



PB-AMC-067

**INTERIM AUDIT REPORT
ON THE USAID/PANAMA EMERGENCY
RESTORATION OF SMALL BUSINESSES
PROJECT NO. 525-0301**

**Audit Report 1-525-90-014
July 2, 1990**

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987 - 32-3120
FAX No. (504) 31-4465

July 2, 1990

MEMORANDUM

TO: Director, USAID/Panama, Thomas W. Stukel

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

SUBJECT: Interim Audit Report on the USAID/Panama Emergency Restoration of Small Businesses Project No. 525-0301

This report presents the interim results of a concurrent audit by the Office of the Regional Inspector General for Audit/Tegucigalpa and Price Waterhouse of USAID/Panama's Emergency Restoration of Small Businesses Project (Project). Five copies of the audit report are enclosed for your action. I appreciate the cooperation and courtesy extended to my staff during the audit.

The draft audit report was submitted to you for comment and your oral comments have been incorporated into the report. The report does not contain any formal recommendations; however, it suggests that a determination be made as to whether the rate of loan disbursements will require an extension of the project's completion date or a deobligation of unused funds.

As of May 31, 1990, USAID/Panama had obligated \$5.0 million for the Project of which \$2.5 million had been advanced under the Project to the Foundation for Economic and Social Development for a program to provide loans to viable, small private enterprises. The purpose of these loans is to repair infrastructure and replace equipment and inventories stolen, damaged, or destroyed during the public disorders following the U.S. intervention of December 20, 1989.

BACKGROUND

During the public disorder of December 1989 many Panamanian businesses lost not only a large portion of their working capital, but also the viability of the business center itself. Some cannot replace specialized equipment as it is not available in Panama. As a result, many businesses have had to close, lay off employees, or declare extended furloughs. The Panamanian business community is trying to improve the situation with its own resources. Although

businesses are already reopening, many enterprises, particularly smaller businesses, face bankruptcy.

USAID/Panama created the Emergency Restoration of Small Businesses Project to reinstate or save jobs by assisting viable, small private businesses repair or replace stolen, damaged or destroyed infrastructure, equipment and inventories and by financing short-term operating costs. This assistance takes the form of one-time emergency loans. The Foundation for Economic and Social Development (FUNDES) extends Project loans through local banks to the private businesses.

The Project's Cooperative Grant Agreement, signed February 22, 1990, totals \$5.0 million, \$4.8 million million for loans to small businesses in Panama city and Colon and \$0.2 million for FUNDES operating costs. As of May 31, 1990, FUNDES had prepared checks totaling \$1,423,431 of which \$920,861 had been issued in loans and operating expenses as shown in the Exhibit¹ to this report. The Project's completion date is July 21, 1990.

AUDIT OBJECTIVES AND SCOPE

At the request of USAID/Panama, the Office of the Regional Inspector General for Audit/Tegucigalpa (RIG/A/T) is conducting a concurrent audit of this Project. Also USAID/Panama contracted the accounting firm of Price Waterhouse to concurrently monitor program activities and determine the proper utilization of A.I.D. funding. RIG/A/T determined the scope of work for Price Waterhouse and is supervising and reviewing the audit work to ensure conformance to generally accepted government auditing standards.

This report covers USAID/Panama's advances of \$2.5 million to FUNDES, of which FUNDES had prepared checks for \$1.4 million as of May 31, 1990. The objectives of the concurrent non-Federal audit were to determine if 1) the project grant funds were properly accounted for and used as directed by applicable laws, regulations, and agreement terms and 2) the internal control structure of FUNDES was adequate to manage the program's operations.

This interim report covers the Project's activities for the period February 22, to May 31, 1990. Price Waterhouse conducted the field work under RIG/A/T's supervision from March 14, 1990 to June 2, 1990. The audit work included tests to ensure that the project met the purposes for which the assistance was provided to the Government of Panama (GOP). Specifically, Price Waterhouse:

¹ Checks written for loans totaled \$1,352,040, of this total \$502,570 had not been sent to participating banks for distribution to beneficiaries.

- 1) reviewed the documentation, accounting records, internal control structure, and loan procedure used by FUNDES,
- 2) reviewed loan applications received by FUNDES to ensure that the procedures established by FUNDES and parameters established by A.I.D. are being followed with respect to applicant eligibility,
- 3) visited several loan applicants to verify the accuracy of their statements regarding losses from the looting which occurred during December 1989,
- 4) reviewed the files of loan applications not accepted by the credit committee to evaluate the reasons for rejection,
- 5) visited participant banks to verify the established procedures for documentation, disbursement, and recording of Project loans,
- 6) reviewed bank reconciliations to ensure their reasonableness.
- 7) verified that disbursements by FUNDES were properly accounted for and that they were allowable, allocable, and reasonable according to agreement terms,
- 8) reviewed procedures followed by FUNDES to purchase fixed assets as a means of ensuring compliance with A.I.D.'s procurement regulations and sound commercial practices, and
- 9) reviewed the personnel files of employees assigned to FUNDES's program to verify that the employees were performing specific Project related activities.

INTERIM RESULTS OF AUDIT

Since the Price Waterhouse audit is concurrent and the Project has not terminated, the firm is not in a position at this time to give an opinion or statements on positive or negative assurances on the uses of the funds by FUNDES. Our review of Price Waterhouse workpapers and personal observation of the operations of FUNDES disclosed that, with less than two months remaining in the Project, if loans continue to be made to businesses at the rate attained through May 31, all targeted recipients will not receive emergency assistance before the Project's scheduled termination date.

Emergency Loans Are Not Getting to Recipients in a Timely Manner

According to the Cooperative Grant Agreement, the Foundation for Economic and Social Development (FUNDES), would provide "one-time emergency loans"

to small businesses that were vandalized during the public disorder. Although Project activities had begun to improve as of May 31, 1990, after the elapse of 66 percent of the project life only 43 loans totaling \$849,470 (18 percent of total available funds for loans) have actually been disbursed to project recipients. We found that the delays in distributing loans to recipients are attributable to 1) FUNDES's slow preparation of approval notification letters to the participating banks, and 2) inadequate communication between FUNDES and the participating banks. The lending trend to date indicates that loans are not being disbursed to recipients in a timely manner to meet their emergency needs. Although FUNDES has taken corrective action to improve communications with the participating banks, it appears that with less than two months remaining in the Project, if loans continue to be made to businesses at the rate attained through May 31, all targeted recipients will not receive emergency assistance before the Project's scheduled termination date. We are not making a formal recommendation at this time; however, we suggest that USAID/Panama make a determination as to whether the rate of disbursements will require an extension of the Project's completion date in order to utilize existing funds or deobligate the unused portion at the Project's completion date for more efficient and effective use in other areas.

Discussion

The Project's goal is to maintain the private sector's employment and restore its economic growth. Achievement of this goal is to be attained by assisting otherwise viable, small private businesses; replace or repair stolen, damaged or destroyed infrastructure, equipment, and inventories; and by financing short-term operating costs. Due to the emergency nature of this project, implementation was to begin immediately upon obligation of Project funds on February 22, 1990, and was scheduled to end 150 days later on July 21, 1990.

The audit found that due to implementation delays, there were no loans disbursed to project beneficiaries in February or March 1990. By the end of April 1990, 165 loan applications had been received by FUNDES, of which 75 had been sent to the credit committee for approval. During this period, only 43 applications totaling \$818,934 were approved by the committee. At the end of April, only two of these loans totaling \$40,452 had been disbursed through the different banks participating under the project. Although project activities had begun to improve by the end of May 1990, with FUNDE's approval of \$2,462,727 in loans only \$849,470 or 18 percent of the total available funds of \$4.8 million had reached project beneficiaries by May 31, 1990. The following schedule details Project activity through May 1990:

LOAN ACTIVITIES

	<u>To March 1990</u>	<u>April 1990</u>	<u>May 1990</u>	<u>Total</u>
Loan applications received by FUNDES	104	61	105	270
Applications sent to credit committee for approval	20	55	108	183
Applications approved	10	33	72	115
Amount approved	\$86,820	\$732,114	\$643,703	\$2,462,727
Loans disbursed to recipients	-0-	2	41	43
Amount disbursed to recipients	-0-	\$40,452	\$817,018	\$849,470

The audit disclosed that although the first project loans were approved in late March 1990, FUNDES did not send approval notification letters to the banks until April 20, 1990, almost halfway through the project (the first disbursement of funds was made April 30, 1990). Moreover, a high percentage of the initial notification letters to the banks contained errors. These errors caused delays in processing the loans. For example, three of seven letters sent to one bank contained errors such as:

- 1) loan amounts did not agree with the amounts approved by the credit committee,
- 2) the total of the disbursed checks did not agree with the total of the approved loan, and
- 3) the special instructions given to the bank regarding the conditions under which the loans should be made were not clear.

In addition, according to a participating bank official, correcting errors was not always easy due to poor telephonic communication with FUNDES.

FUNDES has taken corrective actions to improve communications with participating banks which in turn has contributed to a higher rate of loan disbursement. However, we feel that with less than two months remaining on this project, USAID/Panama needs to assess whether the Project should continue past its scheduled completion date or whether deobligation of funds would allow for a more efficient and effective use of A.I.D. assistance in other areas.

**INTERIM AUDIT REPORT ON THE
USAID/PANAMA EMERGENCY RESTORATION OF
SMALL BUSINESSES
PROJECT NO. 525-0301**

EXHIBIT AND APPENDIX

EXHIBIT

**EMERGENCY PROGRAM FOR THE RESTORATION OF
SMALL BUSINESS ADMINISTERED BY THE
FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)**

USAID/PANAMA PROGRAM NO. 525-0301

SUMMARY OF ACCUMULATED COSTS

AS OF MAY 31, 1990

	<u>Accumulated to April</u>	<u>May Costs</u>	<u>Accumulated to May</u>	<u>Budget</u>		
				<u>A.I.D.</u>	<u>Counterpart</u>	<u>Total</u>
Administrative Costs:						
Salaries	\$ 19,808	\$ 13,655	\$ 33,463	\$ 63,420	\$92,520	\$5,092,520
Advertising	200	11,099	11,299	37,520		37,520
Audit Services				40,000		40,000 ¹
Transportation	876	1,282	2,158	15,110		15,110
Training	361	425	786	13,500		13,500
Other direct costs	<u>15,720</u>	<u>7,965</u>	<u>23,685²</u>	<u>20,450</u>		<u>20,450</u>
Sub-total	<u>\$ 36,965</u>	<u>\$ 34,426</u>	<u>\$ 71,391</u>	<u>\$ 190,000</u>	<u>\$92,520</u>	<u>\$ 282,520</u>
Loans:						
Loans - Panama City	\$297,472	\$ 986,536 ³	\$1,284,008	\$4,085,000		\$4,085,000
Loans - Colon	<u>68,032</u>		<u>68,032</u>	<u>725,000</u>		<u>725,000</u>
Sub-total	<u>\$365,504</u>	<u>\$ 986,536</u>	<u>\$1,352,040⁴</u>	<u>\$4,810,000</u>		<u>\$4,810,000</u>
TOTAL PROJECT COSTS	<u>\$402,469</u>	<u>\$1,020,962</u>	<u>\$1,423,431</u>	<u>\$5,000,000</u>	<u>\$92,520</u>	<u>\$5,092,520</u>

¹ Funding for audit services will be managed directly by A.I.D.

² Excess of \$3,235 in accumulated costs for May over A.I.D. budget contemplated \$17,972 corresponding to fixed assets acquired.

³ Amount net of \$51,220 for April checks voided in May 1990.

⁴ As of May 31, 1990, FUNDES had delivered checks for \$849,470 to participating banks.

1

APPENDIX

REPORT DISTRIBUTION

	<u>No. of Copies</u>
U.S. Ambassador/Panama	1
D/USAID/Panama	5
AA/LAC	1
LAC/CAP/P	1
LAC/CONT	1
AA/XA	2
XA/PR	1
AA/LEG	1
GC	1
AA/MS	2
PFM/FM/FS	2
PPC/CDIE	3
MS/MO	1
Office of the Inspector General	
IG	1
AIG/A	1
IG/PPO	2
IG/LC	1
IG/RM	12
IG/I	1
Regional Inspectors General	
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Washington	1
RIG/I/Tegucigalpa	1