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AUDIT OF
MAURITIUS SHELTER PROGRAM
NO. 642-HG-001

Audit Report No. 3-642-88-01
December 15, 1987

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

UNITED STATES POSTAL ADDRESS
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APO N.Y. 09675

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

December 15, 1987

MEMORANDUM FOR Director, RHUDO/ESA, Frederik A. Hansen

FROM: RIG/A/Nairobi, Richard C. Thabet

SUBJECT: Audit of Mauritius Shelter Program

The office of the Regional Inspector General for Audit, Nairobi has completed its audit of the Mauritius Shelter Program No. 642-HG-001. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains two recommendations. The first is considered resolved but requires further action, and the second is considered unresolved. Please advise me within 30 days of any additional information relating to actions planned or taken to implement recommendations Nos. 1 and 2.

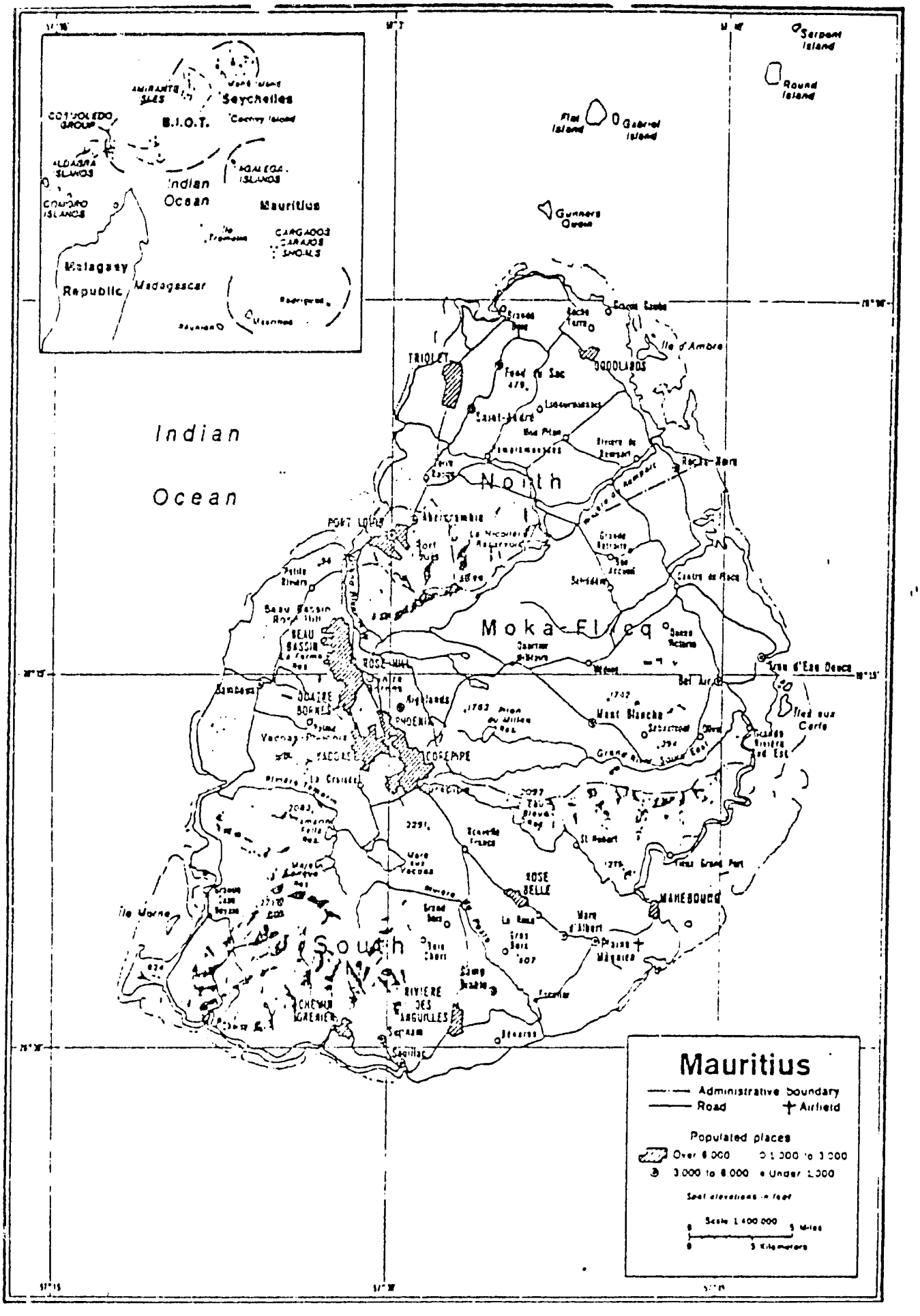
I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

Mauritius comprises a group of small islands located in the Indian Ocean east of Madagascar (see map on next page). A.I.D. involvement in the shelter sector in Mauritius started in 1975 following a Government of Mauritius (GOM) request for assistance in financing shelter reconstruction after the Gervaise Cyclone of that year.

The Mauritius Shelter Program was authorized in July 1980. The program was administered by A.I.D.'s Regional Housing and Urban Development Office, East and Southern Africa (RHUDO/ESA) and implemented by the Mauritius Housing Corporation (MHC) which is a parastatal under the Ministry of Finance.

The purpose of the program was: (a) to increase production of low cost housing and (b) to strengthen shelter institutions by establishing a housing unit within the Ministry of Housing, Lands and Town and Country Planning and by further developing the MHC as a housing finance institution for lower income groups. The Program was to provide 500 serviced plots, 500 expandable core houses and 500 home construction loans.


Mauritius
Administrative boundary
Road
Airfield
Populated places
Over 6,000
3,000 to 6,000
Under 1,000
Indian Ocean
North
Moka-Flacq
South
Seychelles
B.I.O.T.
Mauritius
Malagasy Republic
Madagascar
Serpent Island
Round Island
Flat Island
Gabriel Island
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TRIOLET
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Grand Bois
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MAHEBOURG
Plaine Magnien
RIVIERE DES ANGUILLES
CHEMIN GRENIER
Sagittaire
Scale 1:400,000

The program was financed by a $6 million A.I.D.-guarantied loan provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated, a private U.S. corporation. The loan disbursement schedule provided for three equal tranches of $2 million each. The first and second loan tranches were disbursed in November 1985 and December 1986, respectively; the third tranche was scheduled for May 1988. The Ministry of Finance received the loan funds for re-lending to MHC for Program purposes. The GOM was to contribute not less than the equivalent of U.S. $800,000 including costs borne on an "in-kind" basis.

The Program experienced substantial delays due to such unexpected problems as difficulties in obtaining local land development permits and inadequate soil for septic tank sewage treatment. As a result, only $1.7 million of the $4 million received by the Ministry of Finance at the time of the audit was applied to the Program.

Audit Objectives and Scope

The office of the Regional Inspector General for Audit, Nairobi (RIG/A/N) made a compliance audit of the Mauritius Shelter Program. The audit objective was to determine whether the GOM complied with all provisions of the Program Implementation Agreement.

To accomplish this objective, RIG/A/N obtained relevant documentation and interviewed pertinent officials of RHUDO/ESA, Nairobi, the Mauritius Housing Corporation, the GOM's Ministry of Finance and the American Embassy, Port Louis, Mauritius. Loan funds totalling $4 million were traced through the Ministry of Finance's accounting system.

The audit did not include reviews of the GOM's contributions to the Program or internal controls except as related to the report's findings. The audit was made between August and October 1987 and was made in accordance with generally accepted government auditing standards.

Results of Audit

The GOM did not comply with all provisions of the Program Implementation Agreement. Specifically, loan program funds were used for non-project purposes. In addition, $20,000 in disbursement fees was not paid to A.I.D.

The report recommends that RHUDO/ESA require the GOM to establish escrow accounts to protect loan funds and issue a bill of collection of $20,000 to the GOM to cover the balance of the loan disbursement fee.

Mauritius Shelter Program Loan Funds Were Used for Non-Project Purposes - The Program Implementation Agreement required loan proceeds to be used only for project purposes. Nevertheless, loan funds were used for general budgetary support. This occurred because the Program Implementation Agreement and RHUDO/ESA policy did not require establishment of an escrow account. As a result, $2.3 million in loan funds were not protected by an escrow account at the time of the audit which could potentially lead to misappropriation and unavailability of sufficient loan funds to complete the housing Program.

Discussion - Article IV section 6.01 of the Program Implementation Agreement provided that, "The Borrower will use the proceeds of the loan for the sole purpose of financing the project in the manner prescribed in the Agreement". However, part of the loan funds were used at various points in time for general budgetary support as shown by the following.

The first loan tranche of $2 million (less bank commission and other charges of about $116,000) was disbursed in November 1985. The local currency equivalent of Mauritius Rupees (Rs) 26.9 million was deposited on December 2, 1985 in the Ministry of Finance's General Account with the Bank of Mauritius. The balance in that account at the close of business on that day was only about $563,000 (Rs 8 million).

The second loan tranche of $2 million (less bank commission and other charges of $23,000) was disbursed in December 1986. The local currency equivalent of Rs 26.2 million was deposited in the Ministry of Finance's General Account with the Bank of Mauritius on December 4, 1986. The balance in that account at the close of business on that day was only about $319,000 (Rs 4.2 million).

An analysis of accounting records showed that none of the Program funds went to the MHC on the dates that the Ministry of Finance received the Program funds (i.e. December 2, 1985 and December 4, 1986). It was not until June 12, 1987, that the MHC received the first loan from the Ministry of Finance. Therefore this analysis and discussions with Ministry of Finance officials showed that program funds were used for general budgetary support which is a non-project purpose.

Further evidence that loan funds were used for non-project purposes was the fact that fiscal year 1986 was a deficit year. The GOM received Rs 1.1 billion in revenues against Rs 1.6 billion in expenditures. In addition to using shelter program loan funds, the GOM's cash flow problems were covered by advances from the Bank of Mauritius.

Loan funds were used for non-project purposes because the Program Implementation Agreement and RHUDO policy did not require loan funds to be deposited in an escrow account prior to their use for project purposes. RHUDO had the authority to require escrow accounts under A.I.D. Handbook 7, Chapter 5, Section 5G. However, it did not routinely exercise that authority due to host governments' objections to the administrative requirements of escrow accounts.

As a result, about $2.3 million in loan funds ($4 million in loan disbursements less $1.7 million in Program expenditures) were still not protected by an escrow account at the time of the audit. Further, since there was no separate account for loan funds and since the use of loan funds was at the discretion of the Ministry of Finance, this could potentially result in misappropriation and unavailability of sufficient loan funds to complete the housing Program.

GOM officials informed us that money would be made available to the MHC when needed. This was supported by a written agreement between the Ministry of Finance and the MHC. The GOM further stated that where funds were not provided to the MHC through the main budget allocation, funds could be made available under a "Reserve Vote" in the budget process.

In conclusion, the fact that the GOM used loan funds for non-project purposes demonstrated the need for RHUDO/ESA to exercise its authority to require establishment of escrow accounts. The GOM's agreement that funds would always be made available to the MHC when needed depended on a favorable GOM financial position. Establishment of escrow accounts would always ensure the availability of funds for project purposes regardless of the GOM's financial condition.

Recommendation No. 1

We recommend that the Director, Regional Housing and Urban Development Office, East and Southern Africa:

a. require the Government of Mauritius to establish an escrow account(s) for the balance of current and any future loan disbursements under the Mauritius Shelter Program, and

b. establish policies requiring escrow accounts for future housing programs in the region.

RHUDO/ESA stated, in replying to the draft report, that they were not concerned about the availability of loan funds. This was based on implementation agreements between A.I.D. and the GOM and between the GOM and the MHC. Nevertheless, RHUDO/ESA understood our concern and planned to (1) negotiate with the GOM to establish an escrow account on the already disbursed funds and (2) require the establishment of such an account for

the next loan disbursement.

RIG/A/N considered this recommendation resolved and will close it once the escrow account(s) is established.

A.I.D. Should Recover $20,000 in Disbursement Fee From the GOM

The Program Implementation Agreement required the GOM to pay to A.I.D. a fixed loan disbursement fee of $60,000. However, A.I.D. only collected $40,000. This occurred because RHUDO/ESA did not enforce specific provisions of the Implementation Agreement. As a result, A.I.D. may lose $20,000 of the disbursement fee.

Discussion - Article IV(A) of the Program Implementation Agreement stated that:

> Borrower shall pay to A.I.D. a fixed disbursement fee equal to 1% of the amount of the A.I.D. - Guaranteed Loan, in the amount of $60,000. Such fee shall be paid to A.I.D. at the time of the first disbursement. This fee shall be non-refundable notwithstanding the failure of Borrower to subsequently receive additional disbursement of the full amount of the Loan.

However, as of October 1987, A.I.D. only collected $40,000 of the $60,000 fixed disbursement fee. A.I.D. received $20,000 in November 1985 and another $20,000 in December 1986.

The remaining $20,000 was not collected because RHUDO/ESA did not enforce the loan disbursement fee provision of the Program Implementation Agreement. Contrary to the Agreement, it allowed the GOM to pay $20,000 on each of the first two $2 million loan disbursements.

Due to the delays in Program implementation discussed earlier, RHUDO/ESA was considering cancelling the final loan disbursement. Since there was a possibility that the third $2 million loan disbursement would not be made, A.I.D. may lose $20,000 because the Director, RHUDO/ESA stated that he did not intend to collect the $20,000 balance of the disbursement fee if the final loan tranche was cancelled.

Recommendation No. 2

We recommend that the Director, Regional Housing and Urban Development Office, East and Southern Africa enforce the Mauritius Shelter Program Implementation Agreement provision on the loan disbursement fee by issuing a bill of collection to the Government of Mauritius for $20,000.

RHUDO/ESA stated, in replying to the draft report, that since the purpose of the 1 percent fee was for the amounts borrowed, it decided to charge the fee on each of the three $2 million

borrowings. Accordingly, the remaining $20,000 would be charged and collected when the last $2 million was borrowed. RHUDO/ESA stated that it followed the intent of the fee charge rather that what was stated in the Implementation Agreement. Collecting the 1 percent up front on the total $6 million to be borrowed did not, in RHUDO's opinion, seem fair to Mauritius, nor did it meet the intent of the fee.

RIG/A/N took the position that the Program Implementation Agreement was a legally binding document for both A.I.D. and the GOM notwithstanding arguments of fairness. With regard to RHUDO/ESA's comments on intent, the Agreement specifically stated that (1) the $60,000 fee was to be paid to A.I.D. at the time of the first loan disbursement of $2 million and (2) the fee would be non-refundable even if the GOM subsequently failed to receive the full amount of the loan. In this regard, the audit disclosed the possibility that the final $2 million loan disbursement may not be made.

Since RHUDO/ESA did not indicate what action it would take on this recommendation, RIG/A/N considered it unresolved at the time of report issuance.

AUDIT OF
MAURITIUS SHELTER PROGRAM
NO. 642-HG-001

APPENDICES

APPENDIX 1

UNITED STATES GOVERNMENT

memorandum

DATE: December 7, 1987

REPLY TO ATTN OF: Fredrik A. Hansen, RHUDO

SUBJECT: Audit of Mauritius Shelter Program 642-HG-001

TO: Richard Thabet, RIG

Following is the RHUDO's reply to the recommendations made in the subject audit.

1. This recommendation is to establish an escrow account for the remaining balance of the current loan disbursements and for any future disbursements.

   As the audit report states the GOM has obligated itself to provide the funds for the project as needed. This obligation is documented in the Loan and Implementation Agreement between AID and the GOM and between the GOM and the Mauritius Housing Corporation. Accordingly, RHUDO is not concerned that the funds will not be made available when required. Nevertheless, RHUDO understands the concerns of RIG and will accordingly negotiate with the GOM to establish an escrow account on the already disbursed funds and RHUDO will require the establishment of such a fund for the next loan disbursement.

2) Recommendation No. 2 is related to the 1% fee AID charges for providing the U.S. guarantee on the loans. This fee as stated is for providing the U.S. guarantee loan on the funds borrowed by a developing country.

   The Implementation Agreement rightly states that the amount to be paid for the $6M loan is $60,000. However, Since, the purpose of the 1% fee is for the amounts borrowed, RHUDO decided to charge the 1% fee on each of the three $2M borrowings. Accordingly, $40,000 has been charged and collected to date. The remaining $20,000 will be charged and collected when the last $2M is borrowed.

RHUDO followed the intent of the fee charge; rather than what is stated in the Implementation Agreement. Collecting the 1% up front on the total $6m to be borrowed did not, in RHUDO's opinion, seem fair to Mauritius, nor did it meet the intent of the fee.

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

APPENDIX 2

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