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UNITED STATES GOVERNMENT

# Memorandum

TO : AA/LA - Mr. Kleine

FROM : ARA:LA/CEN - J. R. Breen

SUBJECT: AG Management Audit of CABEI

DATE: March 17, 1972

The recently concluded Report of Audit No. 1-596-72-57 is a well prepared document that compliments both CABEI and ROCAP. The purpose of the Audit was to evaluate (i) the organization and management of CABEI's operations; (ii) the effectiveness and efficiency with which CABEI and its sub-borrowers have utilized loan funds; and (iii) the actions taken by ROCAP to assist CABEI management in the utilization of loan funds.

The Report did not bring out any problems that were not previously known. The principal problem area relates to CABEI's Housing Department.

The Report is divided into three parts - covering each of the three CABEI funds: Ordinary, Housing and Integration.

The achievements of the Bank and each of its three funds are very impressive, see Attachment "A".

The Audit Report did not attempt to verify the accuracy of annual financial statements, as Price Waterhouse and Company performs annual audits at CABEI. Price Waterhouse has given an unqualified opinion of CABEI's financial statements since 1967. Their latest report covers the Bank's fiscal year ending June 30, 1971.

A. The Report contains nineteen recommendations. Of these the following eleven have already been or are in the process of being resolved by CABEI. They represent no special problems. ROCAP will be able to clear these recommendations in a short time. They are:

No. 1 - Short term Cash Forecast (Page 18). NOTE: Price Waterhouse & Co. is preparing study which will contain specific recommendations for clearing and this recommendation No. 5 below.

No. 2 - Management Audit (page 19).

No. 5 - Housing Fund - Investment of idle funds (page 35)

No. 8 - Ordinary Fund - Follow-up procedure (page 45).

No. 9 - Ordinary Fund (handling of delinquency loans (page 47)).



- No. 11 - Ordinary Fund - economic impact of loans on CACM countries (pg.52).
  - No. 12 - Ordinary Fund - study, amplification of interest rates, grace periods (pg. 57).
  - No. 13 - Integration Fund - Planning Future Project (page 65).
  - No. 14 - Integration Fund - Highway Maintenance (page 67).
  - No. 15 - Integration Fund - Vehicle Weight Control (page 68).
- B. CABEI is expected to take immediate action to clear the following four recommendations. This will require coordination with each of the CACM countries, however there are no difficult problems.
- No. 16 - Integration Fund - minimum uniform design standards (page 69).
- NOTE: ROCAP is preparing a separate response on this recommendation. Since all AID financed highways meet minimum uniform design standards, this recommendation refers to highways financed from non-AID funds.
- No. 17 - Integration Fund - Bonding Requirements - (page 74).
  - No. 18 - Integration Fund - Contract Provisions. NOTE: ROCAP is preparing a separate response (page 75).
  - No. 19 - Integration Fund - Cost and Analysis: Contractor bid proposals (page 77). NOTE: CABEI will provide training program and prepare operating manual.
- C. The following four recommendations will require the implementation of important policy decisions by CABEI. The principal one will be to increase substantially the staff of the Housing Department to enable it to carry out the issues described in the recommendations, and to improve overall Housing administration. ROCAP is preparing separate responses on each recommendation:
- No. 3 - Housing Fund - Better utilization of AID Investment Guaranty Loan Funds (page 30).
  - No. 4 - Housing Fund - Improved promotion of Regional Secondary Mortgage Market (page 33).
  - No. 6 - Housing Fund - Reduction of Delinquency Rate of CABEI's Mortgage Portfolio (page 37).
  - No. 7 - Housing Fund - Establishment of Monitoring Procedures (page 39).

In addition to the AG Management Audit Report, two other documents (covering same period) that are timely, informative and complimentary about CABEI's activities. These are the Price Waterhouse & Company Audit Report for the year ending June 30, 1971 and CABEI's Annual Report (10th Anniversary) for the same period. Copies of these are available in LA/CEN for your review.

LA/CEN:WWolff:ROCAP  
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