

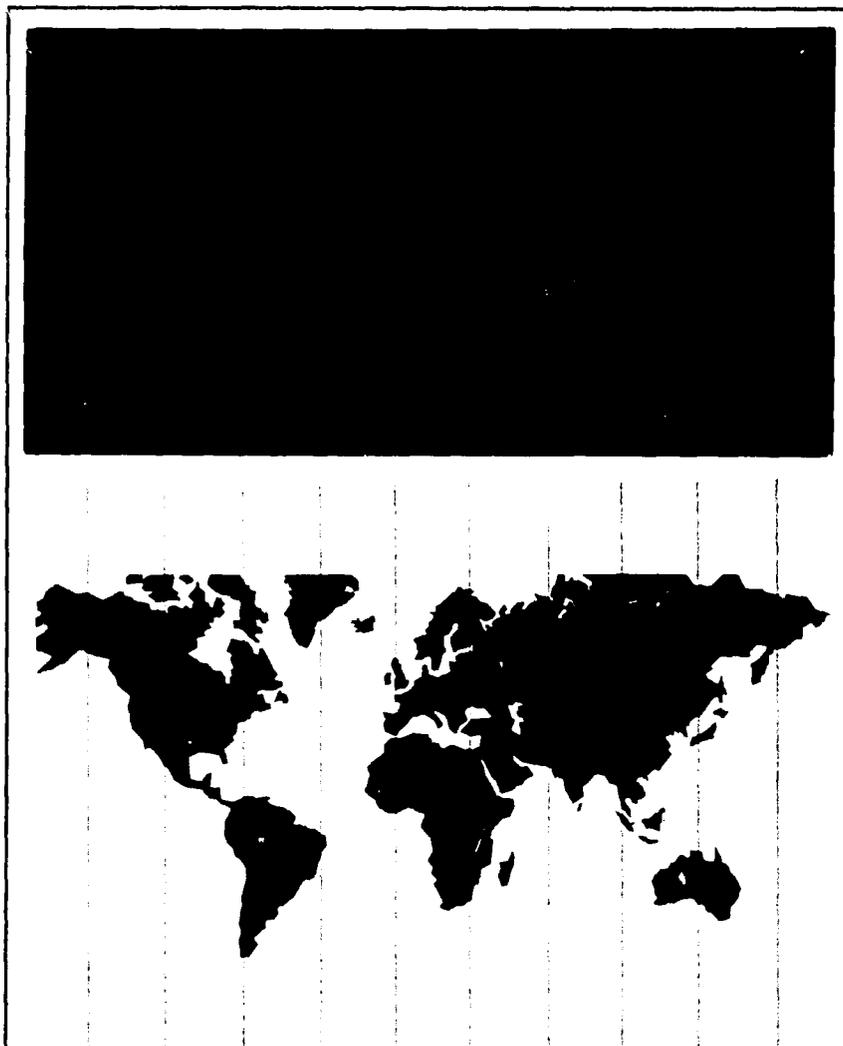
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OFFICE OF THE INSPECTOR GENERAL
U.S. DEPARTMENT OF COMMERCE

THE
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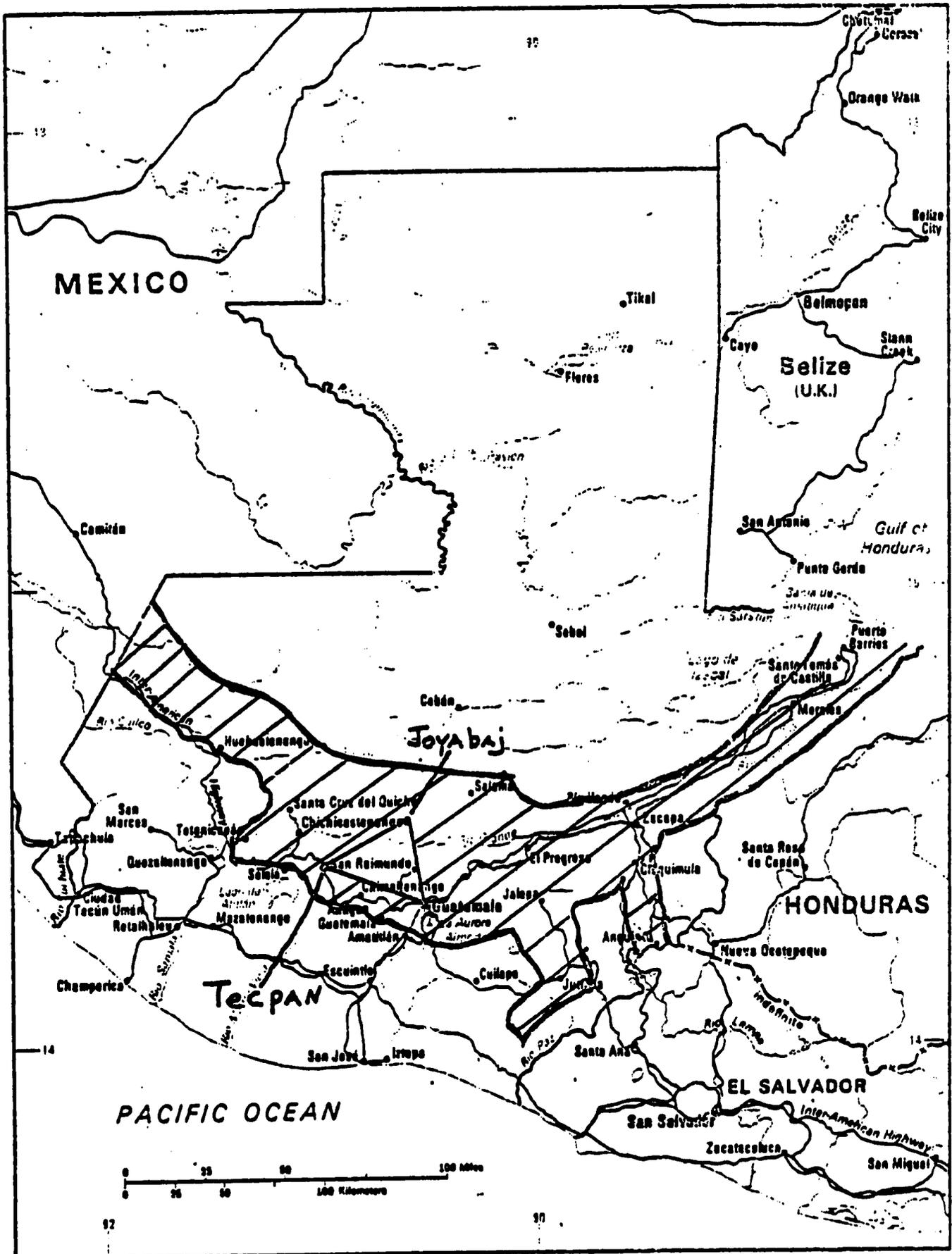
Regional Inspector General for Audit
LATIN AMERICA
(Washington, D.C.)

MUNICIPAL EARTHQUAKE RECOVERY PROGRAM
PROJECT NO. 520-0236
(LOAN NO. 520-W-027)
USAID/GUATEMALA
AUDIT REPORT NO. 1-520-82-3
NOVEMBER 30, 1981

The program was designed to address a national catastrophe -- the 1976 earthquake -- in an urgent manner. It will cost a minimum of \$11.5 million and will be financed jointly by AID (\$8.0 million) and by the GOG (\$3.5 million).

Our report shows that the goals set for this disaster relief activity will not be fully achieved by the planned completion date of March 20, 1982. USAID/Guatemala has actively monitored the implementation of this program. However, only one of the major project components had reached established goals, and serious implementation problems need to be resolved. Implementation of the principal project component was both behind schedule, and not in accordance with loan agreement provisions.

Guatemala



802473 1:75 (541402)
 Lambert Conformal Projection
 Standard Bearings 9°20' and 14°40'
 Scale 1:2,000,000
 Boundary representation as of 1960
 Map prepared by CIA-RDP80-01000A

EARTHQUAKE IMPACT ZONE
AREA OF GREATEST DAMAGE

		Railroad
		Road
		Airport

TABLE OF CONTENTS

	<u>Page No.</u>
EXECUTIVE SUMMARY	1
Introduction	1
Purpose and Scope	1
Conclusions	11
Recommendations	111
BACKGROUND AND SCOPE	1
Background	1
Scope	2
AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	4
The Program	4
An Overall Assessment on Project Goals and Achievements	4
Implementation Delays	7
Municipal Reconstruction Fund	8
Municipal Institutional Development	11
INFOM Institutional Development	13
Municipal Enterprise Fund	13
Financial and Internal Controls	14
Advance of Funds	14
Project Costs	16
Surplus Project Funds	19
Publicity	20
AID Markings	20
Monitoring	22
EXHIBIT A - Status of Loan and Counterpart Funds	23
APPENDIX A - List of Recommendations	24
APPENDIX B - List of Report Recipients	25

REVIEW OF THE MUNICIPAL EARTHQUAKE RECOVERY PROGRAM
Project No. 520-0236
Loan No. 520-W-027
USAID/GUATEMALA

EXECUTIVE SUMMARY

Introduction

On February 4, 1976, Guatemala suffered a massive earthquake which killed over 23,000 people, injured about 75,000 and damaged 101 municipalities. As a result, Loan Agreement No. 520-W-027 was signed in September 1976 to fund a Municipal Earthquake Recovery Program which was designed to assist the Government of Guatemala (GOG) in its recovery efforts. The overall goal of the program was to restore and upgrade the quality of life of the inhabitants living in the earthquake zone. The project was financed by both the AID loan (\$8.0 million) and the GOG (\$3.5 million) and was composed of four major components:

- a) The Municipal Reconstruction Fund had a budgeted amount of \$10.1 million. These funds were to finance the construction of municipal infrastructure. Eligible activities included water, sewerage, markets, disposal, and street improvements.
- b) The Municipal Institutional Development had a budgeted amount of \$725,000. These funds were to be used to carry out a technical assistance and training program for municipal employees to strengthen the administration of local governments.
- c) Institutional Development of the Instituto de Fomento Municipal (INFOM) had a budgeted amount of \$320,000. The funds were to be used to hire key personnel, procure specialized equipment, finance training and technical assistance.
- d) The Municipal Enterprise Fund had a budget of \$390,000 and represented a pilot program to test the feasibility of increasing municipal revenues through the creation of small-scale municipal enterprises.

The program was to be completed in four-and-a-half years from the time the agreement was signed.

As of June 30, 1981, the GOG had disbursed \$2.5 million and AID had disbursed \$3.4 million in loan funds.

Purpose and Scope

This was the first audit of this project. The purpose of the review was to determine if the project was being planned and carried out in an effective, efficient, and economical manner. Our review covered the period from project inception through June 1981. To the extent possible, reviews, evaluations, and assessments were made to identify problem areas in planning, implementation, and monitoring of this project. Because of the current troubled political situation in Guatemala, field visits were made to a limited number of subprojects being financed by this loan.

Conclusions

Our review was made more than five years after the earthquake took place and slightly over four-and-a-half years after the loan agreement was signed. Our analysis showed a program with serious implementation problems. This was a program designed to address a national catastrophe in an urgent manner. Yet, five years after the earthquake, the program was significantly behind schedule and less than \$3.5 million, or 43 percent of the funds had been disbursed under the AID loan. Following is a synopsis on the status of each component:

- The Municipal Reconstruction Fund component was behind schedule with only 55 (of 98) subprojects completed. There were 27 subprojects in process and 16 that had not been started. Our review also showed that the priorities given to the 55 completed activities were not in line with the plans contemplated by the parties. For instance, there was too much emphasis on construction of municipal buildings; this emphasis was not in accord with specific provisions of the loan agreement (Page 8).
- Of the four components of the program, the Municipal Institutional Development component was the only one that exceeded expected goals. Goals called for the training of 535 municipal officials; at the time of our review, 840 officials had been trained (Page 11).
- Under the Institutional Development of INFOM component, of personnel to meet the planning and management demands of the project had not gone well. In fact, INFOM had no plans -- until recently -- which described what training was needed and how it was to be done. The consequent effect was that INFOM may not have the institutional capability to complete the remainder of the project (Page 13).
- In the case of the Municipal Enterprise Fund component, one major problem was the constant turnover of counterpart personnel. As a result, only one of the planned 48 subprojects had been completed and only four were expected to be completed by the end of calendar year 1981 (Page 13).

Our assessment was that project goals would not be fully attained by the terminal date for disbursement. The Mission had indicated that the TDD would be extended. At the time we drafted our report, we felt (and still do) that an automatic or perfunctory extension of this project would not improve the efficiency or economy of its implementation. For this reason, we included a recommendation in our draft report that studies and analysis be made by the Mission before requesting an extension request was made. The purpose of these studies was to ensure that goals were realistic, program funding levels were commensurate with priorities, the program would be implemented according to plans, INFOM would have the required institutional capabilities, and counterpart personnel turnover would be reduced. The Mission made the studies and the body of the report contains its comments. It basically concluded that program objectives can be achieved within a one-year extension of the project. Based on the history of this project over for the past five years, we are not convinced that the goals of the Institutional Development of INFOM and the Municipal Enterprise Fund components will be achieved within a one-year extension (Page 4).

Our examination also showed areas in the financial and internal control areas which needed the attention of management:

- INFOM had been given a \$500,000 advance. In our opinion, the timing and size of the advance was premature and high. Based on a recommendation included in our draft report, the Mission reevaluated the needs and withdrew the advance from INFOM (Page 14).
- Our review showed that the Mission made \$2,592 in duplicate payments and reimbursed INFOM \$1,957 for items which were not supported by documentation presented (Page 16).
- The Mission made reimbursements amounting to \$12,181 and voucher adjustments amounting to \$52,421 without proper documentation or justification. Based on a recommendation included in our draft report, the Mission took corrective actions (Page 18).
- The review showed that there was a need to reprogram \$55,683 and to establish procedures to continue to reprogram in a timely and systematic manner the surplus funds accumulating in subproject accounts (Page 19).
- The loan agreement requires publicity of the program by appropriate markings of projects. None of the activities visited by us displayed the AID emblem or other publicity that the U.S. was providing assistance. In response to our draft report, the Mission stated that the political environment in Guatemala was such that a "conscious policy decision" had been made not to publicize AID assistance in this program. We believe the Mission has two options to address this problem (Page 20).

Historically, audit has found problems in the monitoring of disaster relief and reconstruction programs. In the case of this program, there were several indications which would support our reaching a similar conclusion. However, after the Mission reviewed our draft report, it submitted additional documentation and material. After our review of this material, we agree that USAID/ Guatemala has actively monitored, as best as possible under the circumstances, project implementation (Page 22).

Recommendations

The findings and recommendations in this report were discussed with USAID/ Guatemala officials and a draft report was submitted to the Mission for review and comments. Its comments were considered in preparing this report. In fact, our draft audit report contained a total of 13 recommendations to address the deficiencies discussed in this report. The Mission took effective action to implement 6 of the 13 recommendations. One of the remaining recommendations was significantly revised and another was deleted because it will be included in an audit report on a worldwide review. The final report contains 6 recommendations which are included in the body of the report and in Appendix A.

BACKGROUND AND SCOPE

Background

On February 4, 1976, a massive earthquake occurred throughout a large portion of Guatemala (see map). It was the most powerful and widespread earthquake ever experienced in Central America. Damage was extensive. Over 23,000 people were killed, nearly 75,000 injured, and over a million of Guatemala's estimated six million inhabitants were left homeless. In the earthquake zone, 101 municipalities suffered damage.

To assist the Government of Guatemala (GOG) in its recovery efforts, AID entered into an \$8-million loan agreement with the GOG to help it carry out a "Municipal Earthquake Recovery Program." The overall goal of the project was to restore and upgrade the quality of life of the inhabitants living in the earthquake zone. The \$8-million AID Loan was augmented by \$3.5 million in GOG counterpart funding, bringing the project total to \$11.5 million. The GOG's contribution was to be in the form of salaries, rent, and in-kind contributions. The loan included a 10-year grace period with interest at 2 percent and a 30-year repayment term with interest at 3 percent.

The project was comprised of four major components. The budgeted amounts for each was:

	<u>Budgeted Amounts (In US\$ 000)</u>		
	<u>AID</u>	<u>GOG</u>	<u>TOTAL</u>
Municipal Reconstruction Fund	\$7,217	\$2,848	\$10,065
Municipal Institutional Development	446	279	725
Institutional Development of the Instituto de Fomento Municipal (INFOM)	224	96	320
Municipal Enterprise Fund	<u>113</u>	<u>277</u>	<u>390</u>
Totals	\$8,000 *****	\$3,500 *****	\$11,500 *****

Municipal Reconstruction Fund - Loan funds and GOG counterpart funds were to create a fund within INFOM to finance the construction of municipal infrastructure. The purpose was to restore destroyed or damaged public services in the municipalities affected by the earthquake. In keeping with the objective of improving economic and social conditions in the affected area, provisions were made for financing public services that did not previously exist. Funds were provided to the municipalities at highly concessionary terms. Eligible projects included water, sewerage, markets, disposal and street improvements.

Municipal Institutional Development - INFOM was to carry out a technical assistance and training program for municipal employees to strengthen the administration of local government. This program was directed toward improving

the capacity of the municipalities to operate and maintain essential public services, increasing revenue collections, and carrying out all other general administrative functions. The technical assistance would be provided by field teams which would spend several days in each municipality. Training programs were to be conducted at INFOM headquarters and selected regional training sites.

INFOM Institutional Development - The project included an institutional support program to strengthen the capacity of INFOM to carry out the municipal recovery and development activities. Loan and counterpart funds were being used to hire key personnel for INFOM's staff, procure specialized equipment, contract for local and foreign technical assistance, and finance professional training abroad. The support program concentrated on improving INFOM capacity in the areas of regional planning, evaluation, automatic data processing, and environmental impact planning.

Municipal Enterprise Fund - A pilot program was to test the feasibility of increasing municipal revenues through creation of small-scale municipal enterprises. The initial projects were to be concentrated on providing facilities that could be rented and to establishing municipally-owned and operated small industries including, storage facilities, block and brick fabrication, door and window making, etc. Loan funds were also provided for an in-depth evaluation during the course of the program.

The project paper specified that following execution of the loan agreement, INFOM was responsible for project implementation, including the contracting of all services, the procuring of all equipment and materials, training activities and evaluating the program. USAID was to monitor the project, assisting INFOM in complying with the loan agreement and AID regulations. INFOM was to arrange for facility construction either by force account or contract which would be based on location and contract costs.

Exhibit A shows details on the status of funds as of June 30, 1981. Presented here is a summary of the AID loan funds:

	<u>Amount Budgeted</u>	<u>Amount Disbursed</u>	<u>Balance</u>
Municipal Reconstruction Fund	\$7,217,100	\$3,120,846	\$4,096,254
Municipal Institutional Develop.	445,622	181,834	263,788
INFOM - Institutional Development	223,850	132,760	91,090
Municipal Enterprise Fund	<u>113,428</u>	<u>-0-</u>	<u>113,428</u>
Totals	<u>\$8,000,000</u> =====	<u>\$3,435,440</u> =====	<u>\$4,564,560</u> =====

Scope

The purpose of our initial audit of this project was to determine the efficiency and effectiveness of planning and managing project resources to help municipalities recover from the 1976 earthquake. We identified and evaluated problems in project planning, monitoring and implementation.

Our review covered the period from project inception in September 1976 through June 1981. We reviewed Mission and GOG files and records for all project components and discussed project activities and problems with officials at the Mission, the GOG, INFOM, and the municipalities.

Because of the current troubled political situation in Guatemala, our field visits to countryside activities were limited. Nevertheless, we did visit eight subprojects to evaluate the status of construction, municipal capability to control loan funds and maintain and use constructed facilities, as well as the technical assistance provided to both the municipalities and INFOM.

AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The Program

An Overall Assessment on Project Goals and Achievements

The loan agreement was signed on September 20, 1976, and the total cost of the program -- to be financed jointly by AID and the GOG -- was expected to be about \$11.5 million. The purpose of the program was to restore and upgrade the quality of life of inhabitants living in the earthquake zone. To accomplish this, the priorities given to the four components may be seen by the funding percentage earmarked to each:

	<u>Percentage</u>
Municipal Reconstruction Fund	87.5
Municipal Institutional Development	6.3
INFOM - Institutional Development	2.8
Municipal Enterprise Fund	<u>3.4</u>
	100.0
	=====

The program was to have been completed in four-and-a-half years from the time the agreement was signed. The completion date was subsequently extended one year to March 20, 1982.

Our examination was conducted more than five years after the earthquake took place and slightly over four-and-a-half years after the loan agreement was signed. The overall conclusions drawn by our review, on a comparison between goals and accomplishments to date, were:

- The project was substantially behind schedule and the goals will not be attained by the extended terminal disbursement date (March 1982). Some delays were beyond the control of the Agency;
- The Municipal Reconstruction Fund was behind schedule with only 55 (of 98) subprojects having been completed. Moreover, the priorities given to the 55 completed activities were not in line with the plans contemplated by the parties;
- Of the four components of the program, Municipal Institutional Development was the only component that exceeded expected goals;
- The Institutional Development of INFOM showed that the training phase, to meet the planning and management needs of the project, had not gone well and the consequent effect was that INFOM may not have the institutional capability to complete the remainder of the project; and
- In the case of the Municipal Enterprise Fund, one major problem was the constant turnover of counterpart personnel. As a result, only one

of the planned forty-eight subprojects had been completed and only four were expected to be completed by the end of calendar year 1981.

In sum, our analysis showed a program with serious implementation problems. This was a program designed to urgently address a national catastrophe. However, five years after the earthquake less than \$3.5 million, or 43 percent of the AID loan funds provided, had been disbursed. Of this amount, most had been for the construction of 55 completed and 27 partially completed subprojects under the Municipal Reconstruction Fund; yet, as shown later in this report, construction priorities have emphasized municipal buildings and electrification — not the construction of markets and water facilities as planned. At present, the percentage of disbursed funds used to construct municipal buildings (42.9 percent) exceeds the limitation (20 percent) stated in Section 5.02 of the Loan Agreement. As mentioned above, the Institutional Development of INFOM and the Municipal Enterprise Fund components show very serious deficiencies. The only area which showed some highly positive accomplishments was the Municipal Institutional Development component.

Our assessment is that project goals will not be fully attained by the extended terminal date for disbursements (March 20, 1982). A decision must be made to extend the project or deobligate the remaining funds. In our exit conference with USAID/Guatemala, we discussed the possibility of including a recommendation in our final report that all funds remaining after March 1982 be deobligated. The Mission expressed strong opposition to this proposed recommendation and stated that another extension to the program would be requested.

We believe that an automatic or perfunctory extension of this project will not improve the efficiency or economy of its implementation. The nature of the problems noted during our review calls for a complete reassessment on the future direction of the project and the establishment of realistic time frames in which the goals can be accomplished and the funds fully disbursed. Thus, we included the following recommendation in our draft report:

"Prior to requesting another extension to Loan Agreement 520-W-027, USAID/Guatemala should require that necessary studies and analysis of the program are made to ensure that: (a) goals are realistic; (b) program funding levels are commensurate with priorities; (c) the program will be implemented according to plans; (d) INFOM will have the required institutional capability to implement the program; and (e) counterpart personnel turnover in the Municipal Enterprise Fund will be reduced."

USAID/Guatemala made studies and analyses of the program prior to the issuance of this report. Its conclusions and comments were made known to us in a memorandum dated October 27, 1981, and are quoted below:

"(a) The Mission feels that the project's goal of restoring and upgrading the quality of life of the inhabitants living in the earthquake zone is still realistic.

"To date the project has completed 57 infrastructure projects in the region affected by the earthquake, with 40 more planned for completion by the end of 1982. The passage of time since the quake has not lessened the need for services in this area. INFOM estimates the country needs more than 250 million dollars for public infrastructure such as water systems, waste disposal, and markets to replace existing inadequate or substandard facilities. A major portion of these needs lie in the zone of the 1976 earthquake. Completion of construction subprojects pending under the loan, as well as remaining activities under municipal enterprise and municipal institutional development components, will endow earthquake affected municipalities with the material and institutional means to improve quality of life of their inhabitants.

"(b) Program funding levels rank infrastructure construction first and Municipal Institutional Development, INFOM Institutional Development, and Municipal Enterprises Fund a distant second, third and fourth. The Mission considers that these funding levels are commensurate with priorities and are maintaining these priorities in our current reprogramming of the loan.

"(c) The program will be implemented according to updated implementation plans which call for a minimum one year extension of the project. The Mission will require that contracts be made for the remaining eight key construction subprojects with firm construction timetables to ensure expeditious completion within this timetable. Plans for the remaining subprojects still to be completed under force account have been delivered to USAID.

"Funds have been 100 percent committed and 67 percent disbursed for the INFOM institutional component. INFOM has registered enough progress and made adequate plans concerning the other two components to ensure commitment and disbursement of funds before expiration of an extended TCD and TDD.

"(d) The Mission is assured that INFOM has adequate institutional capability to implement the program. The Mission and the A&E consulting firm have worked closely with INFOM's Municipal Works Department in completing 34 subprojects, and in completing technical drawings and budgets for all but two subprojects. The Department's performance has correspondingly improved over the life of the project, especially over the last 11 months. INFOM's Planning Department has performed acceptably in completing activities under the other three components, and has prepared detailed plans for committing the balance of project funds in these areas. In addition, the Planning Department has organized a special three-man unit to expedite implementation of the Municipal Enterprise Fund, the component which has lagged most under the loan.

"(e) The Mission cannot control turnover of personnel at INFOM in charge of the Municipal Enterprise Fund. We suggest this part of the recommendation be withdrawn.

"USAID has reviewed A&E consultant's reports on progress with the construction component, special INFOM studies on past accomplishments and future planning for the other three components, and overall INFOM financial tables concerning general reprogramming proposals for the loan as a whole. In addition to obtaining these studies, the Mission has performed its own analyses of these documents. We consider these studies and analyses adequate."

We evaluated the conclusions and comments included in USAID/Guatemala's memorandum of October 27, 1981. Based on our evaluation, we concluded that the intent of our recommended action had been fulfilled and there was no need for the inclusion of an identical recommendation in the final report. However, based on our evaluation, we have several observations and different points-of-view which we believe AID management, especially the Assistant Administration for Latin America and the Caribbean, should consider prior to approval of any further extension to this project. These are:

- According to the Mission, "... the program will be implemented according to updated implementation plans which call for a minimum one year extension ..." In other words, the program extension to be requested by the Mission is for a minimum of one year with no real commitment that either the goals will be achieved or that the funds will be disbursed in that period. This program has now been on the books for over five years. In our opinion, this is an excessive period of time for a program which was originally designed to urgently address a national catastrophe.
- The Mission's memo reflects a very optimistic view of the possibility that the goals and priorities of the project will be achieved within one year extension of the project. Based on the history of this project over the last five years, we still believe that the goals of the Institutional Development of INFOM and the Municipal Enterprise Fund component will not be met in that time period.

USAID/Guatemala made studies and analyses of the program as recommended in our draft report. In essence, the Mission believes the goals of the program can be achieved within one year. The request for extension will be for one year. This will represent the second extension of this project. Yet, the response of the Mission makes it clear that this one-year extension is the minimal requirement. Therefore, we question whether the Mission has made an adequate analysis of the time required to ensure that the goals of the project will be achieved and that the funds will be fully utilized within that time period. We are also not certain whether there will be sufficient funds for the completion of all planned subprojects. While we agree that the program should be extended, we believe that some reasonable time frame for completion of this project should be established. We believe that these points must be addressed in any request for an extension of the project.

Recommendation No. 1

USAID/Guatemala should determine a specific time frame for the accomplishment of goals and the provision of sufficient funds for completion of the Municipal Earthquake Recovery Program.

Implementation Delays

Implementation of activities was significantly behind schedule and the goals will not be attained by the terminal disbursement date. Implementation delays included:

- The project paper anticipated a delay in the ratification of the loan agreement by the Guatemalan Congress and allowed four months to complete this action. The loan was ratified by the Congress seven months after signature. This slippage was anticipated in planning to some extent, and we do not view it as a major cause for delay. However, it took the GOG and INFOM an additional eight months after the loan was ratified to meet the remaining conditions precedent. The project paper estimated that all conditions precedent would be met by March 1977, but the final one was not met until early December 1977.
- INFOM delayed working on this project because it wanted to complete several International Development Bank (IDB) projects before starting the AID project. The GOG and INFOM did not meet conditions precedent for initial disbursement until eight months after the loan agreement was signed. An excessive amount of time has been taken in getting subprojects approved and funded through INFOM. The effects of inflation were magnified by these delays and many subprojects experienced work stoppages until additional funds could be obtained.
- The design and management of subproject construction was also delayed because the IDB projects were given a higher priority.

Even without the IDB projects competing for INFOM's resources, it took six months or more to prepare subproject documentation for approval.

- Right after the earthquake took place, INFOM made a "Municipal Services Inventory." But delays in implementing the program created inflationary pressures on the costs included in the inventory. Also, the inventory itself contained serious errors on project needs, costs and priorities. Consequently, INFOM and USAID/Guatemala had to reprogram the list of subprojects to keep the total cost within budget and to adjust for design errors in the Municipal Services Inventory. This reprogramming reduced the number of subprojects in the Municipal Reconstruction Fund by more than 50 percent and took more than a year to complete, which further delayed implementation.

In sum, there have been a variety of reasons for the implementation delays of the program, particularly in the initial stages.

Municipal Reconstruction Fund

The Municipal Reconstruction Fund was the major component of the project. Over \$10 million out of the \$11.5 million budgeted for the project were allocated to this fund. The number of subprojects under this component was reduced by more than 50 percent and all will not be completed by the terminal disbursement date of the loan. Moreover, the activities that have been completed were not in agreement with what was planned.

The project paper projected that 211 subprojects in 101 municipalities would cost about \$9.7 million. These subprojects were for the reconstruction of municipal services damaged by the earthquake and construction of new facilities. Subprojects included construction and repair of slaughterhouses,

markets, municipal buildings, and electrical facilities. The original project goal, which was based on a Municipal Services Inventory compiled by INFOM, needed substantial revision after implementation started. There were serious errors in INFOM's determination of project needs and priorities when the Municipal Services Inventory was compiled. Consequently, USAID/Guatemala and INFOM decided to reprogram the list of activities. Construction delays caused by the reprogramming, and slowness in meeting conditions precedent, resulted in increased subproject costs because of inflation. The reprogramming of activities will result in a reduced program of 98 subprojects costing \$10.065 million which will benefit only 81 municipalities -- a reduction of 113 subprojects and 20 municipalities.

A comparison between the original and the revised budget of the Municipal Reconstruction Fund, as of June 30, 1981, is shown below:

	GOG		AID		TOTAL	
	<u>Original</u>	<u>Revised</u>	<u>Original</u>	<u>Revised</u>	<u>Original</u>	<u>Revised</u>
Subproject Costs	\$1,750,000	\$1,611,900	\$6,620,000	\$6,517,100	\$8,370,000	\$8,129,000
Fund Administration	920,000	1,215,000	140,000	321,000	1,060,000	1,536,000
Engr. Consulting Services	<u>-0-</u>	<u>21,000</u>	<u>300,000</u>	<u>379,000</u>	<u>300,000</u>	<u>400,000</u>
Total	<u>\$2,670,000</u>	<u>\$2,847,900</u>	<u>\$7,060,000</u>	<u>\$7,217,100</u>	<u>\$9,730,000</u>	<u>\$10,065,000</u>

The conclusions drawn from the above comparison are:

- There was a decrease in the funds budgeted for the subprojects.
- The major upward adjustment of costs was for fund administration -- i.e., INFOM's cost to manage the project. This factor increased by nearly 45 percent, most of the additional funds required were to be provided by GOG. However, AID's funds committed to this area more than doubled.
- The amount that was planned for Engineering Consulting Services increased significantly (33 percent).

As stated previously, the type of activities to be constructed under this program component included slaughterhouses, markets, water supplies, municipal buildings, street repairs, rubbish cleaning, sewerage systems and electrification. The status of activities as of the cut-off date of our audit was:

Subproj. Type	Amount Budgeted	Number of Subprojects	SUBPROJECTS					
			Completed		In Process		Not Started	
			Value	Number	Value	Number	Value	Number
Market	\$3,595,500	17	\$327,600	3	\$1,765,400	8	\$1,502,500	6
Mun. Bldg.	1,453,200	37	1,134,100	30	319,100	7	-0-	0
Wtr. Supply	1,265,000	10	27,300	1	529,200	4	708,500	5
Electrif.	900,000	15	866,851	14	33,149	1	-0-	0
Slaughterhouse	355,200	9	-0-	0	260,600	7	94,600	2
Sewarage Sys.	237,900	3	127,500	2	-0-	0	110,400	1
Rubbish	165,000	2	-0-	0	-0-	0	165,000	2
Street Repair	<u>157,200</u>	<u>5</u>	<u>157,200</u>	<u>5</u>	<u>-0-</u>	<u>0</u>	<u>-0-</u>	<u>0</u>
Total	\$8,129,000 -----	98 --	\$2,640,551 -----	55 --	\$2,907,449 -----	27 --	\$2,581,000 -----	16 --

As may be noted above, of 98 activities planned, only 55 have been completed, 27 were in process, and 16 had not been started.

When the above values are reduced to percentages, a further conclusion is that current construction priorities have not been according to the planned priorities:

	<u>Information in Percentages</u>		
	<u>Planned</u>	<u>Completed</u>	<u>Combined Completed & In Process</u>
Market	44.2	12.4	37.7
Municipal Building	17.9	43.0	26.2
Water Supply	15.6	1.0	10.0
Electrification	11.1	32.8	16.3
Slaughterhouse	4.4	0	4.7
Sewarage System	2.9	4.8	2.3
Rubbish	2.0	0	0
Street Repairs	<u>1.9</u>	<u>6.0</u>	<u>2.8</u>
Total	100.0 -----	100.0 -----	100.0 -----

As of our audit cut-off date, the priorities of construction being emphasized under the Municipal Reconstruction Fund were not in the same proportion as those planned and agreed between the GOG and AID. Too much emphasis (43 percent) was given to the construction of municipal buildings. Even when the value of completed subprojects and those in process are combined, too much emphasis was placed on the construction of municipal buildings. According to Section 5.02 of the Loan Agreement, no more than 20 percent of the funds allocated were to be used for the construction of municipal buildings. The construction of markets, water facilities, and slaughterhouses were substantially behind schedule and many of the planned projects for these activities had not been initiated.

In implementing a recommendation included in our draft report, the Mission reviewed the trends in construction. Its comments and determinations are included in a prior section of this report.

Municipal Institutional Development

The Municipal Institutional Development component of the project has been very successful. The goals called for the training of 535 municipal officials. However, with only a minor revision in funding, INFOM provided technical assistance to 111 municipalities and trained 840 municipal officials as of June 30, 1981.

USAID/Guatemala disbursements under the Municipal Institutional Development component totalled \$181,843 as of June 30, 1981:

Summary of Obligations & Expenditures
As of June 30, 1981

<u>Sub-component</u>	<u>Original Budget</u>	<u>Budget Revision</u>	<u>Amended Budget</u>	<u>Disbursed</u>	<u>Balance</u>
Training of Municipal Officials	\$195,000	\$(43,700)	\$151,300	\$35,811	\$115,489
Tech. Assistance Programs	200,000	69,322	269,322	131,273	138,049
Equipment & Materials	<u>25,000</u>	<u>-0-</u>	<u>25,000</u>	<u>14,750</u>	<u>10,250</u>
Totals	<u>\$420,000</u> *****	<u>\$25,622</u> *****	<u>\$445,622</u> *****	<u>\$181,834</u> *****	<u>\$263,788</u> *****

Regional training sites were established in various locations which enabled INFOM to reach more people than would have been possible with the use of one central training facility. Mayors, staff members, administrators of services, and new employees were included in the training program. The activities covered in the training courses included: Facilities Management; Tax Assessment, Billing and Collection; Review of Taxing Structures; Budget and Fiscal Reform; Collection Procedures; and Accounting. Presented here is

a summary of officials trained and municipalities assisted between 1978 and June 30, 1981:

<u>Officials Trained</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Total</u>
Mayors	53	26	29	217 <u>a/</u>	325
Counselors	3	8	10	-0-	21
Trustees	26	15	21	-0-	62
Pub. Utility Administrators	49	40	53	-0-	142
Other Municipal Officials	102	68	112	-0-	282
Secretaries	<u>8</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>8</u>
Total	<u>241</u>	<u>157</u>	<u>225</u>	<u>217</u>	<u>840</u>
Municipalities Assisted	49	30	32	<u>a/</u>	111

a/ New mayors are appointed every two years. This was a training program for for the mayors.

We noted some positive effects of the training courses during a field visit. In the municipality of Jalapa, we compared tax revenues for the first quarter of 1980 (before the municipal officials were trained) to revenues from the first quarter of 1981. The comparison showed a 109 percent increase in tax revenues, ... from \$28,474 in 1980 to \$59,428 in 1981. One of the primary objectives of the Municipal Institutional Development component of the project was to train officials to more effectively administer their tax collection programs. The resulting increase in revenues will be used to improve public services in the municipalities.

As of the cut-off date of our audit, there remained \$263,788 of the funds budgeted for training. Some determination needed to be made to expand the scope of training or shift these funds to another area of the program.

In our draft report, we included the following recommendation:

"USAID/Guatemala should determine whether to expand the scope of training under the Municipal Institutional Development or shift the remaining funds to another part of the program."

In response to our draft report, USAID/Guatemala stated that it considered the level of funding for this component to be appropriate, and that given the past successes, the remaining amount would be used for the training of municipal employees in specialized tasks, such as, slaughterhouse management. We concur with the Mission's course of action and believe the intent of the recommendation has been fulfilled. For this reason, no recommendation is included in this report.

INFOM Institutional Development

The training of INFOM personnel to meet the planning and management demands of the project has not gone well. Until recently, there was no plan describing what training needed to be done. Although such a plan exists today, the delay in training INFOM personnel has hurt the project.

The project paper gave INFOM responsibility for administering project activities. Along with this responsibility, there was a recognition that INFOM needed to build its institutional capability to handle project activities. Lacking in the project paper, however, was the identification of specific areas where training and expertise would be needed. The project did not require that a training needs assessment be prepared to determine how best to improve INFOM's Institutional Development capabilities.

INFOM started spending Institutional Development funds without knowing what training it needed. No assessment of needs was prepared. Since no comprehensive training program was developed, funds were spent without assurance that INFOM's institutional capability would be improved.

The effects of INFOM's lack of direction in this component have done the most harm to the Municipal Enterprise Fund component. INFOM had no in-house experience to formulate and implement a sound program. Consequently, only four of the forty-eight planned Municipal Enterprise subprojects were expected to be completed by the end of calendar year 1981.

INFOM officials told us that they started working with USAID/Guatemala's Training Officer in February 1981, and that they had developed a needs assessment and schedule for training. The training element was an important link to implementing the rest of the project. We are not sure what effect this training will have on the project now. Of \$223,850 allocated for INFOM's Institutional Development, \$132,760 has already been spent. Only \$91,090 remained as of June 30, 1981.

Since a significant amount of project funds will not be disbursed by the terminal disbursement date, March 20, 1982, the project may be extended. If an extension is granted, we believe that the Mission should assure itself that INFOM has the institutional capability to complete the project. Otherwise, arrangements should be made for INFOM to obtain this capability prior to spending the remaining project funds. This problem was addressed in implementing Recommendation No. 1 of the draft report. See USAID/Guatemala's comments in a prior section of this report.

Municipal Enterprise Fund

The Municipal Enterprise Fund had not made satisfactory progress. At the time of our audit, only one of the planned forty-eight subprojects had been completed. The major problem with this component was the turnover of counterpart personnel.

A fund totalling \$690,000 (comprised of \$210,000 from the AID loan and \$480,000 from GOG counterpart funds) was to be established in INFOM. This money was to be used by municipalities to establish either:

- (a) municipally-owned facilities leased or rented to the public and private sector, such as dry storage facilities, workshop facilities, and truck parking facilities; or
- (b) municipally-owned and operated businesses, such as the manufacture of concrete blocks and bricks, doors and window frames, packaging boxes, and the operation of refrigerated storage and ice plants.

Technical assistance to municipalities and technical management of the fund was the responsibility of INFOM. INFOM was to create a section within its Budget and Economic Analysis Division for this project component. This section would be staffed by a Commercial Loan Officer, a Financial Analyst, an Industrial Engineer, and a Mechanical Engineer. Their functions were to include the establishment of the fund, the development of proposals and projects, and general supervision of project progress.

At the time of our review, only one municipal enterprise had been established -- an organization for the rental of farm machinery to local farmers. Two more subprojects were expected to start by September 1981. INFOM officials told us that they have experienced problems keeping trained personnel on this project component. Within two years, INFOM had five different managers. This continuous turnover of personnel disrupted INFOM's efforts to conduct feasibility studies required for subproject implementation. Consequently, INFOM had only completed nine feasibility studies at the time of our review. Out of the planned forty-eight subprojects included in the AID Project Paper, INFOM hopes to have four in operation by the end of calendar year 1981. Ways to reduce the continuous personnel turnover was explored by the Mission in response to our draft report. Mission comments on this point are shown on page 6.

During the reprogramming of project funds, which took place in July 1980 (Implementation Letter #11), the Municipal Enterprise Fund component was reduced from \$690,000 to \$390,000 with AID providing \$113,428 and the GOG the remaining \$276,572. INFOM had not submitted an expenditure voucher for this component as of June 30, 1981. Therefore, we were not able to determine if expenditures were within budgeted amount.

Recommendation No. 2

USAID/Guatemala should obtain a report on the status of expenditures under the Municipal Enterprise Fund.

Financial and Internal Controls

Advance of Funds

USAID/Guatemala provided INFOM a \$500,000 advance for the establishment of a revolving fund to cover project construction and equipment costs. The timing of this advance now seems to have been premature. Its size may have been too high and it is obvious that INFOM has had problems accounting for expenditures and replenishing the advance in a systematic and routine manner.

On April 14, 1978, INFOM requested a \$1,256,438 advance from AID to meet anticipated project costs for the period May through July 1978. Although there was no provision in the loan agreement for such an advance, USAID/Guatemala responded on April 28, 1978, that it would provide a \$500,000 advance calculated as follows:

Funds needed for May-July, 1978	\$1,256,438
AID's contribution to project (79%)	\$992,586
50% of AID's contribution	\$496,293

The Mission reduced the amount of the advance requested by 21 percent to reflect its proportionate share of the construction costs. The Mission also stated that subprojects would not all be initiated simultaneously and, therefore, actual disbursements at any one time would be approximately 50 percent of the amount requested. The Mission made the disbursement of \$500,000 to INFOM.

The table below shows the amounts and dates on which INFOM requested reimbursements from AID, up to June 30, 1981:

<u>Request</u>	<u>Date</u>	<u>Amount</u>
1	05/10/78	\$41,421.57
2	06/19/79	361,663.83
3	09/11/79	507,376.16
4	12/28/79	253,501.80
5	04/22/80	543,842.93
6	09/26/80	824,544.43
7	02/18/81	506,160.21
8	06/10/81	396,929.00

Based on the above table, the advance of \$500,000 may have been premature. For instance, the first voucher was submitted on May 10, 1978, for only \$41,422. Then a year went by before INFOM submitted another voucher. The size of the advance also seems to have been high. In the 36 months following the disbursement of the advance to INFOM, a total of \$3.4 million has been reimbursed; or a monthly average of about \$94,500.

The above table also shows that INFOM either lacked the proper accounting mechanism or did not know how to follow the procedures related to an advance of funds. For example, in some cases INFOM accumulated costs for four or five months before claiming reimbursement from AID. By then, costs amounted to well over the advance (\$543,000 or \$825,000). This might also indicate that INFOM did not need an advance.

The following recommendation was made in our draft report:

"USAID/Guatemala should: (a) reevaluate the size of the \$500,000 advance to INFOM in relation to its current needs; and (b) instruct INFOM to submit its vouchers in a more frequent and systematic manner."

In its response, the Mission concurred with our conclusions and reevaluated the advance. The Mission found that INFOM did not need the advance and the advance was withdrawn. Thus, we have withdrawn our draft recommendation.

Project Costs

Our tests of paid vouchers showed that duplicate payments and disbursement of funds without complete documentation had been made. In addition, we found that USAID/Guatemala's financial records differed with the project records. We believe that the cause of the problem was due to inadequate reviews by the Mission. However, the Mission believes its review procedures work well and that the overpayments were isolated instances.

Reimbursement requests were submitted by INFOM to USAID/Guatemala. These requests usually consisted of summary schedules which sometimes contained only a single figure with no back-up documentation. We reviewed the documentation for several vouchers and found a number of discrepancies.

In one case, material was purchased for a subproject and billed to USAID/Guatemala. The material was transferred to another subproject and billed to USAID a second time. The Mission paid \$1,050.88 twice for the same material.

In another case, INFOM submitted and received payment for \$8,847.50 in one voucher. When we inspected the documentation, we found that USAID/Guatemala had previously paid \$1,541 of the amount included in the voucher.

We reviewed the documentation for an INFOM payment to a technical assistance advisor. The advisor claimed expenses of \$24,280.06 for the period from April to December 1979. INFOM paid this amount even though there was documentation for only \$22,323.18. The advisor also claimed \$171.60 for the use of a non-U.S. air carrier when there was daily U.S. carrier service on the same route.

In our draft report, we emphasized the need for USAID/Guatemala to improve its review of project costs. In its response, the Mission disagreed with the conclusions drawn from our sample. In its opinion, the current procedures work well and the overpayments identified were isolated instances. Its comments are stated below:

"It is unrealistic to expect that USAID could be staffed sufficiently to check every voucher and disbursement - many of which consist of only a few dollars - of an eight million dollar loan. A system was established (Implementation Letter No. 6) to provide, within normal manpower limitations, reasonable assurances that INFOM project costs were proper charges against the loan. In the considered judgment of USAID, to date this system has worked well.

"Loan disbursements are effected based on INFOM requests in the form of SF-1034's, supported by summary listings and explanations, together with other relevant documentation as required, e.g., evidence of receipt, source of

origin, etc. The borrower certifies that all goods and services have been received, and the charges are proper against the loan. Detailed supporting documentation for all disbursements is required to be held available by the borrower for subsequent audit check - such as the one just carried out by the AID auditors. Before authorizing the loan disbursement, USAID then conducts a desk audit to ensure that costs claimed conform to the terms of the loan agreement, and the voucher is on its face correct and properly approved.

"The above system is similar to that used for other large projects and in other Missions, and is considerably more demanding than requirements of other international lenders. The assurance it has provided so far that loan disbursements are reasonably controlled and proper has been, in our judgment, fully adequate. Although USAID has no resident auditors, a Financial Analyst was assigned in October 1980 to evaluate the effectiveness of the system. Disbursements for the period March 1 through August 31 were reviewed in detail. Of the \$824,544.43 disbursed during the period, only \$87.78 were found ineligible."

"While USAID disagrees with the overall conclusion of the report that project cost monitoring has been inadequate, we accept the related Recommendations calling for disallowance of \$2,592 and requesting substantiation of \$1,957. This action has already been taken."

We agree with USAID/Guatemala that every voucher and disbursement cannot realistically be reviewed. However, we do not agree that a desk audit is satisfactory for the administrative approval and certification of vouchers. In our opinion, each AID paying office must establish procedures to effectively check vouchers and disbursements on a test basis before payments and/or reimbursements are made. The fact that a review of disbursements may subsequently be made by the Inspector General does not relieve the approving and certifying officers of their responsibility to ensure that disbursements are proper and adequately supported before funds are released.

USAID/Guatemala agreed that we had identified payments that should not have been made but that its system was working well. To support its conclusion, it stated that a review of over \$824,000 in disbursements showed that only \$87.78 were ineligible. Our review, made after USAID/Guatemala's review, showed that over \$2,375 of the duplicate payments we identified were included in the \$824,000 reviewed by USAID/Guatemala. This fact reinforces our belief that improvements can and should be made in USAID/Guatemala's review of its vouchers before they are approved and certified.

The Inspector General of AID is making a worldwide review of the administrative approval and certification of vouchers. The report will discuss and recommend action on the need to establish realistic review and approval procedures of vouchers and the recovery of the \$2,592 in duplicate payments.

Therefore, we are not making specific recommendations on these areas in this report.

In regard to our other finding, the Mission stated that "action has already been taken" to correct the situation; however, no document was submitted to substantiate this statement. We are therefore retaining the recommendation.

Recommendation No. 3

USAID/Guatemala should require INFOM to submit documentation supporting the unsubstantiated difference (\$1,957) paid to the Technical Assistance Advisor.

USAID/Guatemala reimbursed subproject costs without having proper documentation in its files. The Mission approved a water subproject for Milpas Altas on January 25, 1980. The approval was contingent upon receiving an INFOM-Municipality agreement prior to the start of construction. This agreement was to assure that the Municipality would be committed to promote user acceptance of water meters, and outlined the municipality's plan for hiring and training the required staff to maintain the water system once it was in place. INFOM never submitted the agreement, but started construction anyway. At the time of our audit, USAID/Guatemala had reimbursed INFOM a total of \$12,181 for subproject construction. We believe that USAID/Guatemala should not have approved the subproject — even on a contingency basis — and certainly not made any reimbursement until all documentation had been received.

In our draft report, we recommended that:

"USAID/Guatemala should: (a) require INFOM to submit a copy of the agreement for the Milpas Altas subproject; (b) evaluate the reimbursement of \$12,181 to ensure compatibility with agreement terms; and (c) follow through to resolve any differences between agreement and reimbursed amount."

In its response, the Mission acknowledged the central thrust of our finding. It also stated that although a copy of the agreement was not in the files at the time the payment was made, the Mission knew of its existence and had requested that it be submitted. A copy of the agreement has now been obtained, the reimbursement was reviewed, and there were no differences in cost to resolve. Based on the actions taken by the Mission, the draft recommendation has been implemented, therefore, a recommendation is not included in this report.

Finally, the cost records at USAID/Guatemala's Controller Office reflected an understatement of costs of one component of the project and a corresponding overstatement of another. The Mission switched reported expenses between the Personnel and Training component of the INFOM Institutional Development, and the Technical Assistance Programs component for Municipal Institutional Development. The following table shows a comparison between USAID records and our audited figures:

	<u>USAID Records</u>	<u>Per Audit</u>	<u>Difference</u>
INFOM INSTITUTIONAL DEVELOPMENT			
Personnel & Training	\$83,119.73	\$30,699.10	\$(52,420.63)
MUNICIPAL INSTITUTIONAL DEVELOPMENT			
Technical Assistance Programs	<u>78,852.72</u>	<u>131,273.35</u>	<u>52,420.63</u>
Total	<u>\$161,972.45</u> -----	<u>\$161,972.45</u> -----	<u>\$ -0-</u> -----

The \$52,420.63 difference was the result of a journal entry (JV 56-79) transferring costs, for the period 4/1/78 to 3/31/79, from the Municipal Institutional Development to the INFOM component. This journal entry was made on the basis of verbal instructions from the Project Manager. We were unable to determine the reason for the entry, but it should not have been made without proper documentation.

We included the following recommendation in our draft report:

"USAID/Guatemala should document the reason for the adjustment of \$52,421 or correct the accounts."

In its response, the Mission pointed out that JV 56-79 was the Project Manager's judgment regarding which category was more appropriate for recording the cost. The Mission stated that a journal voucher had been prepared and recorded to cancel the earlier transaction. Therefore, USAID/ Guatemala and INFOM records are now in agreement. Based on this action, we are not including a recommendation in this report.

Surplus Project Funds

USAID/Guatemala and INFOM need to establish procedures to reprogram in a more timely and systematic manner the surplus funds accumulating in subproject accounts. These surplus funds resulted from overestimating the rate of inflation and its effect on subproject activities. At the time of our audit, we identified \$55,683 of unused funds for 34 completed subprojects. If the same condition exists for subprojects that were in process, the estimated excess funds for all activities could be as high as \$263,573.

As of June 30, 1981, INFOM project accounting records showed that 34 completed subprojects had unused funds of \$55,682.62. These funds consist of an AID portion of \$43,989.27 and a GOG counterpart contribution of \$11,693.35. The reason for these surplus funds was that the budgeted cost figures were

increased to compensate for inflation. However, some of the subprojects were started prior to the increase, and materials and supplies had already been purchased. Consequently, the costs had been fixed and would no longer be affected by any inflationary pressures. This fact was unknown to the Mission and so it was unaware of the surplus. Consequently, it had not made plans to reprogram or otherwise use these funds.

Our conclusions were based on a sample of 34 projects. However, there were 30 more planned or ongoing activities where budgeted costs -- which included the inflationary factor -- totalled \$4,098,000. If most items had been ordered before the adjustments for inflation were made, then a more realistic estimate of total cost for these 30 projects would be about \$3,890,110. Therefore, the surplus for these 64 projects might be \$263,573 (\$55,683 plus \$207,890).

In its response to a draft of this report, USAID/Guatemala stated that action had been initiated to reprogram the \$55,683 among 19 subprojects presently under construction or about to begin construction. However, the Mission did not indicate what action was being taken on the 30 projects which could have excess costs of more than \$207,000 allocated to them. The Mission did state that it reprogrammed funds under this project annually and that it would reprogram all excess funds at that time.

Since Letters of Implementation to complete the reprogramming of \$55,683 had not been issued, we are retaining the recommendation until these documents are received. While USAID/Guatemala reprogrammed project funds in 1980 and is now in the process of reprogramming funds in 1981, we believe it is necessary for the Mission to have specific procedures for identifying and reprogramming excess funds on Municipal Reconstruction subprojects.

Recommendation No. 4

USAID/Guatemala should reprogram \$55,683 for other activities.

Recommendation No. 5

USAID/Guatemala should establish procedures to review and reprogram surplus Municipal Reconstruction funds and deobligate any unneeded funds.

Publicity

AID Markings

None of the eight subprojects we visited had AID Hand-Clasp emblems displayed at the construction sites. These markings are required by provisions of the loan agreement. However, the current political situation in Guatemala was presenting unusual problems. The Mission should either take steps to assure that the required markings are displayed on the project construction sites or waive the provisions of the loan agreement.

Section 6.12 of the loan agreement states that the borrower shall "identify or cause to be identified the project site, and shall mark or cause to be marked goods financed under the loan, as prescribed in the Implementation Letter." The Mission outlined the project marking requirements in Implementation Letter No. 6, dated February 28, 1978. The Implementation Letter stated that "the Alliance for Progress and the "Hand-Clasp" emblems will be placed at all project sites and on equipment as may be appropriate." The Mission also required that photographs be included in the INFOM Construction Progress Reports to prove compliance with this provision.

We visited a total of eight subproject sites. Construction was completed at two sites and was ongoing at the remaining six. Neither the Alliance for Progress emblem nor the AID Hand-Clasp emblem was displayed; nor were there pictures of subprojects with the required AID markings in the INFOM Construction Progress Reports we reviewed.

In our draft report, we included the following proposed recommendation:

"USAID/Guatemala should establish procedures to assure that all subproject construction sites have the required AID markings displayed, as called for in the loan agreement."

In responding to the draft report, the Mission stated the following:

"The past two years have seen a significant increase in political violence in Guatemala, particularly in the North Central Highlands area which is AID's principal area of geographic concentration. For this reason, it has been the Mission's policy to maintain a low profile in the rural areas and not to press implementing agencies on the site marking issue. Under the present circumstances we believe this is a prudent and desirable course of action."

After reviewing the Mission's comments, it seems to us there are two valid aspects which must be considered. On one hand, Section 6.12 of the Loan Agreement requires the AID markings and this section cannot be arbitrarily disregarded. Yet, on the other hand, there has been a change in the political situation of Guatemala and the Mission's position is possibly both prudent and desirable.

AID Handbook 11 states that "Mission Directors may waive the marking requirement, or authorize the removal of emblems, on a finding that the appearance of the emblem would produce adverse reactions in the host country." Although we were advised that USAID/Guatemala has made a "conscious policy decision" not to push for markings at project sites, this decision has not been put into writing.

Recommendation No. 6

USAID/Guatemala should document its justification for not requiring marking at the construction sites and issue appropriate implementing letters.

Monitoring

We noted several areas, as shown in this report, where improvements and changes were necessary to more effectively and efficiently implement activities under this project. It was our opinion that USAID/Guatemala should establish a plan of action to more effectively fulfill its monitoring responsibilities.

In response to our draft report, USAID/Guatemala provided additional information, made changes, and agreed to take further action regarding our findings. In addition, USAID/Guatemala provided extensive data on its monitoring activities.

After reviewing the actions taken and the additional information provided, we believe that USAID/Guatemala has actively monitored project implementation given the problems encountered and staff provided.

USAID/GUATEMALA
Audit of Municipal Earthquake Recovery Program (Loan No. 520-W-027)
Status of Loan and Counterpart Funds
As of June 30, 1981

COMPONENT	AID FUNDS			GOG FUNDS		
	Amount Budgeted	Amount Disbursed	Balance	Amount Budgeted	Amount Disbursed	Balance
Municipal Reconstruction Fund						
Sub-Project Cost	\$6,517,100	\$2,835,672	\$3,681,428	\$1,611,900	\$737,082	\$874,818
Fund Administration	321,000	13,765	307,235	1,215,000	1,412,910	(197,910)
Engineering Consultant Services	379,000	271,409	107,591	21,000	-0-	21,000
Sub-Total	<u>\$7,217,100</u>	<u>\$3,120,846</u>	<u>\$4,096,254</u>	<u>\$2,847,900</u>	<u>\$2,149,992</u>	<u>\$697,908</u>
Municipal Institutional Development						
Training of Municipal Officials	\$151,300	\$35,811	\$115,489	\$98,700	\$36,972	\$61,728
Technical Assistance Program	269,322	131,273	138,049	140,678	\$140,678	-0-
Equipment & Material	25,000	14,750	10,250	40,000	14,875	25,125
Sub-Total	<u>\$445,622</u>	<u>\$181,834</u>	<u>\$263,788</u>	<u>\$279,378</u>	<u>\$192,525</u>	<u>\$86,853</u>
INFOM Institutional Development						
Personnel & Training Cost	\$73,850	\$30,699	\$43,151	\$86,150	\$29,200	\$56,950
Technical Assistance	110,000	60,203	49,797	-0-	-0-	-0-
Equipment & Material	40,000	41,858	(1,858)	10,000	10,000	-0-
Sub-Total	<u>\$223,850</u>	<u>\$132,760</u>	<u>\$91,090</u>	<u>\$96,150</u>	<u>\$39,200</u>	<u>\$56,950</u>
Municipal Enterprise Fund						
Sub-Project Costs	\$74,228	-0-	\$74,228	\$165,772	-0-	\$165,772
Fund Administration	7,500	-0-	7,500	67,500	67,500	-0-
Staff Training & Technical Assistance	31,700	-0-	31,700	43,300	17,930	25,370
Sub-total	<u>\$113,428</u>	<u>-0-</u>	<u>\$113,428</u>	<u>\$276,572</u>	<u>\$85,430</u>	<u>\$191,142</u>
Total	<u>\$8,000,000</u>	<u>\$3,435,440</u> ^{1/}	<u>\$4,564,560</u>	<u>\$3,500,000</u>	<u>\$2,467,147</u>	<u>\$1,032,853</u>

NOTE: ^{1/} The advance of funds (\$500,000) is not included in the AID-disbursed amount.

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Guatemala should determine a specific time frame for the accomplishment of goals and the provision of sufficient funds for completion of the Municipal Earthquake Recovery Program.

Recommendation No. 2

USAID/Guatemala should obtain a report on the status of expenditures under the Municipal Enterprise Fund.

Recommendation No. 3

USAID/Guatemala should require INFOM to submit documentation supporting the unsubstantiated difference (\$1,957) paid to the Technical Assistance Advisor.

Recommendation No. 4

USAID/Guatemala should reprogram \$55,683 for other activities.

Recommendation No. 5

USAID/Guatemala should establish procedures to review and reprogram surplus Municipal Reconstruction funds and deobligate any unneeded funds.

Recommendation No. 6

USAID/Guatemala should document its justification for not requiring marking at the construction sites and issue appropriate implementing letters.

APPENDIX B

LIST OF RECIPIENTS

	<u>No. of Copies</u>
Deputy Administrator, AID/W	1
Assistant Administrator, Bureau for Latin America and the Caribbean (LAC), AID/W	5
Mission Director, USAID/Guatemala	5
Assistant Administrator - Bureau for Development Support	1
Assistant Administrator, Office of Legislative Affairs (LEG), AID/W	1
Office of Financial Management (OFM), AID/W	1
General Counsel, AID/LAC/CEN, AID/W	1
Country Officer, AID/LAC/CEN, AID/W	1
Audit Liaison Officer, AID/W	3
Director, OPA, AID/W	1
DS/DIU/DI, AID/W	4
PFC/E, AID/W	4
Inspector General, AID/W	1
RIG/A/W, AID/W	1
RIG/A/WAFR	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Karachi	1
RIG/A/Nairobi	1
IG/PPP, AID/W	1
IG/EMS/C&R, AID/W	12
AIG/II, AID/W	1
RIG/A/Panama Residency	1
RIG/A/La Paz Residency	1
RIG/A/NE, New Delhi Residency	1
General Accounting Office, Latin America Branch, Panama	1