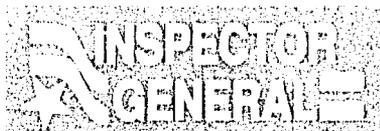


**Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of the Housing Assistance
Provided to Displaced Persons in Panama
under USAID/Panama's
Immediate Recovery Project
August 1, 1990 to June 30, 1991**

**Audit Report No. 1-525-92-07-N
November 15, 1991**



PD-ABD-474

**Inspector General for Audit
Tegucigalpa, Honduras**

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Provided to Displaced Persons in Panama
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November 15, 1991**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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AMERICAN EMBASSY
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32-9987 - 32-3120
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November, 15 1991

MEMORANDUM

TO: D/USAID/Panama, Thomas Stukel

FROM: 
RIG/A T, Reginald Howard

SUBJECT: Audit of the Housing Assistance Provided for Displaced Families in Panama, under USAID/Panama's Immediate Recovery Project, August 1, 1990 to June 30, 1991

This report presents the results of a financial audit of the housing assistance provided for displaced families in Panama under the Immediate Recovery Project (Project), USAID/Panama Project No. 525-0302. The Project was implemented by the Caja de Ahorros (Caja) and covers the period from August 1, 1990 to June 30, 1991. The audit firm of Price Waterhouse prepared the report dated October 11, 1991.

The purpose of the project was to provide direct and immediate housing assistance to an estimated 2,135 families whose homes were destroyed or damaged during the U.S. military action on December 20, 1989. The Caja was responsible for the implementation of the Project except for the determination of family eligibility to receive housing assistance which was the responsibility of the Government of Panama's Ministry of Housing. The audit covered \$7.73 million of A.I.D. funds provided to the Caja during the period audited.

The objectives of the audit were to determine whether: (1) the Caja's fund accountability statement for the period audited presents fairly, in all material respects, the financial results of the Project activities in accordance with the terms of the agreement; (2) the Caja's internal control structure was adequate for the Project's purposes; and (3) the Caja complied with agreement terms and applicable laws and regulations. The scope of the audit included an examination of the Caja's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Price Waterhouse concluded that the Caja's fund accountability statement presents fairly, in all material respects, the Project's receipts and expenditures for the period from August 1, 1990 to June 30, 1991, in accordance with the terms of the agreement.

In its report on the Caja's internal control structures the auditors did not note any material weaknesses in the management of Project activities. Likewise in their report on compliance the auditors found that the Caja complied, in all material respects, with agreement terms and applicable laws and regulations.

The draft audit report was discussed with the management officials of the Caja and USAID/Panama, who generally concurred with the report.

This report does not contain any recommendations for inclusion in the Office of the Inspector General's audit recommendation follow-up system.

CAJA DE AHORROS

AUDIT OF USAID/PANAMA'S HOUSING FOR DISPLACED
FAMILIES COMPONENT OF THE IMMEDIATE RECOVERY PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS FOR THE
PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter and Summary	
Background	1
Audit objectives and scope	3
Results of audit	4-5
Management comments	5
Fund Accountability Statement	
Independent auditor's report	6
Fund accountability statement	7
Notes to the fund accountability statement	8-10
Internal Control Structure	
Independent auditor's report	11-12
Compliance with Terms of the Agreement and Applicable Laws and Regulations	
Independent auditor's report	13
Status of recommendation included in prior report	14
Other pertinent matters	15

Price Waterhouse



October 11, 1991

Mr. Reginald Howard
Regional Inspector General for Audit
U. S. Agency for International Development
Tegucigalpa, Honduras, C. A.

Dear Mr. Howard:

This report presents the results of our financial audit of the Housing for Displaced Families from Chorrillo component of the Immediate Recovery Project (the Project), managed by the Caja de Ahorros for the period from August 1, 1990 through June 30, 1991 under Project No. 525-0302 and its amendments funded under Public Law 101-302 between the Republic of Panama and the U. S. Agency for International Development (A.I.D.).

BACKGROUND

On March 7, 1990, the U. S. Agency for International Development, granted an amount not to exceed \$25,125,000 to support the Government of Panama in providing assistance to Chorrillo families to obtain replacement housing, carry out employment generation activities and restore public sector institutions.

Due to the emergency nature of the project, implementation began immediately upon obligation of funds and was originally scheduled to end in 150 days. On April 12, 1990, the Project completion date was extended from August 3, 1990 to December 31, 1990. An amendment was signed on June 29, 1990 increasing the total amount of the Grant Agreement to \$30,000,000 and extending the Project completion date to March 31, 1991. A second amendment was signed on December 19, 1990 increasing the total amount of the Grant Agreement to \$31,560,000 and extending the Project completion date to April 30, 1991. A third amendment was signed on March 21, 1991 increasing the total amount of the Grant Agreement to \$31,880,000 and extending the Project completion date to June 30, 1991; and finally, a fourth amendment was signed on May 17, 1991 increasing the total amount of the Grant Agreement to \$32,380,000 and extending the Project completion date to December 31, 1991. All these amendments were funded under Public Law 101-302.

The grantee of this Project is the Republic of Panama and the Ministry of Planning and Economic Policy (Ministerio de Planificación y Política Económica - MIPPE). MIPPE is responsible for the overall supervision and implementation coordination of the Project. The Grant Agreement provides funds for the Project Components as follows:

Project Budget (\$000)

Project Component

Housing for Chorrillo families (includes \$156 in audit and some administrative costs managed directly by USAID/Panama)	\$17,546
Emergency employment	7,250
Technical assistance and commodities	5,327
Contingencies	357
Care of displaced families at Albroom	<u>1,900</u>
TOTAL	<u>\$32,380</u>

This report addresses only activities related to the Housing component of the Project, which initially totalled \$12.733 million. The June 29, 1990 amendment increased the Housing component by \$2.975 million; and added a new line item for \$1.9 million to cover the cost to support families housed at displaced persons camps. On October 3, 1990, through Project Implementation Letter No. H-20, \$557,000 of the contingency line item in the original Project Agreement budget was transferred to the Housing component. The Housing component was subsequently increased by the December 19, 1990 amendment by \$1.060 million; and finally the March 21, 1991 amendment increased the Housing component by an additional \$320,000. Nevertheless, on May 10, 1991, through Project Implementation Letter No. H-28, the overall project budget was lowered to \$17.546 million. The original purpose of the Housing component was to provide direct and immediate housing assistance to an estimated 1,800 families whose homes were destroyed or damaged during the U.S. military action of December 20, 1989. The amendments to the agreement to increase grant funding by \$4.792 million were assigned: \$2.182 million to be used to finance donations of \$800 to each displaced family, regardless of place of residence, to help them replace basic furniture and household

effects, and \$2.267 million to finance housing for up to an additional 335 families not contemplated in the original agreement and for home repairs, and \$343,000 for titling costs, appraisals, administrative costs, fixed fees and banking charges.

The assistance provided under this component was intended to complement and support the efforts of the displaced families to address their own housing needs by providing assistance to them directly and immediately. Each of the families was to receive grant assistance of up to \$6,500 toward the purchase of a house or apartment under one of four options. These options permitted the families to either 1) purchase an apartment in one of the new buildings planned for future construction in the Chorrillo District, 2) purchase a house from among those being constructed at several sites away from the Chorrillo area, 3) individually seek out purchase or construct their own home or 4) for chronically dependent families, such as elderly or handicapped, receive a grant which could be used in one of the above options or to fund another option which was specially devised with the assistance of a church or other voluntary organization.

The Caja de Ahorros was the institution in Panama responsible for the implementation of the housing component. The Government of Panama's Ministry of Housing (MIVI) was responsible for developing the list of eligible families who qualify to receive housing assistance.

AUDIT OBJECTIVES AND SCOPE

The overall objective of our audit was to perform a financial audit of the Housing for Displaced Families from Chorrillo component of the Immediate Recovery Project under USAID/Panama Project No. 525-0302 and its amendments funded under Public Law 101-302, managed by the Caja de Ahorros, from August 1, 1990 to June 30, 1991.

Our audit was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included a review of documentation, accounting records, internal control structure and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The fund accountability statement of the Housing for

Displaced families from Chorrillo component of the Immediate Recovery Project, managed by the Caja de Ahorros, from August 1, 1990 through June 30, 1991, presents fairly, in all material respects, the financial results of Project activities in accordance with the terms of the agreement.

2. The Caja de Ahorros' internal control structure was adequate for the Project's purposes.
3. The Caja de Ahorros complied with terms of the agreement and applicable laws and regulations.

The following major audit procedures were performed as considered necessary to meet the stated audit objectives.

Receipts

We confirmed directly with A.I.D. the funds provided to the Caja de Ahorros under Grant Agreement No. 525-0302, and its amendments funded under Public Law 101-302.

Disbursements

We examined a representative number of disbursements incurred by the Caja de Ahorros under the Project to verify that they were appropriately supported and recorded in the Caja de Ahorros' accounting records for the Project.

Other Procedures

1. We reviewed the procedures utilized by the Caja de Ahorros for the management of Project activities.
2. We reviewed the Project's bank account reconciliations and confirmed the balances.
3. We conducted tests to verify that the use of funds provided was in compliance with terms of the agreement and applicable laws and regulations.
4. We made on-site inspections and field visits to locations in Panama to observe the status of the housing projects implemented under the Project.

RESULTS OF AUDIT

Fund Accountability Statement

In our opinion, the fund accountability statement of the Housing for Displaced families from Chorrillo component of

the Immediate Recovery Project, managed by the Caja de Ahorros, presents fairly, in all material respects, the Project's receipts and disbursements for the period from August 1, 1990 to June 30, 1991 in accordance with the terms of the Agreement.

Internal Control Structure

In planning and performing our audit of the fund accountability statement of the Project for the period from August 1, 1990 to June 30, 1991, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control structure and its operation that we have reported to management upon identification.

Compliance with Terms of the Agreement and Applicable Laws and Regulation

We tested transactions and records for the period from August 1, 1990 to June 30, 1991, which included receipts and disbursement and observed on-site activities for compliance with terms of the agreement and applicable laws and regulations. The results of our tests indicate that, with respect to the items tested, the Caja de Ahorros complied, in all material respects, with terms of the agreement and applicable laws and regulations.

With respect to items not tested, nothing came to our attention that caused us to believe that the Caja de Ahorros had not complied with terms of the agreement and applicable laws and regulations.

MANAGEMENT COMMENTS

The draft report was discussed with Caja de Ahorros and USAID/Panama's officials. They generally concurred with the report. Caja de Ahorros' General Manager informed that he would state, in a separate letter, the institution's official position with respect to the unresolved difference with USAID/Panama over the interpretation of the various Project Implementation Letters with respect to approximately U.S.\$46,000 in interest that was not earned due to the transfer of funds from the interest-bearing account to the non-interest bearing account.

Price Waterhouse

CAJA DE AHORROS

AUDIT OF USAID/PANAMA'S HOUSING FOR DISPLACED
FAMILIES COMPONENT OF THE IMMEDIATE RECOVERY PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS FOR THE
PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying fund accountability statement of the Housing for Displaced Families from Chorrillo component of the Immediate Recovery Project USAID/Panama Project No. 525-0302, managed by the Caja de Ahorros for the period from August 1, 1990 to June 30, 1991. The fund accountability statement is the responsibility of the Caja de Ahorros' management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Audit Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the fund accountability statement was prepared on the basis of cash receipts and disbursements and is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, the receipts and disbursements of the Housing for Displaced Families from Chorrillo component of the Immediate Recovery Project managed by the Caja de Ahorros for the period from August 1, 1990 to June 30, 1991, on the basis of accounting described in Note 1 and in accordance with the terms of the respective Agreement and its amendments.

This report is intended solely for the use of the Caja de Ahorros and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

July 18, 1991

CAJA DE AHORROS

AUDIT OF USAID/PANAMA'S HOUSING FOR DISPLACED
FAMILIES COMPONENT OF THE IMMEDIATE RECOVERY PROJECT No. 525-0302
MANAGED BY THE CAJA DE AHORROS FOR THE
PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM MARCH 7, 1990 TO JULY 31, 1990 AND
AUGUST 1, 1990 TO JUNE 30, 1991
(Expressed in US dollars - Note 1)

	Budget (Note 3)			Receipts and Disbursements			Balance (over) under Budget
	Grant Agreement 525-0302	Amendments under Public Law 101-302	Total	From March 7, 1990 to July 31, 1990	From August 1, 1990 to June 30, 1991	Total	
Receipts							
Grant	\$12,598,400	\$4,791,955	\$17,390,355	\$8,869,173	\$7,731,464	\$16,600,637	\$789,718
Total receipts (Note 4)	<u>12,598,400</u>	<u>4,791,955</u>	<u>17,390,355</u>	<u>8,869,173</u>	<u>7,731,464</u>	<u>16,600,637</u>	<u>789,718</u>
Disbursements							
Housing/passbook accounts	\$11,700,000	\$2,177,500	\$13,877,500	\$321,581	\$11,080,340	\$11,401,921	\$2,475,579
Titling	432,000	80,400	512,400	4,869	282,281	287,150	225,250
Appraisals/inspections	176,400	32,830	209,230		136,122	136,122	73,108
Fixed fee - administrative cost	90,000	64,166	154,166	58,400	80,839	139,239	14,927
Moving allowance		2,181,600	2,181,600	436,400	1,542,010	1,978,410	203,190
Repairs		90,000	90,000		64,550	64,550	25,450
Sub-total	<u>12,398,400</u>	<u>4,626,496</u>	<u>17,024,896</u>	<u>821,250</u>	<u>13,186,142</u>	<u>14,007,392</u>	<u>3,017,504</u>
Service to displaced families:							
Salaries				46,982	99,110	146,092	
Local training						0	
Transportation				1,450	6,832	8,282	
Publicity				23,402	5,536	28,938	
Printing costs				745		745	
Office equipment				16,410	3,919	20,329	
Public utilities				1,755	1,592	3,347	
Rent				7,313	10,875	18,188	
Guard service and car rental					13,985	13,985	
Contingencies					25,982	25,982	
Total services	<u>200,000</u>	<u>165,459</u>	<u>365,459</u>	<u>98,057</u>	<u>167,831</u>	<u>265,888</u>	<u>99,571</u>
Total Disbursements (Note 5)	<u>\$12,598,400</u>	<u>\$4,791,955</u>	<u>\$17,390,355</u>	<u>919,307</u>	<u>13,353,973</u>	<u>14,273,280</u>	<u>\$3,117,075</u>
Excess of receipts over (under) disbursements				<u>\$7,949,866</u>	<u>(\$5,622,509)</u>	<u>\$2,327,357</u>	

CAJA DE AHORROS

AUDIT OF USAID/PANAMA'S HOUSING FOR DISPLACED
FAMILIES COMPONENT OF THE IMMEDIATE RECOVERY PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS FOR THE
PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies adopted by the Caja de Ahorros to manage the Project are summarized as follows:

Basis of Accounting:

The cash basis of accounting is used in recording the receipts and expenditures of the Project.

The fund accountability statement is expressed in United States dollars; however, the records of the Project are kept in balboas, the monetary unit of the Republic of Panama, which is and has been at par with and equivalent to the United States dollars since 1904.

NOTE 2 - HISTORY AND OPERATIONS OF THE PROJECT

On March 7, 1990, the U.S. Agency for International Development, granted an amount not to exceed \$25,125,000 to support the Government of Panama in providing assistance to Chorrillo families to obtain replacement housing, carry out employment generation activities, and restore public sector institutions.

Due to the emergency nature of the Project, implementation began immediately upon obligation of funds and was originally scheduled to end in 150 days. On April 12, 1990, the Project completion date was extended from August 3, 1990 to December 31, 1990. An amendment was signed on June 29, 1990 increasing the total amount of the Grant Agreement to \$30,000,000 and extending the Project completion date to March 31, 1991. A second amendment was signed on December 19, 1990 increasing the total amount of the Grant Agreement to \$31,560,000 and extending the Project completion date to April 30, 1991. A third amendment was signed on March 21, 1991 increasing the total amount of the Grant Agreement to \$31,880,000 and extending the Project completion date to June 30, 1991; and finally, a fourth amendment was signed on May 17, 1991 increasing the total amount of the Grant Agreement to \$32,380,000 and extending the Project completion date to December 31, 1991. All these amendments were funded under Public Law 101-302.

The grantee of this Project is the Republic of Panama and the Ministry of Planning and Economic Policy (Ministerio de Planificación y Política Económica - MIPPE). MIPPE is responsible for the overall supervision and implementation coordination of the Project. The Grant Agreement provides funds for the Project component as follows:

<u>Project Component</u>	<u>Project Budget (\$000)</u>
Housing for Chorrillo families (includes \$156 in audit and some administrative costs managed directly by USAID/Panama)	\$17,546
Emergency employment	7,250
Technical assistance and commodities	5,327
Contingencies	357
Care of displaced families at Albrook	<u>1,900</u>
TOTAL	<u>\$32,380</u>

This report addresses only activities related to the Housing component of the Project, which initially totalled \$12.733 million. The June 29, 1990 amendment increased the Housing component by \$2.975 million; and added a new line item for \$1.9 million to cover the cost to support families housed at displaced persons camps. On October 3, 1990, through Project Implementation Letter No. H-20, \$557,000 of the contingency line item in the original Project Agreement budget was transferred to the Housing component. The Housing component was subsequently increased by the December 19, 1990 amendment by \$1.060 million; and finally the March 21, 1991 amendment increased the Housing component by an additional \$320,000. Nevertheless, on May 10, 1991, through Project Implementation Letter No. H-28, the overall project budget was lowered to \$17.546 million. The original purpose of the Housing component was to provide direct and immediate housing assistance to an estimated 1,800 families whose homes were destroyed or damaged during the U.S. military action of December 20, 1989. The amendments to the agreement to increase grant funding by \$4.792 million were assigned: \$2.182 million to be used to finance donations of \$800 to each displaced family, regardless of place of residence, to help them replace basic furniture and household effects, \$2.267 million to finance housing for up to an additional 335 families not contemplated in the original agreement and for home repairs, and \$343,000 for titling costs, appraisals, administrative costs, fixed fees and banking charges.

The Caja de Ahorros is the institution in Panama responsible for the implementation of the housing component. The Government of Panama's Ministry of Housing (MIVI) is responsible for developing the list of eligible families who qualify to receive housing assistance.

NOTE 3 - BUDGET

The budget total does not include \$156,000 (originally \$135,000) in audit and some administrative costs, which are paid directly by the USAID/Panama.

NOTE 4 - FUNDS RECEIVED

USAID/Panama provided the Caja de Ahorros advances for \$8,846,373 and reimbursed \$22,800 to cover the Caja's administrative costs from March 7, 1990 to July 31, 1990 and advances for \$7,731,464 from August 1, 1990 to June 30, 1991.

NOTES 5 - DISBURSEMENTS

Disbursements for Housing passbooks accounts were deposited in an interest bearing escrow account from where disbursements were made to pay for either the purchase or construction of a home.

USAID/Panama authorized the transfer of \$400,000 from the interest bearing escrow account to the non-interest Project account to cover "moving-in" allowance disbursements. This amount was reimbursed to the escrow account in August 1990, when funds to cover moving-in allowance were advanced to the Caja de Ahorros.

USAID/Panama approved the use of up to \$8,190,000 (calculated as 90% of the value of 1,400 homes at \$6,500 each) and agreed that part of the project funds mentioned above be made available to the contractors as short-term loans for construction of \$6,500 housing units under certain conditions.

The financing charges to the contractors escalated from 3% annual rate plus 2% commission fee for the first 45 days period to 8% annual rate plus 2% commission fee for the next 30 day period and then 13% annual rate plus 2% commission fee for the next 30 day period. Construction loans were available to those contractors that had signed contracts with approved families and, agreed to complete the houses within 120 days. No more than 90% of the total cost of each house was eligible for financing, funds being made available in stages according to construction progress. The Caja de Ahorros retained 3% of the interest charged plus the 2% commission fee to cover the administrative cost of processing and servicing the loans. All surplus interest is deposited in the project interest bearing account at the Chase Manhattan Bank. As of June 30, 1991 a total amount of \$1,038,000 had been used for financing the construction of approximately 200 housing units.

NOTES 6 - COMMITMENTS

As of June 30, 1991 the Caja de Ahorros had commitments of US\$2,443,079 in connection with 2,130 housing solutions processed under the Project.

CAJA DE AHORROS

AUDIT OF USAID/PANAMA'S HOUSING FOR DISPLACED
FAMILIES COMPONENT OF THE IMMEDIATE RECOVERY PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS FOR THE
PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Housing for Displaced Families from Chorrillo component of the Immediate Recovery Project USAID/Panama Project No. 525-0302 (the Project), managed by the Caja de Ahorros, for the period from August 1, 1990 to June 30, 1991 and have issued our report thereon dated July 18, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of the Project, for the period from August 1, 1990 to June 30, 1991, we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the Caja de Ahorros is responsible for establishing and maintaining an internal control structure for the Project. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Accounting process
- Budgetary process
- Payroll procedures
- Receipt and disbursement systems

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information of the Caja de Ahorros and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

July 18, 1991

CAJA DE AHORROS

AUDIT OF USAID/PANAMA'S HOUSING FOR DISPLACED
FAMILIES COMPONENT OF THE IMMEDIATE RECOVERY PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS FOR THE
PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

COMPLIANCE WITH TERMS OF THE AGREEMENT AND APPLICABLE
LAWS AND REGULATIONS
INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Housing for Displaced Families from Chorrillo component of the Immediate Recovery Project USAID/Panama Project No. 525-0302 (the Project), managed by the Caja de Ahorros, for the period from August 1, 1990 to June 30, 1991 and have issued our report thereon dated July 18, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with terms of the agreement and applicable laws and regulations is the responsibility of the Caja de Ahorros' management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of Caja de Ahorros' compliance with agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The result of our tests indicate that, with respect to the items tested, the Caja de Ahorros complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Caja de Ahorros had not complied, in all material respects, with those provisions.

This report is intended solely for the information of the Caja de Ahorros and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

July 16, 1991

CAJA DE AHORROS

AUDIT OF USAID/PANAMA'S HOUSING FOR DISPLACED
FAMILIES COMPONENT OF THE IMMEDIATE RECOVERY PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS FOR THE
PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

STATUS OF RECOMMENDATION INCLUDED IN PRIOR REPORT

As of the date of this report, the Caja de Ahorros and USAID/Panama had not resolved their differences over the interpretation of the various Project Implementation Letters with respect to approximately U.S.\$46,000 in interest that was not earned due to the transfer of funds from the interest-bearing account to the non-interest-bearing account.

CAJA DE AHORROS

AUDIT OF USAID/PANAMA'S HOUSING FOR DISPLACED
FAMILIES COMPONENT OF THE IMMEDIATE RECOVERY PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS FOR THE
PERIOD FROM AUGUST 1, 1990 TO JUNE 30, 1991

OTHER PERTINENT MATTERS

CERTAIN EXCEPTIONS WHICH WERE DISCLOSED
DURING THE COURSE OF THE PROJECT

1. An ineligible person was included in the initial official list of beneficiaries, which was prepared and approved by the Ministry of Housing (MIVI). The fact that this person was a conflict case and that as such should not have been included in the list was not detected by the Ministry of Housing nor reported to the Caja de Ahorros until December 5, 1990, when the individual had already received all allowable benefits under the Project. Caja de Ahorros has filed a complaint with MIVI, which in its opinion should be held accountable for any claims which could arise from this situation. No corrective action has been taken by MIVI.
2. Certain construction deficiencies, have been detected in the different housing projects which have given rise to claims by beneficiaries under the Program. Major deficiencies detected include: water leakages in most housing projects; wall fissures at the Santa Eduvigis project; problems with the proper operation of sewage and septic tanks at Villa Lochin and San Bernardino projects, which create a health hazard to people living in those housing projects; and improper installation of electric control breakers and consumption measurement boxes at the Villa Esperanza project, which exposes them to rain, thus creating a possible fire hazard, etc. In order to ensure that corrective actions are taken the Caja de Ahorros took the initiative of organizing a meeting with MIVI and the different contractors and promoters and has obtained from them their promise of taking corrective actions. The Caja de Ahorros has decided in the meantime to refrain from paying contractors and promoters the ten percent (10%) withholding on payments under the projects until such time in the future when the deficiencies are corrected. Caja de Ahorros is considering the possibility of carrying out the corrective actions itself, should contractors and promoters fail to take the proper actions within a reasonable time frame. Should this course of action be taken by the Caja, costs associated with repairs would be charged to funds withheld from contractors and promoters.

APPENDIX

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