 have been sold, and loans have been transferred for processing. The remaining units and sites are in four schemes, and their marketing will be monitored in the Quarterly Report. Based on the corrective actions undertaken, we request that these recommendations be closed.

Recommendation 13c

"We recommend that RHUDO/Caribbean issue a program implementation letter to the Ministry of Construction/Housing which formalizes the use of pre-sales agreements for upgraded lots and also monitor the use of these agreements to determine if they are being properly utilized and are accomplishing the desired results."

<u>Response to Recommendation 13c</u>

We concur with this recommendation. On December 22, 1989, we issued PIL No. 10 under the HG-012 Basic Shelter Program which requested that the MOC(H) and its Housing Task Force formalize the use of presales agreements in order to expedite the delivery of loans to CHFC for processing and collections. This procedure has been implemented and is operational. The MOC(H) responded by processing presales agreements for 211 of the 272 completed starter homes. These agreements have been forwarded to the CHFC and expenditures have been liquidated by RHUDO.

In this same PIL of December 22, 1989, RHUDO requested that the MOC(H) establish a deadline of one month after the delivery of the solution or execution on the mortgage or loan, whichever comes first, for forwarding loan documents or pre-sales agreements to the CHFC.

Based on this action, we request that this recommendation be closed in its entirety.

<u>Recommendation 14</u>

"We recommend that RHUDO/Caribbean rescind their August 1988 guidelines and issue new instructions to all entities selecting beneficiaries to calculate the upper income limit based on the gross income of all family members in the household."

<u>Response to Recommendation 14</u>

We concur with this recommendation. We issued PIL No. 12 under the Private Sector program, dated April 23, 1990, to CHFC, rescinding prior guidelines and instructing institutions to the standard method of median household income calculation as recommended by the auditors.

The original Program design called for institutions to use their own underwriting criteria, this also applied to their methods of calculating income. Institutions were advised that, whatever their means of calculation, that household income of beneficiaries should not exceed the limit established by USAID for the median household income in Jamaica. In 1986, this figure was established at J$18,000 per annum; it was subsequently revised in 1989 and raised to J$21,500.

Normal banking practice in Jamaica is to determine income as used in calculating loan affordability on net income of the loan beneficiary. While some institutions may differ, this is the usual rule. Because of this and despite instructions from RHUDO and CHFC, in its guidelines, to the contrary, some of the participating institutions did not take full household income into account while others used net income instead of gross income.

RHUDO and CHFC have discussed the audit finding and recommendation with the participating institutions to ensure that they now understand that there is a standard format for calculating eligibility. This is being incorporated into the new Program guidelines which CHFC is preparing with RHUDO's assistance. These guidelines will be distributed to all current Program participants as well as to prospective participating institutions. Once this has been done, the recommendati ` can be closed.

Recommendation 15

"We recommend that RHUDO/Caribbean (a) develop the total costs associated with land and sales prices subsidies; and (b) include these elements in the subsidy reduction strategy of the HG-013 sector project."

Response to Recommendation No. 15

We concur with this recommendation. We have consistently engaged in a policy dialogue with the GOJ on the issue of shelter sector subsidies. In the context of the HG-012 Project, a consensus was obtained with the GOJ to try to achieve total cost recovery on HG-financed projects and to reduce the subsidy in the interest rate of mortgages. The MOC(H) also established a formula to determine sales prices based upon a comparison of the total production cost of the solution (in some cases including land costs) and its market value. With respect to land costs, we have had an on-going discussion with GOJ officials as to what cost should be used for land in determining production costs.

We believe that these discussions have led us to a consensus with the GOJ on the need to examine opportunities for subsidy reduction in the areas of land and sales prices. We will include these elements as part of the policy agenda for the HG-013 Program. We therefore request that this recommendation be closed.

RESPONSE TO FINDINGS ON COMPLIANCE AND INTERNAL CONTROLS

1. Compliance

The documents to which A.I.D. looks to judge GOJ compliance with the program are the Housing Program Agreements. In a review of these documents and audit finding 7, we concur that the MOC(H) is in non-compliance by virture of administering the Housing Assistance Program itself rather than working through a private institution as intended by the Housing Program Agreement. This program has been terminated. However, with respect to Findings 3, 5, 6 and 9, our review of the Housing Program Agreements with A.I.D. General Counsel indicates that the GOJ is fully in compliance with the terms of the Agreements, or that remedial action already undertaken by RHUDO is deemed sufficient to produce substantial compliance.

It is important to note that the Agreements are binding directly on the "Jamaican Parties to the Agreements " who are the Ministry of Finance, Ministry of Construction (Housing), CHFC and the U.S. Government, acting through the U.S. Agency for International Development. The Agreements do not extend to all sub-borrowers and participating agencies under the Programs. We therefore request that this section be removed from the report.

2. Internal Controls

We believe that this section should also be eliminated from the audit report as it repeats elements fully discussed in the findings and recommendations which have been responded to by us in a detailed manner.

RESPONSE TO FINDINGS ON OTHER PERTINENT MATTERS

1. PADCO Contract Terms of Reference

The RIG auditors claim that the terms of reference for the PADCO Contract No. 532-0067-C-00-0006-00 were poorly written and vague because they did not provide an adequate basis upon which to assess contractor performance. The terms of reference for this contract were purposefully written with flexible language in order to give us maximum ability to modify and adapt contractor functions to unforeseen issues and opportunities. The contractor was expected to liaise with a variety of high level officials from many sectoral institutions and to facilitate decision-making among these people on implementation issues. Under these circumstances, it would have been difficult and counterproductive to be more specific on the scope of work. For our purposes, the scope of work was adequate to monitor the contractor's performance.

We understand the auditors concern for specificity in the scope of work. However, the nature of this assignment did not lend itself easily to the required specificity. We believe the management oversight we provided adequately compensated for this factor, and this comment should be removed from the report.

2. USAID Project Committee Guidance to HGP

The RIG auditors claim that the RHUDO uses USAID Project Committees infrequently for technical advice and assistance to RHUDO project officers. In fact, the RHUDO and the HGP are fully integrated into the operations and management oversight of USAID/Jamaica. As a minimum, semi-annual reviews of HG and associated technical assistance projects are undertaken as part of the regular schedules for these reviews by USAID management every six months. We believe, therefore, that this comment should be removed from the report.

3. HG Program Planning Documentation

The RIG auditors commented that they had difficulty locating a plan which identifies construction activities. Consistent with the requirements of the Housing Program Agreements, such a Plan was submitted for all current and past HG programs as a Condition Precedent to borrowing under the Program. The Plan has been updated on several occasions as a Condition Precedent to further disbursements of funds. We have and exercise full approval authority over this Plan. This document is available and accessible in HGP files at RHUDO. We therefore believe that this comment should be removed from the report.

Agency for International Development
Washington, D.C. 20523

Office of the
General Counsel

May 11, 1990

MEMORANDUM

TO: RIG/A/Tegucigalpa, Coinage Gothard

FROM: GC, Howard M. Fry

SUBJECT: Draft Audit of Jamaica Housing Guaranty Program: Project No. 532-HG-012

The draft report on the "Audit of Jamaica Housing Guaranty Program: Project No. 532-HG-012" makes three recommendations that call for a response from the Office of the General Counsel. We have been asked by RHUDO/Caribbean and USAID/Jamaica to send that response directly to you.

Recommendation No. 4

"We recommend that the A.I.D. General Counsel review the Congressional intent of the housing guaranty program legislation to determine whether the benefits of the program should be directed toward individuals whose income falls below the median for the country."

Response to Recommendation No. 4

The legal issue presented by Recommendation 4 is whether the requirement in Section 223(j) that HG-financed housing be "**suitable** for families with income below the median income" means that the housing [1] must be affordable to such families or [2] must be purchased and occupied by such families.

It is well established that the "suitability" provision in Section 223(j) requires only that HG-financed housing be affordable to the target group. The Office of the General Counsel has issued seven opinions on that provision since the it was enacted in 1975.1/ Two of these opinions (most recently, an

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1/ The seminal GC opinion on the "suitability" provision of Section 223(j), issued soon after that provision was enacted, is GC/H Veret to GC Gladson, February 18, 1976. The other GC opinions are: GC Fry to DIG Durnil, July 1, 1987; GC Fry to DIG Durnil, November 14, 1986; GC/H Veret to Files, September 9, 1983; GC/H Cohen to GC/H Kitay, March 14, 1983; GC/H Erickson to RHUDO/ROCAP Hansen, July 14, 1978; GC/H Geiger to SER/M Zenger, opinion dated July 1, 1987) were issued in response to requests by the Office of the Inspector General that GC reconsider its position on Section 223(j). On those two occasions, GC reviewed the statute and legislative history, only to confirm its original conclusions. Accordingly, unless the RIG can identify facts or circumstances with respect to Congressional intent that have not been considered during our earlier reviews, we respectfully decline to undertake such a review again.

We note, in addition, that the Executive Branch has requested that Congress amend Section 223(j) to delete the "suitability" requirement, and that H.R. 2655, passed by the House on June 29, 1989, adopts the Executive Branch position. The House accepted the amendment in large part because the mechanistic nature of the requirement invites audit problems -- with a consequent waste of A.I.D. and host-country efforts on family income issues of little relevance to the development process.

Recommendation No. 6

> "We recommend that the A.I.D. General Counsel review the situation discussed in Finding 5 and determine whether further corrective action is required."

Recommendation No. 8

> "We also recommend that the A.I.D. General Counsel review the situation discussed in Finding 6 and determine whether additional corrective measures are necessary."

Response to Recommendations No. 6 and No. 8

As we understand the facts, Findings 5 and 6 involve failures by the Ministry of Construction/Housing ("MOC/H") to honor its contractual obligations to a HG borrower.

- Finding 5 concerns the alleged failure of the Ministry of Construction/Housing ("MOC/H") to honor a Memorandum of Agreement with the Caribbean Housing Finance Corporation ("CHFC"). Section 5 of the Memorandum of Agreement requires the MOC/H to pay CHFC an amount equal to the value of HG-financed lots or units sold for cash. According to the audit report, the MOC/H sold HG-financed units worth $6.6 million to the National Housing Trust,

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[footnote cont'd from previous page] June 7, 1976. See also GC/H Stewart to GC/H Kitay, December 10, 1980. Copies of the above-cited opinions are attached.

but failed to pay the proceeds of those sales to CHFC.[2]

- Finding 6 involves the alleged failure of the MOC/H to repay $8,000,000 in principal and interest on $35,000,000 borrowed from the Jamaica Mortgage Bank under 532-HG-010, 532-HG-011 and 532-HG-012A, and the failure of the Ministry of Finance and Planning ("MOFP"), guarantor of the MOC/H obligation, to honor its guarantee.

It is the view of RHUDO Caribbean and USAID/Jamaica that the corrective actions already undertaken by them in concert with CHFC, as detailed in the RHUDO/Caribbean response to the audit report, appear likely to remedy those situations without the intervention of the Office of the General Counsel.

If, however, those corrective actions do not resolve the situations to the satisfaction of RHUDO/Caribbean and USAID/Jamaica, we are prepared to consider with RHUDO/Caribbean and USAID/Jamaica whether remedial action by A.I.D. is possible under the terms of the Housing Program Agreement. We note that the remedies set forth in the Housing Program Agreement[3] are not mandatory. They are available for use at the discretion of A.I.D., which discretion, under the relevant delegations of authority, is exercised by the Office of Housing, in consultation with the Mission Director, in the best interests of the United States Government.

cc: DIG, James Durnil

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[2] Although we have not reviewed the Memorandum of Agreement cited in the audit report, it is not clear to us that MOC/H did violate its obligations thereunder. We note that the sales proceeds in question were for units financed under 532-HG-011 and 532-HG-012A, projects in which the Jamaica Mortgage Bank, not the CHFC, was the borrower, while the cited portion of the Memorandum of Agreement refers only to 532-HG-012C.

[3] See, e.g., Housing Program Agreement between the Government of Jamaica acting through [the] Ministry of Finance, Ministry of Construction (Housing), [and] Caribbean Housing Finance Corporation, and the United States of America for Jamaica Shelter Sector Support (Private), A.I.D. Project No. 532-HG-012B, §8.01 at 14-15 (September 22, 1987); Housing Program Agreement between the Government of Jamaica acting through [the] Ministry of Finance, Ministry of Construction (Housing), [and] Caribbean Housing Finance Corporation, and the United States of America for Jamaica Shelter Sector Support (Basic Shelter), A.I.D. Project No. 532-HG-012C, §8.01 at 16-17 (September 22, 1987).

LIST OF REPORT RECOMMENDATIONS

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a. issue appropriate guidelines requiring all recipients of Housing Guaranty Program loans to: (i) establish separate accounting records which adequately account for and report on the receipt and use of funds and (ii) deposit program funds into separate bank accounts and ensure that funds already disbursed are reconciled with remaining balances being deposited into such separate bank accounts,

b. establish procedures requiring the review of a financial institution's accounting systems prior to its acceptance as a participant in the program,

c. request a RIG/A/T supervised non-Federal audit of the entities receiving disbursements of Housing Guaranty funds,

d. develop an operational plan, along with a time table for implementation, which outlines how the Caribbean Housing Finance Corporation will use its personal computer to manage the HG program, and

e. develop a more effective monitoring system for itself and the Caribbean Housing Finance Corporation to ensure that these guidelines, systems, and procedures are implemented and updated.

Recommendation No. 4 23

We recommend that the A.I.D. General Counsel review the Congressional intent of Housing Guaranty program legislation to determine whether the benefits of the program should be directed toward individuals whose income falls below the median for the country.

Recommendation No. 5 28

We recommend that RHUDO/Caribbean:

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disbursed to the Estate Development Company and curtail further disbursements until the Estate Development Company has established an adequate accounting system.

Recommendation No. 11 41

We recommend that RHUDO/Caribbean:

a. issue to all participating institutions appropriate guidelines which require that future advances of program funds be justified and approved based upon the institution's six-month cash flow needs as supported by a project implementation plan,

b. not approve further cash advances until the existing ones have been exhausted,

c. determine by institution the amount of interest earned from advances held by the sub-borrowers in excess of the terms stipulated in the loan agreements and recover and capitalize a like amount from the respective institution, and

d. issue a program implementation letter to clarify and ensure that net interest earned on advances outstanding beyond the period prescribed in the loan agreements should be returned to the program to produce more housing solutions.

Recommendation No. 12 45

We recommend that RHUDO/Caribbean:

a. issue a project implementation letter which establishes a requirement that all loan files/mortgages be transferred to the Caribbean Housing Finance Corporation within one month of the delivery of the unit/cash or the signature of the mortgagee, whichever occurs first;

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b. ensure that an agreement is reached between the Caribbean Housing Finance Corporation and the Ministry of Construction/Housing for transferring loan files;

c. take immediate action to ensure that all documentation for home improvement loans already finalized is processed and the loan files are sent to the Caribbean Housing Finance Corporation for collection; and

d. instruct the Caribbean Housing Finance Corporation to determine the interest lost because of these delays and submit a claim to the Ministry of Finance and Planning under their loan servicing agreement.

Recommendation No. 13 48

We recommend that RHUDO/Caribbean:

a. establish a time-frame with the Estate Development Company for repairing houses with construction defects and those damaged by Hurricane Gilbert so that they can be sold by the Housing Task Force;

b. instruct the Ministry of Construction/Housing to review unsold units already awarded to individuals to determine whether the sale is still possible. If not, instruct the Housing Task Force to find a new buyer for those mortgages which are not already in process; and

c. issue a program implementation letter to the Ministry of Construction/Housing which formalizes the use of pre-sales agreements for upgraded lots and also monitor the use of these agreements to determine if they are being properly utilized and are accomplishing the desired results.

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Recommendation No. 14 51

We recommend that RHUDO/Caribbean rescind their August 1988 guidelines and issue new instructions to all entities selecting beneficiaries to calculate the upper income limit based on the gross income of all family members in the household.

Recommendation No. 15 53

We recommend that RHUDO/Caribbean:

a. develop the total costs associated with land and sales prices subsidies; and

b. include these elements in the subsidy reduction strategy of the HG-013 sector project.

APPENDIX 4

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