

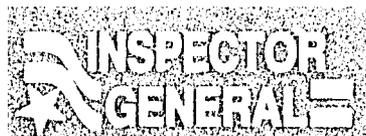
Financial Audits

**AUDIT OF FISCAL YEAR 1993
ANNUAL FINANCIAL STATEMENT FOR USAID'S
HOUSING GUARANTY PROGRAM
UNDER THE CFO ACT**

Report No. 0-000-94-002

June 30, 1994

BEST AVAILABLE DOCUMENT





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Assistant Inspector
General for
Audit

June 30, 1994

MEMORANDUM

TO: AA/M, Larry E. Byrne
AA/G, Sally A. Shelton-Colby

FROM: *James B. Durnil*
AIG/A, James B. Durnil

SUBJECT: Audit of Fiscal Year 1993 Annual Financial
Statement for USAID's Housing Guaranty Program
under the CFO Act

The Chief Financial Officers (CFO) Act of 1990 requires the U.S. Agency for International Development (USAID) to prepare an Annual Financial Statement for the Housing Guaranty Program. This statement is to include the presentation of program and financial performance information related to the program. The USAID Office of the Inspector General is responsible for auditing the Annual Financial Statement. To fulfill this responsibility, we contracted with the independent certified public accounting firm of Deloitte and Touche to perform, under our general oversight, the financial audit for fiscal year (FY) 1993. In addition, the USAID Office of Inspector General reviewed the presentation of management performance information required by the CFO Act and Office of Management and Budget (OMB). This report presents the results of the audit.

The audit was made in accordance with generally accepted government auditing standards and OMB Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require the audit to provide reasonable assurance that financial statements are free of material misstatement. The audit included obtaining an understanding of the relevant internal control policies and procedures designed to achieve control objectives; determining that the controls had been placed in operation; and assessing the control risks. The audit also included tests of USAID's compliance with certain laws and

- 1 -

regulations.

USAID's Office of Housing and Urban Programs, within USAID's Bureau for Private Enterprise (PRE), administers the Housing Guaranty Program. The Housing Guaranty Program was established to help host countries improve the level of shelter and related services available to the less advantaged portions of their populations. This program enables the United States private sector to provide to foreign governments, new construction and home improvement loans for low-income families; the program also finances infrastructure improvements. USAID also uses this program to promote policies in developing countries which increase access to shelter and related urban services for below median income families.

Financial Statement Audit

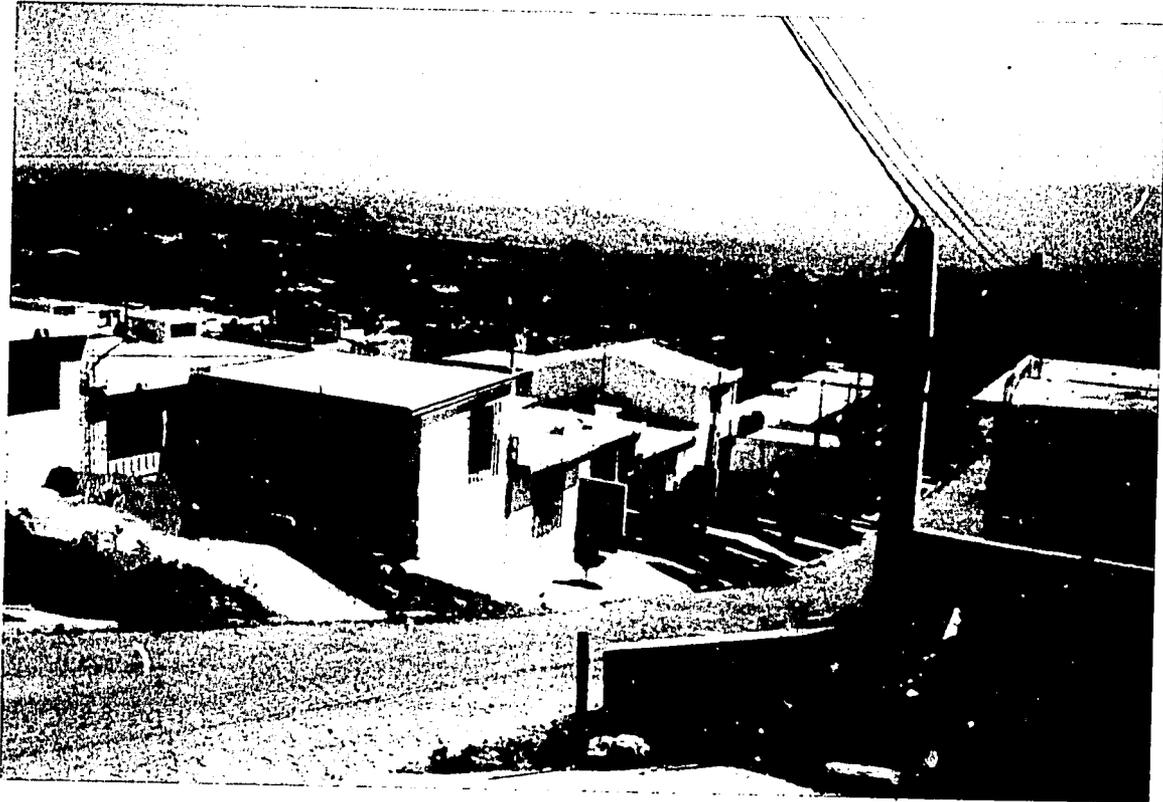
The audit objectives assigned to Deloitte and Touche were to determine whether: (1) the program's FY 1993 financial statements were presented fairly in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles, (2) the program had an adequate internal control structure, and (3) the program complied with laws and regulations that could have a direct and material effect on the financial statements and certain other laws and regulations designated by OMB and USAID.

Deloitte and Touche determined that the financial statements for the Housing Guaranty Program present fairly, in all material respects, the financial position at September 30, 1993, and the results of operations, cash flows, and budget and actual expenses for the year then ended in conformity with OMB Bulletin 93-02, "Form and Content of Agency Financial Statements."

Deloitte and Touche's Report on Internal Control Structure identified three reportable conditions¹. The reportable conditions pertained to: (1) lack of due diligence procedures for claims receivable, (2) failure to maintain the Central Reserve Bank Account in a U.S. Treasury account, and (3) lack of documented financial management policies and procedures. Deloitte and Touche's report states that corrective action has been completed during FY 1994 on all but the third condition.

Our two prior audits of the Housing Guaranty program have also reported on these same three internal control issues -- first for

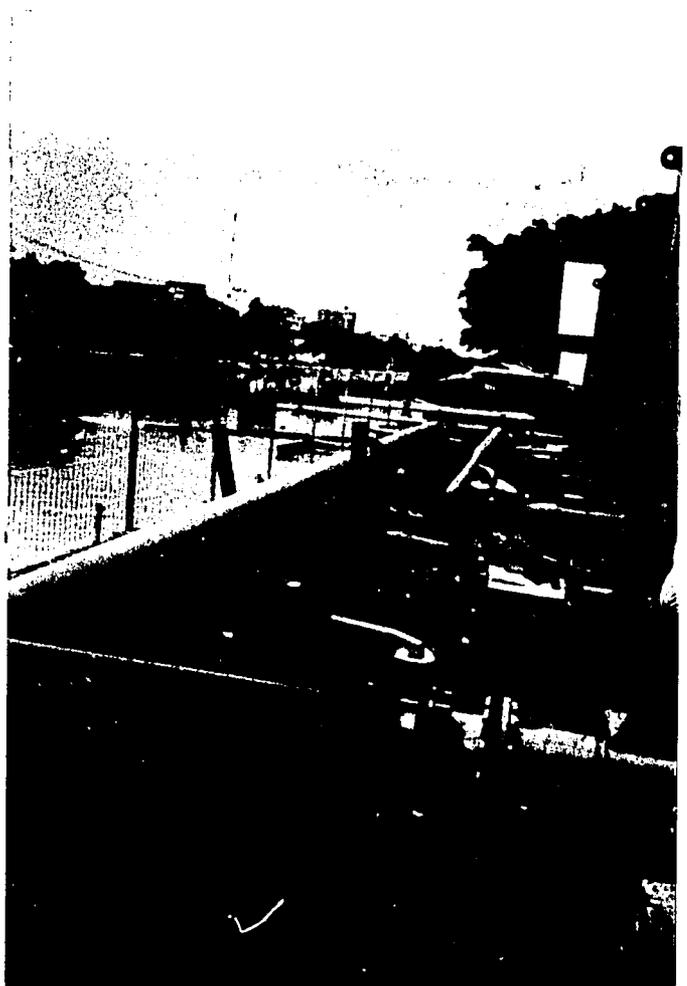
**EXAMPLES OF PROJECTS ASSISTED UNDER THE
HOUSING GUARANTY PROGRAM**



HOUSING UNITS IN GUATEMALA



FOOTPATHS IN INDONESIA



WATER SUPPLY IN INDONESIA

FY 1991² when we considered them "material weaknesses" and again for FY 1992³ when we re-categorized the weaknesses as "reportable conditions." Our audit report for FY 1991 included recommendations to correct these problems and, since that time, we have continued to monitor USAID's corrective actions. Subsequent to FY 1993, we closed two of our recommendations based on USAID's (1) establishment of due diligence procedures for claims receivable and (2) request that Riggs National Bank pledge \$750,000 in collateral so that the Central Reserve Bank Account can legitimately be maintained outside the U.S. Treasury. Regarding the third issue, Deloitte and Touche's Report on Internal Control Structure notes that USAID had plans to complete the documentation of policies and procedures for the Housing Guaranty Program by the end of FY 1994. Our recommendation will remain open until evidence of documented policies and procedures have been provided to us for review and we determine that the policies and procedures are adequate. This recommendation will be highlighted in our next semi-annual report to the Congress if final management resolution has not taken place.

Deloitte and Touche's Report on Compliance with Laws and Regulations disclosed one instance of material noncompliance⁴ pertaining to the Federal Managers' Financial Integrity Act (FMFIA). Deloitte and Touche did not make any recommendations concerning this material noncompliance, since the corrective actions taken and planned by USAID to document policies and procedures would remedy the weaknesses that made this program a candidate for FMFIA reporting.

Assessment of Progress on a Performance Measurement System

The USAID Office of Inspector General reviewed USAID's progress in developing an evolving performance measurement system (which USAID began developing in FY 1992) for the Housing Guaranty Program. As directed by OMB guidance, our primary objective was limited to determining whether USAID had an internal control structure to assure the existence and completeness of supporting evidence for reported performance data. Because we identified flaws in supporting evidence, we extended our review to a limited assessment of the overall usefulness of the system, as now designed.

² Audit Report No. 0-000-92-001 dated July 31, 1992.

³ Audit Report No. 0-000-93-001 dated June 30, 1993.

⁴ See Deloitte and Touche's Report on Compliance with Laws and Regulations (page 33) for the definition of a "material instance of noncompliance".

At two USAID regional offices visited, the evidence to support reported performance information was only partially complete and flawed in other ways. USAID's regional officials at one site were unable to provide and fully explain supporting data without re-engaging the services of a consultant, who had originally developed performance information through use of a combination of available data and subjective estimates and extrapolations. At another regional office, USAID officials had used outdated information where current data was unavailable, and also subjective estimates and extrapolations. Regional officials readily agreed with the need for supporting evidence, but advised us that there often is not a good source of current and reliable data for many reporting requirements of the performance measurement system, as now designed.

Our further review and analysis of the current version of the performance measurement system disclosed other potential system problems beyond the lack of supporting evidence. For example, the performance measurement system:

- reports information at a countrywide level rather than at the level of specific activities assisted by USAID,
- captures numerical data and ratios, but USAID has not established goals or baselines against which performance progress is to be measured; and
- uses highly esoteric terminology and concepts in 24 "macro" indicators that would likely not be understood by parties attempting to assess whether progress is being achieved by USAID.

Among the 24 "macro" indicators is Down Market Penetration, defined as "the lowest priced unsubsidized formal dwelling unit produced by the private sector in significant quantities to median annual household income." Another is "Infrastructure Expenditure per Capita", defined as the "ratio of total annual expenditures for operations, maintenance and capital by all levels of government, including private utilities and prarastatals, on infrastructure services (roads, drainage, water supply, electricity and garbage collection) to the urban population, in current U.S. dollars." These esoteric and complex terms and concepts may indeed have considerable value to housing experts in USAID/Washington -- they would be very likely not be understood by non-experts who wish to assess whether progress is being achieved by USAID's Housing Guaranty Program.

The above issues strongly indicate that -- without a major re-direction -- this system will not serve its intended purpose of facilitating assessment of both financial and program results. In view of these broader system design questions, we are not making a recommendation solely focused on improving supporting

evidence for reported performance information. We recognize that the design and implementation of a useful performance measurement system for the complex and varied activities of the Housing Guaranty Program is a difficult task that requires time. Further, we commend USAID officials on actions taken to date and we recognize that some useful information has been collected. Nevertheless, in view of the issues identified during our review for FY 1993, we believe USAID should immediately re-assess the overall conceptual framework and general direction of the performance measurement system for the Housing Guaranty Program as it continues development.

Recommendation No. 1: We recommend that the Director of the Office of Housing and Urban Programs formally re-assess the performance measurement system to assure that it is on track to its intended result. The re-assessment should: (1) address issues such as adequacy of supporting evidence, the understandability of terms and concepts, the relevance to specific USAID activities, and goals or baselines against which collected data is measured; (2) obtain input from all RHUDOs on the appropriateness of system design; and (3) establish milestones for completion of the system.

(Our attached report discusses our review of the performance measurement system in more detail. See page 35.)

Management's Comments and Our Evaluation

Agency management concurred with our audit results. Regarding our recommendation on the performance measurement system, management expressed its intention to re-assess the current system beginning with a June 1994 workshop during a conference of its Regional Housing and Urban Development Offices (RHUDOs). Regarding our prior open recommendation on the lack of written financial policies and procedures manuals, management stated that these manuals will be completed by the end of FY 1994. A copy of management's written comments to the draft audit report is attached as Appendix I.

We appreciate the cooperation and courtesies extended to my staff and Deloitte and Touche during the audit.

TABLE OF CONTENTS

	<u>Page</u>
INSPECTOR GENERAL'S LETTER REPORT	1
AUDITORS' REPORT ON THE PRINCIPAL STATEMENTS	8
PRINCIPAL STATEMENTS	9
AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE	24
AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	33
INSPECTOR GENERAL'S REPORT FOR FY 1993 REVIEW OF USAID'S PERFORMANCE MEASUREMENT SYSTEM FOR THE HOUSING GUARANTY PROGRAM	35
USAID MANAGEMENT'S PROGRAM OVERVIEW OF THE HOUSING GUARANTY PROGRAM	40
FINANCIAL PERFORMANCE MEASURES	
ATTACHMENT A - HOUSING GUARANTY PROGRAM PERFORMANCE INDICATORS	
USAID MANAGEMENT'S COMMENTS (APPENDIX 1)	
REPORT DISTRIBUTION (APPENDIX 2)	

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

HOUSING GUARANTY PROGRAM

REPORT OF INDEPENDENT AUDITORS
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 1993

REPORT OF INDEPENDENT AUDITORS ON
INTERNAL CONTROL STRUCTURE

REPORT OF INDEPENDENT AUDITORS ON
COMPLIANCE WITH LAWS AND REGULATIONS

-7a-



INDEPENDENT AUDITORS' REPORT

To the Administrator
and the Inspector General of the
U.S. Agency for International Development:

We have audited the accompanying statements of financial position of the Housing Guaranty Program administered by the U.S. Agency for International Development (USAID) as of September 30, 1993, and the related statements of operations, changes in net position, cash flows, and budget and actual expenses for the year then ended. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on these statements based on our audit. The financial statements of the Housing Guaranty Program as of and for the year ended September 30, 1992 were audited by other auditors whose report, dated June 4, 1993, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards, Office of Management and Budget (OMB) Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements* and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting prescribed in OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Guaranty Program at September 30, 1993, and the results of its operations, its cash flows, and its budget and actual expenses for the year then ended in conformity with the basis of accounting described in Note 1.

Deloitte & Touche

May 20, 1994

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
HOUSING GUARANTY PROGRAM**

**STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 1993 AND 1992
(In Thousands)**

ASSETS	1993	1992
Financial Resources:		
Fund Balance With Treasury (Note 4)	\$ 44,683	\$ 6,704
Restricted Fund Balance With Treasury (Note 4)	292	19,351
Cash (Note 4)	389	705
Funds With USAID	9	140
Account Receivable, Net - Non-Federal (Note 5)	1,194	1,692
Claims Receivable, Net - Non-Federal (Note 6)	<u>27,998</u>	<u>22,582</u>
Total Financial Resources	<u>74,565</u>	<u>51,174</u>
Non-financial Resources:		
Furniture and Equipment, Net (Note 7)	532	571
Travel Advances and Other	<u>43</u>	<u>80</u>
Total Non-Financial Resources	<u>575</u>	<u>651</u>
TOTAL ASSETS	<u><u>\$ 75,140</u></u>	<u><u>\$ 51,825</u></u>
 LIABILITIES AND NET POSITION		
Funded Liabilities:		
Accounts Payable, Non-Federal	\$ 2,327	\$ 2,036
Liabilities for Loan Guarantees, Pre-1992 (Note 8)	706,889	686,621
Liabilities for Loan Guarantees - Post 1991 (Note 8)	2,957	-
Deferred Revenues	2,583	2,896
Borrowings from Treasury (Note 9)	125,208	125,208
Accounts Payable - Federal	5,319	5,319
Other Funded Liabilities - Federal (Note 10)	<u>2,102</u>	<u>229</u>
Total Funded Liabilities	<u>847,385</u>	<u>822,309</u>
Unfunded Liabilities	<u>341</u>	<u>356</u>
TOTAL LIABILITIES	<u>847,726</u>	<u>822,665</u>
NET POSITION:		
Appropriated Capital (Note 11)	173,268	140,991
Cumulative Results of Operations	(945,513)	(911,475)
Less: Future Funding Requirements	<u>(341)</u>	<u>(356)</u>
TOTAL NET POSITION	<u>(772,586)</u>	<u>(770,840)</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 75,140</u></u>	<u><u>\$ 51,825</u></u>

The accompanying notes are an integral part of these financial statements.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT HOUSING GUARANTY PROGRAM

STATEMENTS OF OPERATIONS YEARS ENDED SEPTEMBER 30, 1993 AND 1992 (In Thousands)

	1993	1992
REVENUES AND FINANCING SOURCES:		
Appropriated Capital Used	\$ 10,693	\$ 6,143
Interest and Penalties, Non-Federal	25,778	6,541
Other Revenues and Financing Sources	<u>10,959</u>	<u>7,501</u>
Total Revenues and Financing Sources	<u>47,430</u>	<u>20,185</u>
EXPENSES:		
Operating Expenses (Note 12)	7,230	7,486
Subsidy Expense	4,570	-
Depreciation	193	166
Provision for Doubtful Accounts	38,554	44,789
Provision for Loss on Guarantees	20,268	5,265
Interest - Treasury Borrowings (Note 9)	<u>10,638</u>	<u>10,841</u>
Funded Expenses	<u>81,453</u>	<u>68,547</u>
Shortage of Revenue and Financing Sources Over Funded Expenses	(34,023)	(48,362)
Less: Unfunded Expenses	<u>(15)</u>	<u>(47)</u>
Shortage of Revenues and Financing Sources over Total Expenses	<u><u>\$(34,038)</u></u>	<u><u>\$(48,409)</u></u>

The accompanying notes are an integral part of these financial statements.

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
HOUSING GUARANTY PROGRAM**

**STATEMENTS OF CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 1993 AND 1992
(In Thousands)**

	Appropriated Capital				Cumulative Results of Operations	Future Funding Requirements	Changes In Government Equity
	Pre-Fiscal 1992	Fiscal 1992	Fiscal 1993	Fiscal 1992/1993			
BALANCE, OCTOBER 1, 1991	\$ 87,043	\$ -	\$ -	\$ -	\$(863,469)	\$ -	\$ (776,426)
Appropriations Received	47,801	25,034	-	-	-	-	72,835
Unobligated Funds Returned to Treasury	(12,514)	-	-	-	-	-	(12,514)
Appropriations Withdrawn	-	(370)	-	-	-	-	(370)
Appropriated Capital Used	-	(6,143)	-	-	-	-	(6,143)
Other USAID Appropriations Used	-	140	-	-	-	-	140
Shortage of Revenues and Financing Sources Over Total and Unfunded Expenses	-	-	-	-	(48,409)	-	(48,409)
Establish Unfunded Liabilities	-	-	-	-	403	(403)	-
Unfunded Expenses	-	-	-	-	-	47	47
BALANCE, SEPTEMBER 30, 1992	122,330	18,661	-	-	(911,475)	(356)	(770,840)
Appropriations Received	48,856	-	24,814	5,730	-	-	79,400
Appropriations Capital Used	-	(5,262)	(5,433)	-	-	-	(10,695)
Appropriations Withdrawn	(27,000)	(5,730)	-	-	-	-	(32,730)
Unobligated Funds Returned to Treasury	(3,698)	-	-	-	-	-	(3,698)
Shortage of Revenue and Financing Sources Over Total and Unfunded Expenses	-	-	-	-	(34,038)	-	(34,038)
Unfunded Expenses	-	-	-	-	-	15	15
BALANCE, SEPTEMBER 30, 1993 (Note i1)	<u>\$140,488</u>	<u>\$ 7,669</u>	<u>\$19,381</u>	<u>\$5,730</u>	<u>\$(945,513)</u>	<u>\$(341)</u>	<u>\$ (772,586)</u>

The accompanying notes are an integral part of these financial statements.

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
HOUSING GUARANTY PROGRAM**

**STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 1993 AND 1992
(In Thousands)**

	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES:		
Shortage of Revenues and Financing Sources Over Total Expenses	\$(34,038)	\$ (48,409)
Adjustments affecting cash flows:		
Depreciation	193	166
Provision for Uncollectible Claims and Fees Receivable	34,164	46,277
Provision for Losses on Guarantees	20,268	4,203
Provision for Subsidy Expenses - Credit Reform	2,957	-
Provision for Uncollectible Accounts Receivable	8,893	(1,488)
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(8,395)	3,725
Increase in Claims Receivable	(39,580)	(35,757)
Decrease (Increase) in Other Assets	37	(10)
Increase (Decrease) in Accounts Payable, Non-Federal	291	(965)
Decrease in Deferred Revenues	(313)	(10)
Increase (Decrease) in Accounts Payable, Federal	-	185
Increase in Other Funded Liabilities, Federal	<u>1,871</u>	<u>229</u>
Net Cash Used By Operating Activities	<u>(13,652)</u>	<u>(31,854)</u>
CASH FLOWS USED BY INVESTING ACTIVITIES:		
Purchase of Furniture and Equipment	<u>(154)</u>	<u>(58)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations Received	79,400	72,835
Decrease (Increase) in Restricted Fund Balance With Treasury	19,059	(19,351)
Appropriated Capital Used	(10,693)	(6,143)
Appropriations Withdrawn	(32,730)	(370)
Other USAID Appropriations Used	131	140
Unobligated Funds Returned to Treasury	(3,698)	(12,514)
Repayment of Treasury Borrowing	<u>-</u>	<u>(4,792)</u>
Net Cash Provided By Financing Activities	<u>51,469</u>	<u>29,805</u>
Net Cash Provided by (Used in) Operating, Investing and Financial Activities	37,663	(2,107)
Fund Balance With Treasury and Cash, Beginning of the Year	<u>7,409</u>	<u>9,516</u>
Fund Balance With Treasury and Cash, Ending of the Year	<u>\$ 45,072</u>	<u>\$ 7,409</u>

The accompanying notes are an integral part of these financial statements.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT HOUSING GUARANTY PROGRAM

STATEMENTS OF BUDGET AND ACTUAL EXPENSES YEARS ENDED SEPTEMBER 30, 1993 AND 1992 (In Thousands)

	1993	1992
Budget Resources	\$102,777	\$110,050
Budget Obligations	<u>(97,555)</u>	<u>(89,154)</u>
Total Unobligated Balance	<u>\$ 5,222</u>	<u>\$ 20,896</u>
 Budget Reconciliation:		
Total Expenses	\$ 81,453	\$ 68,547
 Budget Resources Expended Which Are Not Included in Actual Expenses:		
Capital Acquisitions	154	58
Claim Payments, Net of Recoveries	55,492	35,757
(Increase) Decrease in Payables	(1,850)	551
Increase (Decrease) in Receivables	8,395	(3,715)
(Decrease) Increase in Cash	(316)	439
 Items Not Requiring Outlays:		
Provision for Guarantee and Claim Losses	(66,282)	(50,054)
Claim Losses Realized	1,090	1,062
Depreciation	(193)	(166)
Decrease in Deferred Revenues	313	10
Revenues and Financing Sources	<u>(47,430)</u>	<u>(20,185)</u>
 Accrued Expenditures	<u>\$ 30,826</u>	<u>\$ 32,304</u>

The accompanying notes are an integral part of these financial statements.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT HOUSING GUARANTY PROGRAM

NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 1993 AND 1992

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

The Housing Guaranty Program is administered by the Bureau for Private Enterprise of the U.S. Agency for International Development (USAID) and USAID's geographic bureaus. There are also seven Regional Housing and Urban Development Offices (RHUDOs), which are the overseas components of the Office of Housing and Urban Programs. USAID's Loan Management Division of the Office of Financial Management performs the accounting functions for the Housing Guaranty Program.

The Housing Guaranty Program was established by Title III, Sections 221, 222, 223 and 238c of the Foreign Assistance Act (FAA) of 1961, as amended. The purpose of the Housing Guaranty Program is to assist in providing long-term financing for low income shelter and neighborhood infrastructure upgrading programs in developing countries and to stimulate the participation of the private sector in the economic development of lesser developed countries. U.S. private sector lenders provide unsecured financing at commercial rates for projects undertaken by eligible resident borrowers. The repayment of the principal and interest is guaranteed through USAID by the full faith and credit of the U.S. Government. USAID charges the borrowers guarantee fees comprised of an initial charge of one percent of the amount of loan and an annual fee of one-half of one percent of the unpaid principal balance of the guaranteed loan. USAID also requires that the host country government of the borrowers sign a full faith and credit guarantee for repayment of any loan and outstanding interest paid by USAID on behalf of the borrower.

In the Liquidating Account, under FAA Sections 221 and 222, the total principal amount of guarantees issued and outstanding under this title cannot exceed \$2.558 billion at any one time. The FAA limits the issuance of housing guarantees to any one country in any fiscal year to \$25 million, except for those issued to Chile, Poland, and Israel, for which no limit has been established. In addition, except the countries mentioned above, the FAA limits the average face value of guarantees issued in any fiscal year to \$15 million.

The Housing Guaranty Program is funded by four appropriations:

- 72X4340 (Liquidating Account), which was established under the Credit Reform Act of 1990 to service loans arising from Housing Guaranty Program. It includes all cash flows to and from the U.S. Government resulting from loan guarantee commitments made prior to October 1, 1991;

- 7220401 and 722/30401 (Program Account - Fiscal Year 1992 and Program Account - Fiscal Year 1992/1993), which was established under the Credit Reform Act of 1990 as a two-year appropriation to cover the subsidy and administrative costs of guaranteed loans. It includes all cash flows to and from the U.S. Government resulting from loan guarantee commitments made on or subsequent to October 1, 1991;
- 7230401 (Program Account - Fiscal Year 1993), which was established under the Credit Reform Act of 1990 as a single year appropriation of \$297,800 to cover the subsidy and administrative costs of the Housing Guaranty Program. It includes all cash flows to and from the U.S. Government resulting from loan guarantee commitments made on or subsequent to October 1, 1991.

In 1993, under Public Laws 102-391 and 102-145 as amended, there were thirteen loans authorized and not under contract in the Program Account totaling \$170 million. The amount of guarantees issued and outstanding totals \$203 million.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Housing and Other Credit Guaranty Program, as required by the Chief Financial Officers Act (CFO Act) of 1990. They have been prepared from the books and records of the Housing Guaranty Program in accordance with the Office of Management and Budget's (OMB) Bulletin Number 93-02, *Form and Content of Agency Financial Statements*, and the Program's accounting policies, which are summarized in this Note.

OMB Bulletin 93-02 is considered to be a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The difference between GAAP and Bulletin Number 93-02 as it applies to the Housing Guaranty Program is in the accounting for the effects of the Credit Reform Act of 1990.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

D. Fund Balance with Treasury

Cash receipts and disbursements are processed by the U.S. Treasury. Funds with Treasury are available to pay current liabilities and to finance authorized purchase commitments.

The Housing Guaranty Program defines cash and cash equivalents as short-term highly liquid investments with original maturities of three months or less, and unrestricted funds with Treasury.

E. Restricted Fund Balance with Treasury

Appropriated funds received are maintained as balances in a non-interest bearing account with the U.S. Treasury. These funds are available to the Housing Guaranty Program when the credit activity to which they relate occurs or when administrative expenses are incurred. Credit activity occurs when loans are disbursed or guaranties are committed.

F. Cash

The Housing Guaranty Program maintains an account at a commercial bank. In prior years, the Housing Guaranty Program required borrowers to deposit reserves in trust into the USAID commercial bank account. These reserves were designed to offset claims resulting from borrower defaults and local currency devaluation. Interest accrued to the benefit of the borrowers and reserve account balances were to be refunded to the borrowers upon maturity. Due to borrower defaults over the years, the account no longer contains borrower monies and is now comprised entirely of USAID funds.

G. Funds with USAID

USAID holds funds as balances in the U.S. Treasury from which it pays operating expenses that are not paid by the Housing Guaranty Program's operating expense fund. At September 30, 1993 and 1992, amounts which are obligated by USAID to pay for Housing Guaranty Program accounts payable are disclosed in the statement of financial position as Funds with USAID.

H. Accounts Receivable and Claims Receivable

Accounts receivable represent origination and annual fees on outstanding guaranties, interest on rescheduled loans and late charges. Claims receivable (subrogated and rescheduled) are due from foreign governments as a result of defaults under the Housing Guaranty Program. Receivables are stated net of an allowance for uncollectible accounts determined using a specific identification methodology by country.

I. Furniture and Equipment and Depreciation

Furniture and equipment consist of office furniture and equipment and living quarters furniture and furnishings. Furniture and equipment are capitalized at cost, if the initial acquisition cost is \$500 or more. Assets with a high risk of loss are capitalized even if their costs are less than \$500. Depreciation is computed on a straight-line basis over 10 years for residential furniture and furnishings, 7 years for office furniture and equipment, and 3 years for computer software.

J. Reserve for Guarantee Losses

The Reserve for Guarantee Losses provides for losses inherent in the guarantee operation. This reserve is a general reserve available to absorb losses related to guaranties outstanding, and commitments to guarantee, both of which are off-balance sheet commitments. The provision for losses on guaranties is based on management's evaluation of the guaranteed loans. This evaluation is based upon analyses of prior loss experience related to the developing country and credit risk assessments which incorporate evaluations of the economic and political conditions which could affect the country's repayment ability. The evaluations take into consideration such factors as the existence of other foreign government guaranties, transfer risk, assessments of foreign government

credit risks by other federal financial assistance program sponsors, and the projected political stability within the country.

A new accounting policy was adopted for guarantees committed after October 1, 1991. The guarantees are subject to a different methodology for calculating loss reserves under the Credit Reform Act. Under the Credit Reform Act, guarantee reserves are established for the net present value of the future costs relating to guarantees, net of future revenues. For the Housing Guaranty Program, the reserve is established when loans under guarantees are disbursed, and is calculated as the net present value of all expected costs to the Housing Guaranty Program resulting from those guarantees, except for administrative costs, less the net present value of all revenues to be generated from the guarantees.

Under GAAP, reserves are established when the loss is expected to occur, which is not necessarily upon commitment, and costs of defaults are not calculated using net present value. In addition, under GAAP, future revenues are not considered in calculating the reserve and administrative costs would be included, where material.

K. Deferred Revenues

Loan origination fees in excess of \$250,000 are deferred and recognized over the life of the guarantee as an adjustment to fee income.

L. Revenues and Other Financing Sources

Effective in 1992, the Housing Guaranty Program received the majority of the funding needed to support its programs through appropriations. It receives both annual and bi-annual appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture, and furnishings). For purposes of the financial statements, budgetary appropriations are realized as a financing source of revenue as accrued expenses are recognized.

Additional amounts are obtained through collection of guaranty fees. The Housing Guaranty Program also receives interest income on rescheduled loans, and penalty interest on delinquent balances. Receivables which are delinquent for 90 days or more are placed in a non-accrual status. Any accrued but unpaid interest previously recorded on loans placed in non-accrual status is recorded as a reduction to current period interest income.

M. Reclassifications

Certain reclassifications have been made to the 1992 financial statements to conform to the 1993 presentation.

2. CREDIT REFORM

The Credit Reform Act of 1990, which became effective on October 1, 1991 has significantly changed the manner in which the Housing Guaranty Program finances its credit activities. The primary purpose of this Act is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending.

In fiscal year 1993, the Program received appropriations totaling \$24,814 million. Of the amount appropriated, \$16,319 million was obligated for the subsidy costs of new credit activity and \$8,407 was available to the Program for its operating and administrative expenses.

3. COMMITMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In addition to the risks associated with its claim receivables, the Housing Guaranty Program is subject to risk for financial instruments not included in its statement of financial position. These financial instruments are guarantees on unsecured loans which provide principal and interest repayment protection to U.S. lenders against political and economic risks of lending to the developing countries. USAID does not hold collateral or other security to support its off-balance sheet risk. However, for most guarantees, a third-party guarantee from the host government of the debtor is required for principal, interest and certain fees disbursed by USAID on behalf of the borrower.

The Congressionally authorized guaranty limit is as follows (in thousands):

Pre-Credit Reform	\$2,558,000
Credit Reform	<u>297,800</u>
	<u>\$2,855,800</u>

Of the total authorized guarantees, \$2.4 billion have been contracted and \$9 million of the contracted guarantees remain to be disbursed. Loans authorized but not yet under contract amount to \$511 million. Outstanding guarantees and guarantee commitments that management estimates may ultimately result in uncollectible claims have been reflected as a liability in the financial statements.

Partial payments are paydowns on guaranteed loans. When the loan is entirely repaid, it is not included in authorized or outstanding guarantees. To monitor its compliance with the Congressional Authority, the Housing Guaranty Program reduces the outstanding guaranteed loan balances for any paydowns on loans with guarantees.

4. FUND BALANCE WITH TREASURY AND CASH

Fund Balance with Treasury at September 30, 1993 and 1992, is as follows (in thousands):

	<u>1993</u>		<u>1992</u>	
	<u>Available</u>	<u>Restricted</u>	<u>Available</u>	<u>Restricted</u>
Revolving/Appropriated Funds	\$44,683	\$292	\$ 6,704	\$19,351
Cash at Riggs Bank	<u>389</u>	<u>-</u>	<u>705</u>	<u>-</u>
Total	<u>\$45,072</u>	<u>\$292</u>	<u>\$ 7,409</u>	<u>\$19,351</u>

5. ACCOUNTS RECEIVABLE, NET - NON-FEDERAL

Accounts Receivable, Net-Non-Federal, consist of USAID loan fees receivable, interest receivable on rescheduled loans, and penalty interest (late charges) receivable. Accounts receivable from major borrowing regions, net of an allowance for doubtful accounts, consist of the following (in thousands):

	1993	1992
Africa	\$ 8,604	\$ 294
Asia	-	509
Latin America	4,406	2,905
Near East	<u>134</u>	<u>1,041</u>
Total Accounts Receivable	13,144	4,749
Less: Allowance for doubtful amounts	<u>(11,950)</u>	<u>(3,057)</u>
Accounts Receivable, Net-Non-Federal	<u>\$ 1,194</u>	<u>\$ 1,692</u>
Allowance for doubtful accounts at October 1	\$ 3,057	\$ 4,545
Provision charged to operations	6,066	(1,488)
Other	<u>2,827</u>	<u>-</u>
Allowance for doubtful accounts at September 30	<u>\$ 11,950</u>	<u>\$ 3,057</u>

6. CLAIMS RECEIVABLE, NET - NON-FEDERAL

Claims receivable consist of subrogated claims and rescheduled claims receivable.

When the Housing Guaranty Program guarantees a loan to foreign country borrowers, it requires that the foreign government also guarantees repayment of the loans. When the borrower of a guaranteed loan defaults, the Housing Guaranty Program makes claim payments to the lender, and obtains the right to receive claim payments from the foreign government.

The Housing Guaranty Program periodically reschedules claims according to the terms of bilateral agreements which are negotiated and agreed upon by the Paris Club, an informal group of sovereign creditor governments. The Paris Club arranges the rescheduling of these debts, the terms of which frequently require that previously accrued interest be capitalized. When claims in non-performing status are rescheduled under these terms, interest for the non-performing period is included in the rescheduled principal amount and capitalized as part of the new agreement.

For financial statement purposes, the Housing Guaranty Program discontinues accruing interest on loans in non-performing status, and records interest income only to the extent, in management's judgment, borrowers have demonstrated the ability and intent to repay the loan.

Claims receivable, net of an allowance for doubtful accounts consist of the following (in thousands):

	1993	1992
Subrogated Claims	\$ 22,740	\$ 16,025
Less: Unapplied Collections	<u>(1,212)</u>	<u>-</u>
	21,528	16,025
Rescheduled Claims	<u>346,172</u>	<u>294,347</u>
Total Claims	367,700	310,372
Less: Capitalized Interest	<u>(86,048)</u>	<u>(68,300)</u>
Claims Receivable	281,652	242,072
Less: Allowance for Doubtful Accounts	<u>(253,654)</u>	<u>(219,490)</u>
Claims Receivable, Net	<u>\$ 27,998</u>	<u>\$ 22,582</u>

Claims receivable, by geographic area are as follows (in thousands):

	1993	1992
Africa	\$ 47,940	\$ 39,347
Latin America	229,780	197,356
Near East	<u>3,932</u>	<u>5,369</u>
Total Claims Receivable	<u>\$ 281,652</u>	<u>\$ 242,072</u>

Changes in the allowance for doubtful accounts are as follows (in thousands):

	1993	1992
Balance, at October 1	\$219,490	\$ 173,213
Provision charged to operations	32,488	46,277
Other	<u>1,676</u>	<u>-</u>
Balance, at September 30	<u>\$253,654</u>	<u>\$ 219,490</u>

7. FURNITURE AND EQUIPMENT, NET

Furniture and equipment consist of the following (in thousands):

	1993	1992
Office Furniture & Equipment	\$1,107	\$957
Living Quarters Furniture	323	319
Less: Accumulated Depreciation	<u>(898)</u>	<u>(705)</u>
Net Furniture & Equipment	<u>\$ 532</u>	<u>\$571</u>

8. LIABILITIES FOR LOAN GUARANTEES

For loan commitments made prior to fiscal year 1992, the Housing Guaranty Program has established a reserve to cover any future guarantee losses. Loan guarantee commitments made after 1991 and the resulting loan guarantee are governed by the Credit Reform Act of 1990 (PL 101-508) (Note 2). One guarantee was contracted and one pre-Credit Reform guaranty was modified in 1993. The original subsidy of \$4.57 million was reestimated to be \$3 million. As stated in Note 12, the Program is also subject to off-balance sheet risk associated with guarantees on unsecured loans.

9. BORROWINGS FROM TREASURY

Until the end of 1991, the Housing Guaranty Program had indefinite borrowing authority from the U.S. Treasury. Subsequent to September 30, 1991, pursuant to the Credit Reform Act of 1990, the Program has been financed by appropriations. Borrowings from Treasury were required to fund claim payments on guaranteed loans described in Note 5 and to cover losses resulting from direct write-offs of non-Host Country Guaranteed loans. The Housing Guaranty Program is required to make periodic principal payments to Treasury based on the collection of loans receivable. There were no principal payments during fiscal year 1993. Interest expense for the years ended September 30, 1993 and 1992 amounted to \$10.6 million and \$10.7 million, respectively. For both the 1993 and 1992 years, interest payable at September 30, 1993 amounted to \$5.3 million.

As of September 30, 1993, the Housing Guaranty Program's outstanding debt to Treasury matures as follows (in thousands):

Maturity	Average Rate on Outstanding Balance	
9/30/96	8.51 %	\$ 15,208
9/30/97	8.78 %	25,000
9/30/98	8.82 %	13,000
9/30/99	8.38 %	24,000
9/30/00	8.32 %	<u>48,000</u>
Total Debt		<u>\$125,208</u>

10. OTHER FUNDED LIABILITIES - FEDERAL

The Regional Housing and Development Offices (RHUDOs) receive support services from U.S. Embassies in the developing countries. The State Department charges the Housing Guaranty Program annually for these costs. The 1993 charges for these services amounted \$119,000 and were unpaid at September 30, 1993. The 1992 charges were \$229,000. Other Funded Liabilities - Federal include \$1.9 million resulting from downward re-estimate of subsidy, \$7,000 payable to Private Sector Investment Program and \$2,000 payable to the RHUDO in Honduras.

11. APPROPRIATED CAPITAL

Appropriated capital is disclosed separately in the Statements of Changes in Net Position for pre-fiscal 1992 and for fiscal years 1992 and 1993 to reflect the effects of Credit Reform on net position. Capital accumulated through September 30, 1991 can only be used to finance credit activities that were originated prior to September 30, 1991. Capital appropriated in fiscal years 1992 and beyond, under Credit Reform, is designated for specific credit activities.

12. OPERATING EXPENSES

Annual operating expenses for the Housing Guaranty Program by object classification are as follows (in thousands):

	1993	1992
Salaries and Benefits	\$ 1,786	\$ 2,773
Contract and Audit	653	499
Overhead	1,052	963
Regional Offices and Other	<u>3,739</u>	<u>3,251</u>
Total Operating Expenses	<u>\$7,230</u>	<u>\$7,486</u>

13. RETIREMENT PLAN

Housing Guaranty Program employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). For the CSRS, 7 percent of the employees' gross earnings was withheld and the Housing Guaranty Program contributed a matching amount. For FERS, 0.8 percent of employees' gross earnings was withheld and the Housing Guaranty Program contributed approximately 13 percent in 1993. Employees subject to FERS also have an additional 7.65 percent of gross earnings withheld and sent to the Social Security Administration. Additionally, foreign direct hire personnel are covered by the Foreign Services Pension System (FSPS). Under FSPS, 1.3 percent of employees' gross earnings was withheld and the Housing Guaranty Program contributed 21.9 percent in 1993.

Employees may elect to participate in the Thrift Savings Plan (TSP). Under this plan, CSRS employees may elect to have up to 10 percent of gross earnings withheld. FERS employee elections are partially matched up to a total of 5 percent of earnings. FERS employees also receive automatic 1 percent USAID matching contribution.

Although the Housing Guaranty Program funds a portion of employee pension benefits and makes necessary payroll withholdings, it has no liability for future payments to employees under the programs, nor is it responsible for reporting the assets, actuarial data, accumulated plan benefits, or any unfunded pension liability of the retirement plan. Reporting of such amounts is the responsibility of the U.S. Office of Personnel Management and the Federal Retirement Thrift Investment Board. Data regarding actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not allocated to individual departments and agencies.

14. INTRA-GOVERNMENT TRANSACTIONS

The Housing Guaranty Program is subject to the financial decisions and management controls of USAID, which in turn is subject to the financial decisions and management controls of the OMB. As a result of these relationships, Housing Guaranty Program operations may not be conducted, nor its financial position reported, as they would if the Housing Guaranty Program were an autonomous entity.

The Housing Guaranty Program reimbursed USAID quarterly for miscellaneous agency support costs, after which all such costs except for actual personnel costs is charged directly to the Housing Guaranty Program were reimbursed.

As discussed in Note 9, RHUDO's receive support services from U.S. Embassies in foreign countries. The State Department charges the Housing Guaranty Program annually for these costs.

As discussed in Note 13, the Housing Guaranty Program does not account for those aspects of retirement plans which are the responsibility of the U.S. Office of Personnel Management and the Federal Retirement Thrift Investment Board.

15. AUTHORITATIVE PRONOUNCEMENTS

During 1994, the Housing Guaranty Program will be required to comply with Statement of Federal Financial Accounting Standards No. 2, "Accounting for Direct Loans and Loan Guarantees." The impact of the adoption of this statement on the Housing Guaranty Program's financial statements has not been determined.

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**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE BASED
ON THE AUDIT OF THE FINANCIAL STATEMENTS**

To the Administrator
and the Inspector General of the
U.S. Agency for International Development:

We have audited the financial statements of the Housing Guaranty Program administered by the U.S. Agency for International Development (USAID) as of and for the year ended September 30, 1993, and have issued our report thereon dated May 20, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Housing Guaranty Program for the year ended September 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

In addition to the objectives referred to in the following paragraph of this report, the management of USAID is responsible for providing reasonable assurance that data which support performance measures reported in the "Overview of the Reporting Entity" are properly recorded and accounted for to permit preparation of reliable and complete performance information. Office of Management and Budget (OMB) Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements* requires that auditors obtain an understanding of the internal control structure and assess control risk relative to policies and procedures designed to provide reasonable assurance of achieving this objective. The scope of our auditing procedures did not include obtaining and evaluating evidential matter to assess control risk concerning USAID management's assertions regarding performance measures. This requirement was addressed by the USAID Office of Inspector General as reported in its transmittal letter regarding the audit report of the Housing Guaranty Program for the year ended September 30, 1993.

The management of USAID is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments 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:

Housing Guaranty Program
Internal Control Structure Report
Continued

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements in accordance with generally accepted accounting principles;
- Transactions are executed in accordance with management's authorization;
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and
- Transactions, including those related to obligations and costs, are executed in compliance with:
 - Laws and regulations that could have a direct and material effect on the Principal statements, and
 - Any other laws and regulations that the OMB, entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated.

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:

Controls used in administering compliance with laws and regulations

General requirements;
Specific requirements.

Accounting applications

Origination of guarantees;
Claims receivable and cash receipts;
Purchases and disbursements;
Salaries and benefits;
Appropriations;
Project monitoring;
Financial statement preparation and reporting.

For all of the internal control structure 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.

Housing Guaranty Program
Internal Control Structure Report
Continued

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin Number 93-06. *Reportable conditions* involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions follow this letter and form the remainder of this report.

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 to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions specified in this report to be a material weakness.

We also noted matters involving the internal control structure and its operation used to comply with laws and regulations applicable to Housing Guaranty Program which we have reported to management of USAID in a separate letter dated May 20, 1994.

This report is intended for the information of the U.S. Congress, the USAID Office of the Inspector General, and the management of USAID. This restriction is not intended to limit the distribution of this report when it becomes a matter of public record.

Deloitte & Touche
May 20, 1994

REPORTABLE CONDITIONS IN THE INTERNAL CONTROL STRUCTURE

1. LACK OF EFFECTIVE CLAIMS AND RECEIVABLE CONTROLS

Condition:

Host countries (HCs) must reimburse the United States Government for \$280 million in claim payments made on their behalf. The USAID Loan Management Division is responsible for establishing and documenting billing, delinquency identification, collection, write-off, and collection effort documentation procedures (collectively known as due diligence procedures) for the Housing Guaranty Program. However, the Loan Management Division does not have established policies that define:

- U.S. and overseas mission staff responsibilities for issuing and collecting on claims;
- The manner, frequency, and documentation requirements of collection efforts;
- Accounting requirements that comply with Credit Reform guidance;
- Internal and external reporting requirements;
- Follow-up with missions on their collection actions;
- Documentation of claim collection histories.

We noted that Notices of Payment Due (invoices) for debt owed to the United States Government are sent to HC borrowing agencies. Some of the invoices are produced manually by the Loan Management Division. Manual production of invoices outside of an existing automated system may lead to errors or omissions in the processing of transactions.

We also observed that claims receivable delinquency reports are developed manually from information maintained separate from the Housing Guaranty Portfolio Management System (HGPMS), a PC database system. HGPMS, a database system operating in a personal computer environment, does not comply with OMB's functional requirements of guaranteed loan accounting systems because, among other things, it does not produce all the necessary data required for external reports to OMB or the U.S. Treasury, or the preparation of financial statements.

Cause:

According to the Chief of Loan Management, resources have not been sufficient to replace HGPMS with a useful system, or enhance HGPMS, including billing and delinquency monitoring functions. Furthermore, a low priority has been placed on improving the policy and procedure guidance.

HGPMS was not reviewed for application defects or data integrity problems. System flaws in the claims receivable aging function have resulted in the need to maintain delinquency information outside of the system. This results from a management decision not to invest valuable resources in upgrading a system that is due to be replaced in the 1994 and 1995 fiscal years.

Housing Guaranty Program
Internal Control Structure Report
Continued

Criteria:

OMB Circular A-129 and the Treasury Financial Manual Credit Supplement require agencies to properly service debts by making all reasonable collection efforts in a timely fashion.

The Chief Financial Officers' (CFO) Act of 1990 also specifies the requirement to report on the milestones achieved in the content of the overall goal of establishing formalized policies and procedures that will enhance internal control.

As stated in its Statement of Federal Accounting Standards No. 2, which takes effect for the 1994 fiscal year, the Federal Accounting Standards Advisory Board believes that whether a credit program can perform a sound accounting for its credit activities depends on whether it has an adequate historical database and forecasting capability.

The Federal Managers Financial Integrity Act of 1982 also requires the establishment of policies and procedures which will provide reasonableness assurances that assets are safeguarded, and that revenue and expenditures are properly recorded and accounted for, so that reliable reports appropriate to the Housing Guaranty Program activities are generated.

The Federal Debt Collection Act of 1982 (PL97-258, Title 31, Subtitle III) specifies similar requirements for financial activities of the Housing Guaranty Program.

Effect:

As a result of incomplete information and procedures, Housing Guaranty Program accounting staff may make errors that do not get corrected on a timely basis; however it appears that management review will manually detect these errors.

Also USAID may be incurring losses from inadequate collection efforts because it is not applying timely billing, delinquency notification, and collection procedures. Claim payments made by USAID in fiscal year 1993 amounted to approximately \$56 million, and claims outstanding excluding interest receivable capitalized at September 30, 1993, were \$280 million. Opportunity costs may be occurring because bills are not issued and procedures have not been implemented to ensure pursuit of repayment of these debts to USAID. At the time of the audit, five countries were in violation of Section 620(q) of the Foreign Assistance Act as a result of delinquent Housing Guaranty Program debts.

Information required to facilitate due diligence and default analysis is not readily available to Loan Management or mission personnel. Loan Management's analyses and decisions must be made without the benefit of receivable agings and exception reporting. Foreign Assistance Act Section 620(q) violations, debt rescheduling eligibility, cash flow projections, collection performance, and portfolio risk assessments are determined based on limited delinquency data.

Housing Guaranty Program
Internal Control Structure Report
Continued

Fiscal personnel are unaware of the billing and collecting requirements for which they are responsible, and there is a lack of accountability among Loan Management and Mission personnel for ensuring that due diligence is performed.

Recommendations:

We recommend that USAID management continue to work towards the goals established above and that all the related defects be removed before the end of 1994. For appropriate due diligence procedures to be effected:

- Adequate resources must be allocated to this project;
- Reconciliation of accounts, resolution of differences, and review of balances must be part of any effective control procedures implemented;
- Only personnel with appropriate education and experience are assigned to due diligence tasks;
- Implementation should be kept on schedule but the priority and sequence of completion of each task should be considered so that the resulting guidance and systems are appropriate;
- The implementation timetable is carefully monitored by senior USAID management.

Corrective Action:

USAID management developed detailed policies and procedures to document the due diligence procedures that were in place on March 15, 1994. These were approved by the USAID Inspector General on March 18, 1994, leading to the closure of the three outstanding audit recommendations that relate to this area.

2. FINANCIAL MANAGEMENT POLICIES AND PROCEDURES HAVE NOT BEEN ADEQUATELY FORMALIZED AND DOCUMENTED.

Condition:

Standard manual and programmed general ledger controls have not been established that require:

- Financial activity to be recorded and accumulated as transactions occur;
- Monthly reconciliations of guaranteed loans committed, lender disbursements and receipts, obligations and accruals, and cash transactions;
- Supervisory review and approval of reconciliations;
- Standardized procedures to account for accrued operating and administrative expenses;

Housing Guaranty Program
Internal Control Structure Report
Continued

- Systematic consolidation of worldwide transactions in the underlying financial records to provide to the centralized general ledger, in a standards format, all data necessary to produce accurate reports submitted by OMB and the Treasury.

Cause:

Financial resources were allocated to Loan Management in the last quarter of 1993 to define and document required control techniques and to train personnel in the implementation and review of these techniques. Financial Management had not placed a high priority before this date on formalizing and documenting policies and procedures or providing training specific to the financial management and accrual accounting of credit programs to both Loan Management and the overseas Missions.

Criteria:

In "Financial Management and Accounting Objective," OMB states that information and other outputs must result from formal processing systems comprised of appropriate policies, procedures, forms, and records. Such systems should be documented to facilitate adherence to prescribed procedures, meaningful evaluation, and timely revision. The documentation should include a complete description of the processes, data elements, and documents.

The CFO Act also specifies the requirement to report on goals achieved towards establishing such formalized policies and procedures as will enhance internal control.

Effect:

Informal policies and procedures increase susceptibility to error in the recordkeeping and reporting functions of Loan Management, create vulnerability from personnel turnover since institutional knowledge is not retained, make assignment of responsibility and accountability difficult, and cause orientation of newly hired personnel to be inefficient since documentation is not available to facilitate their learning process.

Recommendation:

We recommend that senior management review progress on a timely basis to ensure compliance with the timetable set.

Housing Guaranty Program
Internal Control Structure Report
Continued

Corrective Action:

USAID management has established a timetable for rectifying the problems noted above. This ten-point plan will lead to the documentation of the internal control system by the end of the 1994 fiscal year. Our review of the target milestones leads us to believe that the deadlines set are realistic and that the goals themselves will achieve the desired solution of eliminating the problems identified. In addition, USAID management intends to have its new computer system on-line by October 1, 1994. It is believed that this system will remove the defects of the present system, thereby bringing the Housing Guaranty Program into compliance with OMB Circular A-34.

3. A COMMERCIAL BANK ACCOUNT WAS MAINTAINED OUTSIDE U.S. TREASURY CONTROL DURING THE YEAR.

Condition:

Funds were held in a commercial bank account rather than in the U.S. Treasury. During the year, the month-end account balance averaged approximately \$1.6 million and ranged from \$361,000 to \$6,002,000. The account balance at fiscal year-end of approximately \$776,000 was not reported to the Treasury.

Cause:

Loan Management has not obtained a waiver from the U.S. Treasury authorizing this commercial bank account.

Criteria:

General Accounting Office (GAO) Title 7 *Fiscal Procedures* requires all funds to be held in the custody of the U.S. Treasury. The Treasury Financial Manual prescribes review, monitoring, and reporting requirements of agency cash management. These requirements include the deposit of all public funds with the U.S. Treasury, unless there is specific statutory authority to do otherwise, and that idle cash balances are eliminated.

Effect:

USAID is not in compliance with the GAO or the U.S. Treasury regulations that govern the safeguarding and reporting of Federal funds.

Recommendation:

None. This issue is viewed as being closed satisfactorily.

Housing Guaranty Program
Internal Control Structure Report
Continued

Corrective Action:

In April 1994, USAID management approached the U.S. Treasury in order to obtain a waiver from GAO Title 7 as the purpose of this account cannot be achieved through federal sources. This waiver was granted in May 1994.

STATUS OF PRIOR YEARS' RECOMMENDATIONS

All of the control weaknesses cited in this report remain as reportable conditions that have not been rectified since the 1991 and 1992 financial audit of the Housing Guaranty Program by Price Waterhouse. According to the Price Waterhouse Reports, the change in classification of these weaknesses from material in 1991 to reportable in 1992 resulted from improvements in the general control environment of the Loan Management Division. Such improvements include the automation of the guaranty portfolio system (HGPMS) and the related claims activity, as well as the partial automation of the general ledger activities. The implementation of information systems has made it possible to more readily detect errors in the normal conduct of operations. In addition, USAID now records the transactions affecting USAID funds in the commercial bank account in its general ledger, thereby addressing one of the points raised by Price Waterhouse in 1991 and 1992.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS
BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS**

To the Administrator
and the Inspector General of the
U.S. Agency for International Development:

We have audited the financial statements of the Housing Guaranty Program administered by the U.S. Agency for International Development (USAID) as of and for the year ended September 30, 1993, and have issued our report thereon dated May 20, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States, and prescribed in Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Housing Guaranty Program is the responsibility of USAID's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Housing Guaranty Program's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. Laws and regulations applicable to the Housing Guaranty Program included:

- Eligibility provisions of Title III of the Foreign Assistance Act of 1961, as amended;
- The Chief Financial Officers Act of 1990;
- The Budget and Accounting Procedures Act of 1950;
- The Federal Managers' Financial Integrity Act of 1982;
- The Debt Collection Act of 1982;
- The Prompt Payment Act of 1982 as amended; and
- The Federal Credit Reform Act of 1990.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or if the sensitivity of the matter would cause it to be perceived as significant by others. The result of our tests of compliance disclosed the material instance of noncompliance detailed in the following paragraph.

Housing Guaranty Program
Compliance With Laws and Regulations
Concluded

Noncompliance with the Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act requires a report to be delivered to Congress and the President that lays down the extent of the Agency's compliance with the terms of the Act. On page 32 of the report for the 1993 fiscal year, USAID reported that the Housing Guaranty Program had developed accounting procedures that complied with the Act by September 1993.

Our work on the Housing Guaranty Program which was documented in our report on the Internal Control Structure indicated that the accounting policies and procedures are not documented. The problems associated with this are such that we are led to conclude that the Housing Guaranty Program does not in fact comply with the Federal Managers' Financial Integrity Act in this regard.

However, since the end of the 1993 fiscal year, USAID management began the process of documenting the procedures that apply to the Housing Guaranty Program. At the time of our audit, some of these procedures were in draft status, but all are due to be finalized before September 30, 1994.

We considered these material instances of noncompliance in forming our opinion on whether the 1993 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated May 20, 1994 on those financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Housing Guaranty Program complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the Housing Guaranty Program had not complied, in all material respects, with those provisions.

We also noted certain immaterial instances of noncompliance that we have reported to the management of the Housing Guaranty Program in a separate letter dated May 20, 1994.

This report is intended for the information of the U.S. Congress, the USAID Office of the Inspector General, and the management of USAID. This is not intended to limit distribution of this report when it becomes a matter of public records.

Deloitte & Touche
May 20, 1994

**Inspector General's Report for FY 1993 Review
of USAID's Performance Measurement System for the
Housing Guaranty Program**

INSPECTOR GENERAL'S REPORT FOR FY 1993 REVIEW OF USAID'S PERFORMANCE MEASUREMENT SYSTEM FOR THE HOUSING GUARANTY PROGRAM

Introduction

The Office of the Inspector General reviewed USAID's performance measurement system as part of the audit of the FY 1993 financial statement of Housing Guaranty Program for this program. Our objective was to determine whether USAID's system had an internal control structure to assure the existence and completeness of supporting evidence for reported performance data. Additionally, we performed a limited assessment of the usefulness of the performance measurement system. Review work was performed at the Office of Housing and Urban Programs in Washington, D.C. and at the Regional Housing and Urban Development Offices (RHUDOs) in Quito, Ecuador and Guatemala City, Guatemala. Our work was completed between January and May 1994.

Background on Performance Measurement System Being Developed

USAID began to establish a formal performance measurement system for the Housing Guaranty Program during late FY 1992. USAID drew on the experience of the World Bank and the United Nations Center for Human Settlements in designing performance indicators for the USAID Housing Guaranty Program. In selecting performance indicators for its program, USAID applied criteria which we believe to be generally sound. For example, indicators were to be quantitative, obtainable from reliable secondary sources or sample surveys, and indicative of progress. This process led to the selection by USAID of 18 possible indicators in three sub-sectors. The RHUDOs selected the indicators which are considered most applicable to individual countries--typically, three or four per country.

For FY 1993, USAID added new performance indicators, increasing the number of possible indicators to 24 within three sub-sets (i.e., Shelter and Housing Finance, Urban Environment and Infrastructure, and Municipal Management). Additionally, the Office of Housing and Urban Programs requested that the RHUDOs attempt to report on the complete set of indicators within a sub-set, in order to give a more well-rounded picture of the status of the sub-sector being tracked and to increase comparability across countries. The process of collecting the performance indicator data was essentially the same for FY 1993 as for FY 1992.

USAID's Program Overview gives recognition to the evolving nature of the performance measurement system for the Housing Guaranty program. For example, USAID notes that "This second year of reporting on the HG performance indicators begins to demonstrate the usefulness of sector monitoring and analysis for the HG Program" and that "Their effectiveness as a management tool will increase with more

Inspector General's Report for FY 1993 Review
of USAID's Performance Measurement System for
the Housing Guaranty Program - Continued

years of reporting so that sectoral performance trends can be established with confidence." Further, USAID's Office of Housing and Urban Programs stated it intends to "continue to refine its approach to performance monitoring and its analysis of performance indicators as it gains more information from and experience with them."

Internal Controls Have Not Assured Complete Supporting Evidence

In recognition of the evolving nature of this performance measurement system in FY 1993 and consistent with OMB guidance, our review approach was mainly limited to determining whether USAID had evidence to verify the existence and completeness of data being entered into the system. Our procedures were limited to reviewing basic descriptive material on the system, interviewing USAID officials as to its design and operation, and tracing a judgmental sample of two countries' reported performance indicators to source documentation.

Reporting forms for the system require that the RHUDOs cite the specific sources for data used in preparing their reports. Our review of the reporting forms prepared for FY 1993 showed that the sources cited are often governmental offices of the countries being assisted, and other RHUDO files or reports. Our tests in RHUDO offices in Ecuador and Guatemala disclosed that supporting documentation was being maintained.

However, the RHUDOs' supporting documentation had certain flaws, was not readily available, and was fragmentary or incomplete in certain respects. For example, because one RHUDO relied heavily on a consultant to develop the data to be reported for one country, the RHUDO officials were unable to adequately explain data sources, estimations, and extrapolations until the consultant returned to the RHUDO. For another country, RHUDO officials used some information that was from outdated sources and/or based on subjective estimates and extrapolations. According to officials at both RHUDOs, a major obstacle for them is that there often is not a good source of current and reliable data for many reporting requirements of the performance measurement system, as now designed.

In our view, any performance measurement system cannot be useful if the underlying evidence for reported data is not reliable and current. RHUDO officials readily agreed with this premise. However, our review and discussion with RHUDO officials regarding flaws in underlying evidence led to what we consider a more fundamental issue -- namely, questions as to the over-all appropriateness and utility of this performance measurement system in its current configuration. Essentially, officials from both RHUDOs offered a similar viewpoint -- namely, that the current reporting system does not reflect very well the specific activities of the Housing Guaranty Program in the

Inspector General's Report for FY 1993 Review
of USAID's Performance Measurement System for
the Housing Guaranty Program - Continued

countries where they manage activities.

We concluded that these RHUDO officials viewed the reporting system of performance measures as an "appendage" to their program activities -- that is, a requirement that had to be met but did not offer significant management value to them, nor indicate progress about specific country activities. This viewpoint -- coupled with the lack of good source data in some areas -- contributed to the flaws in maintaining supporting evidence for reported information.

We are not making a recommendation regarding deficiencies in underlying evidence. While USAID must be able to provide adequate evidence to support reported performance measure data, we believe a more fundamental need at this time is to re-assess the over-all conceptual framework for the evolving performance measurement system for the Housing Guaranty Program.

Need for Re-Assessment of Current Version of Performance Measurement System

OMB guidance on the CFO Act states that performance measures are intended to facilitate using the financial statement to assess both financial and program results. Over the past two years, we believe USAID manager's have complied with the spirit and intent of the CFO Act and OMB guidance by continuing development of a performance measurement system that would adequately consider the unique complexities associated with the Housing Guaranty Program. Nevertheless, as USAID proceeds with the development of this system, it should be continually re-assessed to assure that it will ultimately achieve the desired end results.

Based on our review for FY 1993, we are concerned that the system, as currently being developed, may not serve its intended purpose without some re-direction. As already mentioned, the system may not reflect activities being performed, and reliable and timely data sources may not exist for some information to be reported. Of equal importance, the 24 "macro" indicators may be so esoteric to housing issues that they would not be readily understood by intended users. Additionally, while the system is designed to collect quantifiable data and numerical ratios, USAID has not established goals against which reported information is to be measured.

USAID itself recognizes that the system does not capture data on specific activities. Management's Overview states that "care must still be taken when attributing changes in indicators to HG project outputs. The indicators were not designed (emphasis added) to isolate the results of individual projects but instead overall sector performance; other factors such as inflation and macroeconomic policy may also

Inspector General's Report for FY 1993 Review
of USAID's Performance Measurement System for
the Housing Guaranty Program - Continued

result in changes." We noted an example of the system's inability to highlight trends in individual projects in Ecuador. The implementation of the Ecuador Housing Guaranty Program was significantly delayed due to various factors, i.e. only 11% of the total authorization had been expended at the time that 75% of the planned life of the project had elapsed, however this important fact was not discernible in reported performance measurement data.

The 24 "macro" indicators in the current version of the performance measurement system includes esoteric and complex terms and concepts. Among the indicators is Down Market Penetration, defined as "the lowest priced unsubsidized formal dwelling unit produced by the private sector in significant quantities to median annual household income. Another is Tenure Regularization, "the percentage of the total area of informal land development that has been regularized." A third is "Infrastructure Expenditure per Capita", defined as "ratio of total annual expenditures for operations, maintenance and capital by all levels of government, including private utilities and parastatals, on infrastructure services (roads, drainage, water supply, electricity and garbage collection) to the urban population, in current U.S. dollars." These esoteric terms and concepts may indeed have considerable value to housing experts in USAID/Washington -- however, they would very likely not be understood by non-experts who wish to assess whether progress is being achieved by USAID's Housing Guaranty Program.

The indicators are depicted in numerical terms and/or ratios. For example in the 1990s, Municipal Cost Recovery was 53% in Thailand and 61% in Chile. However, USAID has not developed baseline information or program goals for each of the 24 indicators. Therefore, if the 61% in Chile increases or decreases, a report user does not know how USAID assesses the change -- good, bad, or neutral.

We recognize that the design and implementation of a useful performance measurement system for the complex and varied activities included in the Housing Guaranty Program is a difficult task that requires time. Further, we commend USAID officials on actions taken to date and we recognize that some useful information has been collected. Nevertheless, in view of the issues identified during our review for FY 1993, we believe USAID should now re-assess the over-all conceptual framework and general direction of the performance measurement system for the Housing Guaranty Program as it continues development.

Recommendation No. 1: We recommend that the Director of the Office of Housing and Urban Programs formally re-assess the performance measurement system to assure that it is on track to its intended result. The re-assessment should: (1) address issues such as adequacy of supporting evidence, the understandability of terms and concepts, the relevance to specific USAID activities, and goals or baselines against which collected data is measured; (2) obtain input from all RHUDOs on the appropriateness of system design; and (3) establish milestones for completion of the system.

USAID's Program Overview on the Housing Guaranty Program includes other data labeled as "financial performance." The data includes ratio, percentage, and loan activity analyses. The specific dollar amounts used in the analyses are from the financial statements and/or the same systems used to develop the statements. In light of the nature of this data, we did not perform separate audit procedures other than reviewing the financial performance data to assure that there were no obvious inconsistencies with the financial statements.

**USAID Management's
Program Overview of the
Housing Guaranty Program**

PROGRAM OVERVIEW

Introduction

The Housing Guaranty Program, established through Title III, Sections 221, 222 and 238c of the Foreign Assistance Act of 1961, stimulates United States (U.S.) private sector involvement in the financing of low-income shelter and related services in the developing world.

The Housing Guaranty Program utilizes the guarantee of repayment by the U.S. Government to leverage funds from U.S. investors for eligible borrowers in less-developed countries. U.S. private sector lenders make financing available at commercial rates. The repayment of principal and interest is guaranteed through USAID by the full faith and credit of the U.S. Government. In return for receiving financing at affordable rates, foreign borrowers pay an initial charge of one percent of the loan amount and an annual fee of one-half of one percent of the unpaid principal balance. All fees and resulting earnings are held in a revolving fund account maintained by the U.S. Treasury.

The table below provides a breakdown of loan guarantees issued and outstanding as at September 30, 1993.

TABLE 1.
**Total Principal Amount of Guarantees Issued and Outstanding
Pre-and Post-Credit Reform Activity**

Loans Authorized	Pre-Credit Reform		Post-Credit Reform	
	# of Loans	Authorization Level	# of Loans	Authorization Level
Total Under Contract	163	\$2,372,501,079	1	\$ 20,000,000
Total Not Under Contract	28	317,516,750	13	170,000,000
Repayments		303,449,871		0
Total Principal Amount of Guarantees Authorized and Outstanding		\$2,386,567,958		\$190,000,000

One pre-credit reform authorization was modified in 1993.

Housing Guaranty Program
Program Overview
Continued

Program Description

The Housing Guaranty Program is the vehicle through which the Office of Housing and Urban Programs (the Office) addresses the shelter and urbanization needs of developing countries. Located in the Bureau for Private Enterprise during 1993 (see discussion of USAID reorganization in the section on 1993 activity below), the Office develops strategies for program planning, management and capital investment that serve as guidelines for project identification and preparation. Regional Housing and Urban Development Offices (RHUDOs) represent the Office in all regions of the developing world. The RHUDOs and USAID Missions co-manage capital and technical assistance programs for housing and urban development. Office representatives at all levels work closely with local officials to promote policies which increase access to shelter and related urban services for below-median income families.

Housing Guaranty Program financing is directed toward urban policy reform and increased private sector participation in the process by which low-income city residents gain access to land, housing and basic urban services. This approach is reflected in the three main areas of focus of the Housing Guaranty Program:

- Urban Environment and Infrastructure;
- Local Government and Municipal Management; and
- Shelter and Housing Finance.

Large-scale urbanization is generally recognized to increase both the potential for economic development and the threat of environmental degradation. The Housing Guaranty Program therefore assists local governments in improving services which protect or enhance the urban environment. Housing Guaranty Program resources are targeted to financing urban environmental infrastructure. Investment in waste water treatment facilities and solid waste disposal systems makes a direct contribution to the urban economy and to environmental quality in cities in the developing world. In addition, the program supports the development of methodologies for analyzing the impact of urban environmental problems on health, economic development and natural resource conservation. The results of this analysis inform the strategies for protecting ecologically fragile areas and managing key coastal resources.

The Housing Guaranty Program furthers the cross-cutting objective throughout USAID of democratic participation through its local government and municipal management area of focus. The Housing Guaranty financing supports decentralization efforts by strengthening the ability of local governments to generate additional revenue. Municipal development programs bolster local property tax revenues through improved land registration and titling procedures. Cost recovery is promoted in the delivery of urban services by public agencies and/or private firms. The resulting improved fiscal performance allows cities to finance capital improvements and other services from their own sources. Engaging of the private sector in these activities through partnerships or financial incentives also increases the ability of local governments to meet their own development needs.

Housing Guaranty Program
Program Overview
Continued

The shelter and housing finance component focuses on maximizing the private sector contribution to the process of urbanization. The streamlining of the urban development regulatory framework helps bring down costs and therefore allows low-income households and small-scale developers to enter the housing market. Upgrading of existing neighborhoods and the creation of new tracts of serviced land further galvanize private sector housing provision efforts. Housing finance assistance, through the intermediary of national housing banks and private savings and loan institutions, complements these activities by stimulating demand and generating employment in the construction sector.

1993 Activity

During 1993, Housing Guaranty Program managers spent considerable effort participating in the USAID reorganization. As a result, the Housing Guaranty Program will be located in the Environment Center of the new Global Programs, Field Support and Research Bureau (GFR). The GFR Bureau is designed to provide USAID with expertise in essential technical areas, including urban environmental issues. As discussed in the Program Description, above, the Housing Guaranty Program addresses urban environmental problems and the 1993 Housing Guaranty authorizations all reflect projects which are designed to alleviate urban environmental conditions through the provision of basic urban environmental services to low income neighborhoods. Loan guaranty authorization and disbursement activity for the Housing Guaranty Program during 1993 is summarized in Tables 2 and 3.

Housing Guaranty Program
 Program Overview
 Continued

Table 2
Loan Guaranty Authorizations In 1993 (in thousands)

Authorization No.	Country	Authorization Date	Amount
497-HG-006	Indonesia	8/10/93	\$ 25,000
664-HG-011	Tunisia	8/23/93	10,000
596-HG-010	CABEI	8/23/93	5,000
192-HG-001	Czech Republic	8/24/93	10,000
185-HG-001	Hungary	8/25/93	10,000
608-HG-005	Morocco	8/26/93	20,000
383-HG-006	Sri Lanka	8/27/93	5,000
493-HG-005	Thailand	9/29/93	15,000
386-HG-015	India	9/29/93	20,000
TOTAL			\$ 120,000

Housing Guaranty Program
 Program Overview
 Continued

Table 3
Loan Guaranty Disbursements in 1993 (in thousands)

Loan Contract No.	Borrower	Contract Date	Amount
608-HG-001 B01	Morocco	5/14/93	\$ 9,000
608-HG-004 A01	Morocco	5/14/93	5,000
497-HG-005 A01	Indonesia	7/14/93	20,000
664-HG-008 A01	Tunisia	7/30/93	14,100
278-HG-004 A01	Jordan	8/27/93	15,000
497-HG-004 A01	Indonesia	10/22/92	25,000
391-HG-001 A01	Pakistan	12/01/92	25,000
TOTAL			\$113,100

In addition, the continued decline in interest rates during 1993 created opportunities for refinancing existing Housing Guaranty loans. During 1993, nine loans totaling \$110 million were refinanced (see Table 4). The net effect of this activity has been to provide considerable savings to the borrowers and to reduce USAID's contingent liability under its guarantee.

Housing Guaranty Program
 Program Overview
 Continued

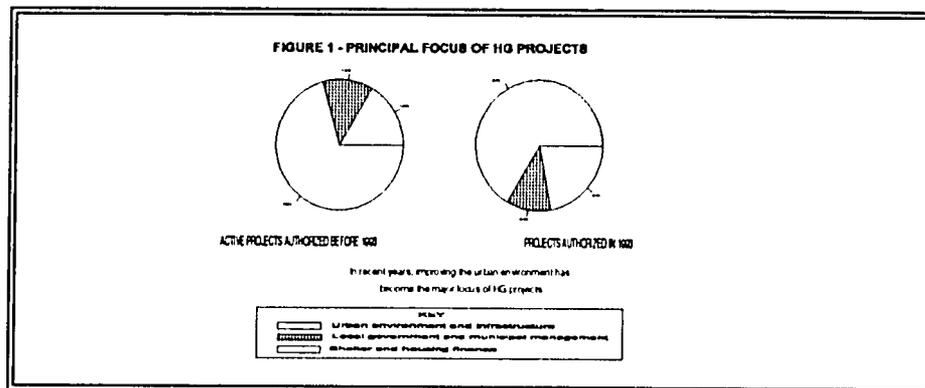
Table 4
 Loan Guaranty Refinancings 1993 (in thousands)

Loan Contract No.	Country	Contract Date	Amount
681-HG-004 A01	Ivory Coast	12/01/92	\$ 10,700
525-HG-009 A01	Panama	1/01/93	2,700
383-HG-014 A01	India	1/15/93	13,000
525-HG-010 A01	Panama	2/01/93	12,300
268-HG-001 A01	Lebanon	2/01/93	14,000
596-HG-003 A01	CABEI	2/01/93	6,700
681-HG-005 A01	Ivory Coast	5/01/93	20,000
518-HG-006 A01	Ecuador	5/03/93	10,000
513-HG-007 A01	Chile	8/02/93	20,500
TOTAL			\$109,900

Program Performance Monitoring

Urbanization in the developing world continued at its historically rapid pace during the period covered by fiscal year 1993, challenging central and local governments to manage urban population growth and social, economic, and physical changes in their cities with their consequences for the environment, economic growth, shelter, and political stability. Through the Housing Guaranty (HG) Program, USAID assists public and private sector, community-based and nongovernmental organizations in developing countries and countries in transition from centrally-planned to free market economies develop capital resources for shelter and related urban programs to meet these challenges. Through the HG, the U.S. private sector provides long-term financing for low-income shelter and urban development to creditworthy developing countries.

During its more than three decades of activity, the HG Program has increasingly focused on the urban environment and infrastructure. As shown in Figure 1, of those projects authorized before 1993 that are still active projects, only 17 percent center on urban infrastructure. By contrast, about two-thirds of the projects authorized in 1993 emphasize improving the urban environment through urban environmental infrastructure investments. Because these newer projects often enlist municipalities to help improve urban environmental conditions, local government and municipal management also represents a growing area of emphasis for the Housing Guaranty Program.



USAID field missions with active HG projects monitor project-level outputs in their regular quarterly, semi-annual, and annual project monitoring and evaluations. These projects in turn contribute to beneficial changes in housing and urban environmental sector performance. While financing real physical improvements in the shelter and environmental conditions of poor families, HG projects at the same time use their capital resources to leverage improvements in sector performance, through policy reforms and host country program innovations in delivering shelter and related urban environmental services.

HG Projects affect the wider housing sector and related economic systems both directly through project outputs such as residential water and sewer connections and housing loans, as well as indirectly through policy dialogue, as governments make agreed-upon reforms as conditions precedent to disbursing HG funds. Changes in sectoral performance are ultimately what HG projects are aiming to achieve and, because goals for good sectoral

performance in private market economies are relatively constant across countries, the Office of Housing and Urban Programs uses 24 indicators to measure changes in overall sector performance for all of its active HG projects.

Fiscal Year 1993 marks the second annual survey of HG program performance indicators. For FY 1993, the Office of Housing and Urban Programs received 21 indicator reports, 20 from individual countries and one for a region-wide program in Central America. Most countries reporting are hosts to one or more active HG projects. Available separately and upon request, the Office of Housing and Urban Programs has prepared analyses of HG program performance indicators for each country with an active HG project and analyses of each indicator across the complete set of reporting programs. That is, the Office has available separately country indicator summaries and individual indicator summaries.

With two years of worldwide data collection completed, indicators begin to suggest change over time. Care, however, must still be taken when attributing changes in indicators to HG project outputs. The indicators were not designed to isolate the results of individual projects but instead overall sector performance; other factors such as inflation and macroeconomic policy may also result in changes. Furthermore, changes in an indicator over a two year period may not represent a significant trend but merely periodic fluctuation. The addition of more years of survey results should permit drawing of more authoritative conclusions.

Urban Environment and Infrastructure

Housing Guaranty projects increasingly focus on helping supply those elements of shelter and related services which low-income families have the most difficulty providing for themselves: infrastructure such as water and sewer lines that improve urban environmental conditions. A full 18 of the 21 countries reporting in this Survey host HGs with an environmental infrastructure component. Urban infrastructure is the major thrust of HGs authorized in the 1990s in Thailand, Tunisia, India, Indonesia, the Philippines, Sri Lanka, Morocco, and Central America.

The need is urgent for environmental infrastructure and services. A recent survey concluded that "About 1.3 billion people in the developing world lack access to clean and plentiful water, and nearly 2 billion people lack an adequate [sewage disposal] system."¹ As a result, those persons often suffer from diarrhea and intestinal worm infections, which account for about ten percent of the total burden of disease in developing countries, reducing productivity.² Unfortunately, as many governments struggled to down-size their budgets in the early 1980s, infrastructure outlays for both capital and maintenance dropped sharply.³

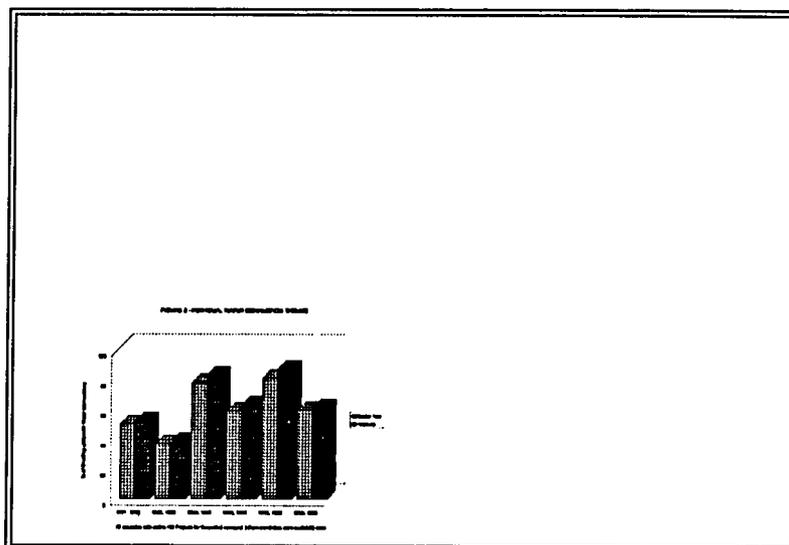
¹Source: THE WORLD BANK, *WORLD DEVELOPMENT REPORT 1993*, p. 90.

²*Ibid*, p. 91.

³Source: Peterson, G.; Kingsley, G.T.; and Telgarsky, J.P., *Urban Economies and National Development*, USAID Office and Housing and Urban Programs, 1991, p. 28.

Confronting this need, a HG-type loan guaranty approach, as opposed to a grant, appears appropriate and feasible. The 1993 World Development Report finds that, "In most urban communities households are willing to pay the full costs of water service and often the full cost of sanitation service."⁴ This willingness to pay permits loan repayment to governmental implementing agencies via hookup and service charges. The revenue repayment streams thus created in turn allow projects to yield ongoing, rather than one-time, benefits, since repaid funds can be recycled back into new infrastructure investments.

Active HG projects with infrastructure components contribute to improvements in indicators such as the percentage of dwelling units with individual water connections.⁵ USAID Missions for all six areas where trend data exists reported improvements in nationwide water connection coverage during years of HG activity (see Figure 2).⁶ Implementation of the 1988-authorized Municipal Finance Project in Indonesia, for example, which supports lending to municipal governments to finance urban services and infrastructure, as well as centrally planned capital improvements, coincides with a reported two percent increase in water connection coverage in urban areas nationwide between 1987 and 1992.



⁴Source: The World Bank, *World Development Report 1993*, p. 93.

⁵For definitions of the Individual Water Connections indicator and others, please see the Appendix.

⁶Reported increases imply that providers are keeping up with and increasing overall service coverage, even in the face of high ongoing levels of rural-to-urban migration and population growth. While indicator surveys may undercount the number of new informal households that lack basic infrastructure and services, reported trends are still encouraging.

Besides guarantying loans to extend environmental infrastructure and provide basic services, HG projects can leverage institutional development. Privatization, in its various forms, offers one broad institutional strategy for improving infrastructure and service provision. (Another such basic strategy, the decentralization or delegation of authority to local governments, is discussed in the following section.)

Privatization may lead to the more efficient provision of urban environmental services, due to the greater flexibility of management, freedom of action, financial discipline and accountability to market forces that are said to characterize the private sector.⁷ The privatization option has not yet been fully explored in developing nations. In countries participating in the 1993 Indicators Survey, the maximum reported percentage of households receiving environmental services from private sector providers is 25 percent, in Côte d'Ivoire; virtually no private sector service delivery occurs in Tunisia, Ecuador and Indonesia (see Table 1). By contrast, more than 80 percent of municipal solid waste in the United States is collected by private firms.⁸

Newer HG projects are exploring innovative ways to privatize parts of the delivery systems of basic infrastructure and services. The newly-authorized HG in Thailand, for example, will support a new public/private guaranty facility that will open significant new opportunities for participation by commercial banks in the financing of environmental infrastructure. Tunisia's Private Participation in Environmental Services Program, authorized in 1993, will help foster an enabling structure of policies, institutions and incentives for increasing private sector involvement in basic services. These and other HG initiatives should result in changes in future years to the conditions captured in Table 1.

Table 1: Private Sector Delivery of Basic Urban Services

	<u>1990s</u>
Tunisia	0%
Ecuador	0%
Indonesia	2%
Thailand	20%
Côte d'Ivoire	25%

Survey data for 1993 highlights one sometimes overlooked but urgent need in developing countries: support for liquid waste treatment. While on average one out of every two urban dwelling units in surveyed countries reportedly features individual sewer connections, only an average of 16 percent of collected liquid waste is actually treated. Three countries with functioning sewage collection systems, Côte d'Ivoire, Chile and Ecuador, report treatment of less than five percent of collected liquid waste (see Figure 3). The scenario presented in the Côte d'Ivoire indicator report for 1993 is perhaps typical:

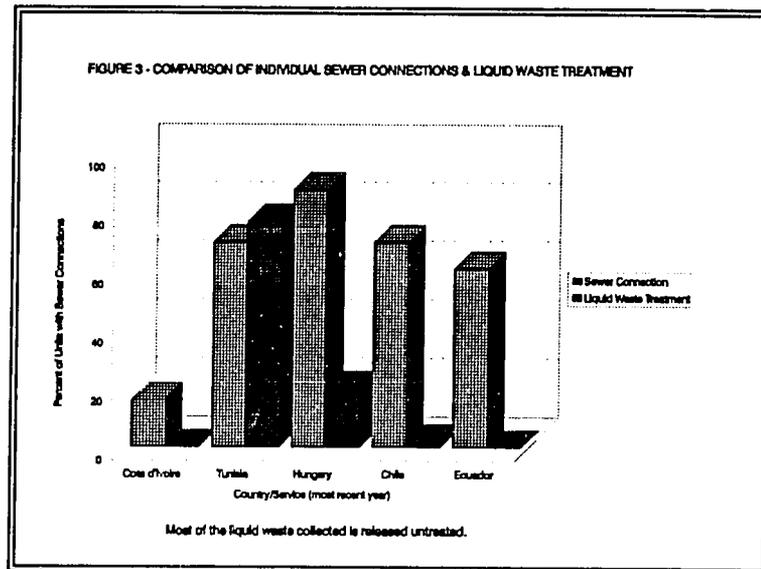
"Most of the liquid waste treatment plants which were constructed two or so decades ago are now non-functional owing to lack of maintenance." While incomplete sewage collection

⁷The economic arguments for and against privatization vary, depending on the specific urban environmental service being examined. For a discussion of one important urban service, see USAID Office of Housing and Urban Programs, *Privatizing Solid Waste Management Services in Developing Countries*, 1992, pp. 36 ff.

⁸*Ibid*, p. 36.

systems may benefit the urban environment closest to neighborhoods, massive contamination of rivers, lakes and oceans close to cities is still common. Depending on site-specific factors such as hydrological conditions, mitigating this impact may be justified.

Certain newer HG projects are encouraging governments to support liquid waste treatment. In Indonesia, for example, USAID has proposed that the Government require real estate, commercial and industrial developers to construct and maintain environmental infrastructure, including, in certain cases, wastewater treatment systems. The newly-authorized HG in Chile includes a low-cost waste-water treatment component.



Local Government & Municipal Management

In recent years, municipalities have played an increasingly important role in HG projects. Twelve of the 21 countries participating in the 1993 Indicators Survey host HG projects with a local government/municipal focus.

Two broad rationales undergird USAID's work with municipalities. First, like privatization, the decentralization or delegation of authority away from a central government to municipalities may make the provision of services more efficient. As one economist writes, local governments "have the ability to be more responsive to the local citizen in establishing investment priorities, and...have a greater interest in seeing that local projects are built and operated efficiently."⁹ Second, municipal involvement in HG activities may further the USAID objective of strengthening democracy in governance. Both purposes underlie, for example, the Central America Municipal Infrastructure Finance Program, authorized in 1993, which will support direct lending to municipalities to finance infrastructure investment.

For the sustainable provision of a service by a municipality to succeed, local government performance must be closely tracked, at least internally. Due to various factors—a lack of accurate cost data, weak political will, explicit policy choices—a municipality providing a service may not respond as decisively to market signals as would a private sector entity. Subsidies may result. While one might hope that a subsidy would benefit the urban poor, in reality the nonsustainability of the service generally means that providers do not

⁹Source: Peterson, George E., *Infrastructure Finance, Volume I: Financing Urban Infrastructure in Less Developed Countries*, USAID Office of Housing and Urban Programs, 1991, p. 45.

have the resources to extend coverage into poor neighborhoods. As a result, the poor pay more for inadequate services.

The cost recovery indicator offers an important, clear gauge for monitoring municipal ability to sustain service delivery, as well as to repay loans from public and private sources, including resources borrowed from a national implementing agency backed by HG funds. Data collected suggest that municipalities vary greatly in performance in cost recovery, defined here as the percentage of infrastructure costs (capital, operational and maintenance) which are financed through locally generated revenues. Reported cost recovery varies, from only twelve percent recovery in Ecuador¹⁰ up to 83 percent in Côte d'Ivoire¹¹ (see Table 2). Training and technical assistance can demonstrably improve cost recovery levels. The high cost recovery levels achieved in Côte d'Ivoire in the 1990s can no doubt be attributed in part to the decade-long support offered by USAID and other donors to that nation's efforts to strengthen local government.

Table 2: Municipal Cost Recovery

	1990s
Ecuador	12%
Indonesia	28%
Thailand	53%
Central America	60%
Chile	61%
Côte d'Ivoire	83%

In other areas of municipal administration, indicator data collected recently in the Philippines deepen our understanding of the interrelationships between the municipal and the shelter sectors—and incidentally underscore the value of indicators as management tools. The average number of months required by public officials to approve construction of a new residential subdivision increased recently, from one month in 1990-91 to 2.25 months in 1992-93. The change turned out to be due not to decreasing Central Government efficiency, but to

the recent devolution of some permitting authority from the national to local government, consistent with decentralization goals. Rising to the indicated need, the Decentralized Shelter and Urban Development Project in the Philippines is currently channeling resources into municipal training. Indicators thus help make explicit the tradeoffs involved between at-times conflicting project goals—a valuable tool for project managers.

¹⁰This relatively low composite value for various services nationwide obscures some individual success stories. RHUDO/SA reports that, in part as a result of USAID technical assistance, Quito's Water Company is now "100 percent self-sufficient," whereas until 1989, 43 percent of the Company's income "came from the Government of Ecuador and/or municipal transfers."

¹¹This relatively high reported value is due in part to inclusion of figures for the metropolis of Abidjan in nationwide municipal budget summaries. The USAID Mission, in its indicators report for 1993, notes that Abidjan "finances 100 percent of all its operations and maintenance as well as its capital investment from its own locally generated resources."

Shelter & Housing Finance

Reflecting the historical focus of the Housing Guaranty Program, HGs for 18 of the 21 countries reporting in this Survey concentrate upon the market for shelter. Nearly all such projects work to release crimped demand for housing, by guarantying shelter loans for families with below-median incomes who otherwise might not enjoy access to credit. These HGs, however, do not just inject needed capital. Projects also leverage evolution of the housing finance system towards increasing sophistication and differentiation, through policy dialogue as well as institutional and regulatory reform. In Ecuador, for example, the Government decided to transform the Ecuadorian Housing Bank into a secondary mortgage facility, assisted by a Housing Guaranty project. HG efforts to help governments to secure land tenure for informal housing also stimulate demand by encouraging households to invest in shelter. Besides whetting demand, HG projects also strive to make housing supply less rigid and more responsive, by streamlining the urban development regulatory framework and rationalizing land policies. Taken together, HG supply and demand interventions should result in more affordable housing market solutions for the urban poor.

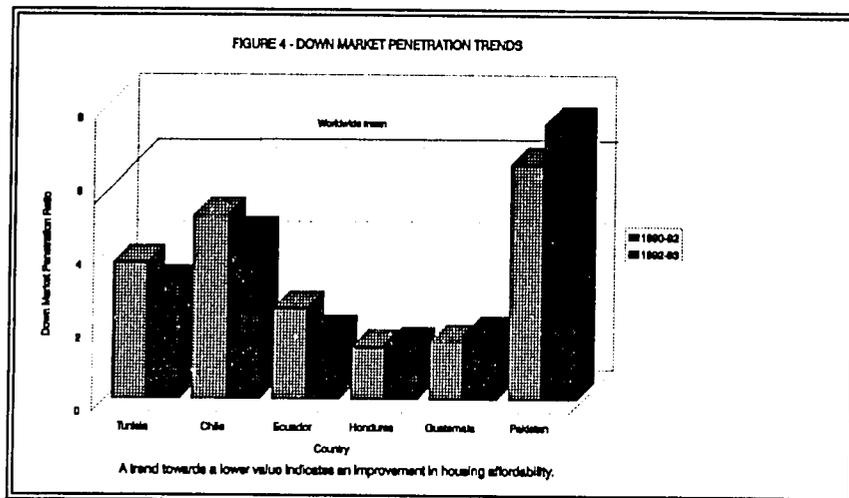
Down-market (i.e., low income) penetration is an appropriate indicator of HG-driven improvements in housing affordability. This "sensitive" indicator communicates whether the housing market is sufficiently differentiated so as to produce dwelling units affordable to families of less-than-median income.

For five of the six countries where some trend data exists and where there are authorized HGs with a shelter focus, Housing Guaranty activity appears to contribute to acceptable down-market penetration conditions. For three such countries, Tunisia, Chile and Ecuador, the indicator improved (i.e., lowered) during the early 1990s (see Figure 4). Programs such as Chile's Private Sector Housing Program, which entices private sector home building institutions to produce and sell homes to low-income families, clearly contribute to improving housing affordability conditions. For two other countries with active HGs, Honduras and Guatemala, the indicator increased marginally over the last year, to values of 1.5 and 1.8, respectively, suggesting slightly worsening conditions. However these 1993 values, while they merit continued tracking and in-country analysis, are still substantially below the mean worldwide of 4.37,¹² indicating (for the moment) acceptable down market penetration conditions.

Down market penetration worsened substantially in only one country shown in Figure 4: Pakistan. One plausible explanation is that this worsening represents in part a short-term trade-off made in exchange for institutional gains. The HG Program in Pakistan reports that, in 1993, the private sector began to offer housing mortgages for the first time in recent history. This strengthening of housing finance should act to stimulate demand. Increased demand acts to drive up the market price of housing, particularly in the short run, including the price of low income housing tracked by the down market penetration indicator. Increased prices are expected in the short term in particular, before housing suppliers have a chance to

¹²Source: IBRD/UNCHS, *"The Housing Indicators Program,"* Volumes II and III, 1993.

respond to the increase in consumer demand by producing greater volumes of dwelling units for a more differentiated market. Despite this explanation, the worsening of the indicator should act as a red flag, prompting a renewed look at the housing delivery system for ways to relax impediments to a flexible supply response.



Conclusion

This second year of reporting on the HG performance indicators begins to demonstrate the usefulness of sector monitoring and analysis for the HG program. Their effectiveness as a management tool will increase with more years of reporting so that sectoral performance trends can be established with more confidence. The Office of Housing and Urban Programs will continue to refine its approach to performance monitoring and its analysis of performance indicators as it gains more information from and experience with them.

**USAID Management's
Housing Guaranty Program
Financial Performance Measures**

Housing Guaranty Program
Program Overview
Continued

FINANCIAL PERFORMANCE MEASURES

The accompanying financial statements:

- Summarize the Housing Guaranty Program's financial position;
- Disclose the cost of operations and the changes in net position during 1993 and 1992;
- Present all significant cash flows during two years; and
- Provide comparisons of budget and actual expenses.

The administrative cost ratio (the percentage of the administrative costs to the total operating costs) measures the efficiency of administering the Housing Guaranty Program. In 1993, it cost \$81 million to operate the Housing Guaranty Program, of which only \$7 million or 9% is administrative in nature as compared to 11% in 1992. 47% (1992: 65%) of the total program cost represents provision for doubtful accounts on claims and accounts receivable while 25% (1992: 8%) relates to provision for guarantee losses.

Despite a 19% increase in total program expenses from 1992, the 1993 deficiency (\$34 million) decreased by about 30%. This decrease is attributed mainly to the increase in operating revenues of more than 135%.

As at the end of 1993, the Housing Guaranty Program had total assets of \$75 million (1992: \$52 million). Of this amount, 61% (1992: 52%) represents fund balances with U.S. Treasury and cash maintained at a commercial bank. After allowance has been made for doubtful accounts, claims receivable represents 37% (1992: 44%) of the total assets while accounts receivable represents less than 2% (1992: less than 4%).

The Housing Guaranty Program had total liabilities of \$848 million at the end of 1993. Of this total, 84% (1992: 83 %) consists of Liability for Loan Guarantees (Pre and Post-Credit Reform), and borrowing from Treasury constitutes 15% (1992: 15%) of the total liabilities. About 99% of the Liability for Loan Guarantee or \$707 million is based on credit risk ratings applied to outstanding contingent liabilities for guarantees contracted prior to 1992. These rating are viewed by USAID management as being conservative.

Loan Activity Analysis

Subrogated Claims Paid

An analysis of the subrogated claims paid in each of the past five years is shown in Table 5. In 1989, the total subrogated claims paid totaled \$59 million. After 1989, the subrogated claims paid continued to increase and peaked in 1991 when payments reached \$67 million. At the end of 1993, payment of subrogated claims had decreased to \$56 million. As at September 30, 1993, the total amount of subrogated claims outstanding amount to \$23 million, a decrease of 75% over the five year period.

Housing Guaranty Program
 Program Overview
 Continued

Subrogated Claims Recovered

Claim recoveries for the past five years have not kept pace with claim payments due to the rescheduling of \$233 million of payments under the auspices of the Paris Club. Claim recoveries peaked at \$31 million in 1990. While claim payments reached an all time high of \$67 million in 1991, claim recoveries dropped to their lowest level (\$18 million) in the same year. However, due to improvements in billing and collection procedures, and the economic situation of many of the countries themselves, claim recoveries in 1992 and 1993 showed significant improvement and were \$24 million and \$27 million respectively. See Table 5.

Subrogated Claims Rescheduled

Subrogated claims rescheduled are as shown in Table 5. The data show that, since 1989, there has been a steady increase in amounts rescheduled from one to the other. Subrogated claims rescheduled reached their highest level of \$115 million in 1992. Peru accounted for \$104 million of this rescheduling.

Subrogated Claims Outstanding

A five year analysis of subrogated claims (see Table 5) shows that from 1990 to 1992, claims outstanding decreased substantially due to rescheduling of those claims. The total claims outstanding reached their peak level of \$109 million in 1990. Claims incurred decreased in 1992 and again in 1993.

Table 5
Five-Year Subrogated Claim Analysis (in Thousands)

Year	Incurred	Recovered	Rescheduled	Outstanding
1989	\$58,940	\$26,554	\$ (15,335)	\$ 91,394
1990	65,257	31,115	(16,309)	109,227
1991	67,034	18,058	(61,352)	96,850
1992	61,750	24,156	(115,370)	19,075
1993	55,507	27,274	(24,567)	22,740

Housing Guaranty Program
Program Overview
Concluded

Claim Losses On Non-Host Country Guarantees

Claim Payments and Recoveries

Claims paid under the non-host country guarantees are written off in the year paid. Recoveries on these previously written off loans are recorded as revenues in the year received. Claim losses and recoveries from 1989 through 1993 are as shown in Table 6. Note that \$2.3 million of the amounts recovered in 1993 came from Panama

Table 6
Five-Year Claim Loss Analysis (in Thousands)

Year	Incurred	Recovered
1989	\$ 1,690	\$ 33
1990	1,327	18
1991	1,488	58
1992	1,397	141
1993	1,090	2,212

**USAID Management's Attachment A
Housing Guaranty Program
Performance Indicators**

Attachment A

Housing Guaranty Program Performance Indicators

1. Shelter and Housing Finance

1.1 Housing Affordability and the Private Sector

- **Housing Price to Income Ratio** - Median free-market price of dwelling unit to median annual household income.
- **Down-Market Penetration** - Lowest priced unsubsidized formal dwelling unit produced by the private sector in significant quantities to median annual household income.

1.2 Institutional Framework

- **Tenure Regularization** - Percentage of the total area of informal land development that has been regularized.
- **Permits Delay** - Median length in months to get approvals, permits and titles for a new medium-sized (50-200 unit) residential subdivision in an area on the urban fringe where residential development is permitted.
- **Compliance** - Ratio of building permits issued to new housing starts in both formal and informal sectors during the past year.
- **Land Registration Coverage** - Percentage of area covered by a land registration system that enables buying, selling, long-term leasing, and mortgaging of urban land.
- **Informal Land Development** - Percentage of surface area which was developed outside the legal regulatory framework.

1.3 Housing Finance

- **Mortgage to Deposit Difference** - Average difference in percentage points between interest rates on mortgages in both commercial and government financial institutions and the interest rate on one year deposits in the commercial banking system.
- **Credit to Value Ratio** - Ratio of mortgage loans for housing last year to total investment in housing, both formal and informal.

2. Urban Environment and Infrastructure

2.1 Infrastructure and Environment

- **Infrastructure Expenditure per Capita** - Ratio of total annual expenditures for operations, maintenance and capital by all levels of government, including private utilities and parastatals, on infrastructure services (roads, drainage, water supply, electricity and garbage collection) to the urban population, in current U.S. dollars.
- **Individual Water Connections** - Percentage of dwelling units with individual water connections.
- **Individual Sewer Connections** - Percentage of dwelling units with individual sewer connections.
- **Liquid Waste Treatment** - Percentage of total liquid waste that is treated.
- **Upgrading Informal Areas** - Percentage of total informal land development that is serviced by water, roads and electricity.
- **Environmental Encroachment** - Percentage of residential development occurring on unsafe, environmentally sensitive or priority agricultural land.

2.2 Institutional Strengthening

- **Private Sector Formal Land Development** - Percentage of formal land development that was developed by the private sector.
- **Private Sector Housing Development** - Percentage of formal housing development that was developed by the private sector.
- **Private Sector Service Delivery** - Percentage of households receiving private sector water, liquid waste or solid waste services.
- **Local Management: Solid Waste Removal** - Percentage of residential areas serviced by solid waste removal.

3. Local Government and Municipal Management

3.1 Generation of Local Revenues

- **Fiscal Independence** - Percent of budgetary resources generated locally or borrowed in capital markets.
- **Property Tax Receipts** - Percentage of property tax receipts in the local government budget.

3.2 Urban Infrastructure and Services Finance

- **Own Source Financing of Capital Expenditures** - Percentage of capital expenditures financed through locally generated revenues.
- **Own Source Operations and Maintenance Financing** - Percentage of operations and maintenance expenditures financed by locally generated revenues.
- **Cost Recovery** - Percentage of operational, maintenance and capital costs financed through locally generated revenues.

APPENDICES



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Appendix I

JUN 10 1994

MEMORANDUM

TO: IG/A/FA, B. Reginald Howard, Director

FROM: AA/M, Donald Charney *Top of List For*
G/EG, John Wilkinson *2. Anderson, for*
G/PRE/H, Peter Kimm *Department for*

SUBJECT: FY 93 HG Audit

The Office of Housing and Urban Programs appreciates the comprehensive review of the HG program performance measurement system undertaken by the Inspector General. We have discussed the audit recommendation with IG staff and agree that it is appropriate to re-assess the system at this time. To begin the re-assessment we will conduct a performance indicator workshop during the June 1994 Regional Housing and Urban Development Office (RHUDO) conference. In this way, we will obtain input from all RHUDOs on system design, discuss the indicators relevance to specific USAID activities, and consider the adequacy of supporting evidence for the indicators. After this workshop we will prepare a workplan and develop guidance for making improvements to the system for use in the fiscal year 1994 financial statements.

The Office of Financial Management concurs with the IG's audit of the HG program for Fiscal Year 1993. We would like to reiterate the finding that only one reportable condition remains relating to the internal control structure of FM/LM's management of the HG program; the lack of policies and procedures manuals. As stated in the IG's memorandum to the audit, these manuals will be completed before the end of FY 1994. Finally, the FM/LM staff wishes to thank the IG's staff for the IG's recognition of the improvements made during the past two years.

- 65 -

Appendix II

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