

PD-ABC-491
1012 70112

**AUDIT OF THE HOUSING FOR DISPLACED
FAMILIES FROM CHORRILLO COMPONENT UNDER
THE IMMEDIATE RECOVERY PROJECT
MANAGED BY THE
CAJA DE AHORROS**

**Audit Report No. 1-525-91-14-N
January 18, 1991**

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS :
RIG / T
APO MIAMI 34022

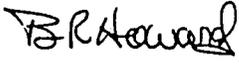
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES :
32-9987
also 32-3120 EXT. 2701-2703

January 18, 1991

MEMORANDUM

TO: Thomas W. Stukel, USAID/Panama Mission Director

FROM: RIG/A/T, Reginald Howard 

SUBJECT: Audit of the Housing for Displaced Families from Chorrillo Component Under the Immediate Recovery Project Managed by the Caja de Ahorros

This report presents the results of a non-Federal financial audit of the Housing for Displaced Families from Chorrillo Component Under the Immediate Recovery Project-USAID/Panama Project No. 525-0302, Managed by the Caja de Ahorros, for the period March 7, 1990 to July 31, 1990, as well as an assessment of the Housing Component's status as of August 21, 1990. The accounting firm of Price Waterhouse prepared the report which is dated December 27, 1990.

The purpose of the Housing Component of the Immediate Recovery Project is to provide direct and immediate housing assistance to an estimated 1,950 families whose homes were destroyed or damaged during the military actions of December 20, 1989. The Caja de Ahorros is the institution in Panama responsible for the implementation of the Housing Component, and the Government of Panama's Ministry of Housing is responsible for developing a list of eligible families who qualify to receive housing assistance. The audit covered the US\$8.9 million of funds which had been advanced to the Housing Component through July 31, 1990.

The purpose of the audit was to report on (1) the fairness of the fund accountability statement for the Housing Component implemented by the Caja de Ahorros, (2) the Caja de Ahorros' internal control structure with respect to the Housing Component's operations, (3) its compliance with agreement terms and applicable laws and regulations, and (4) the status of the achievement of the Housing Component's objectives.

Price Waterhouse issued an unqualified opinion on the fund accountability statement for the Housing Component managed by the Caja de Ahorros. With respect to the Caja de Ahorros' internal control structure, Price Waterhouse noted no matters that it considered to be material weaknesses. In its review of compliance with applicable laws, regulations, and agreement terms, Price Waterhouse found that the Caja de Ahorros had complied, in all material respects, with the exception of transferring funds from the Housing Component's interest-bearing account to its non-interest-bearing account in an amount excess to requirements for eligible purposes under the Agreement. Price Waterhouse also included in its report an assessment of the status of the achievement of the Housing Component's objectives as of August 21, 1990.

Based on the compliance section of the Price Waterhouse report, we are including the following recommendation in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Panama collect from the Caja de Ahorros the interest that would have been earned on the funds transferred to the non-interest-bearing account.

Additionally, based on our analysis of the auditors' assessment of the Housing Component's status, as presented in the audit report section entitled "Report on Project Status as of August 21, 1990", we have developed the following recommendations for inclusion in the Inspector General's audit recommendation follow-up system.

Recommendation No. 2: We recommend that USAID/Panama take into consideration the increased number of eligible families and assure that adequate funding is made available to cover additional project costs.

Recommendation No. 3: We recommend that USAID/Panama (a) review the existing system for issuing passbook accounts and establish appropriate controls to assure that funds are provided to the projects on an as-needed basis to avoid delays in housing construction; and, (b) determine additional method(s) for locating project beneficiaries initially declared eligible, but who have not responded to prior notices. After employing these additional efforts, if these beneficiaries have still not responded, USAID/Panama should consider the alternative of declaring these families ineligible.

Recommendation No. 4: We recommend that USAID/Panama establish a definite time frame for the signing of a housing contract following the beneficiary's selection of a housing option.

Recommendation No. 5: We recommend that USAID/Panama (a) determine those project beneficiaries eligible to obtain financing above the basic \$6,500 grant; and (b) establish a system to expedite the process of paying housing developers for completed houses.

Recommendation No. 6: We recommend that USAID/Panama ensure that houses produced under the project are inspected properly and certified ready for occupancy prior to delivery to project beneficiaries.

Recommendation No. 7: We recommend that USAID/Panama (a) identify and remove from Housing Component funding those families living in the displaced persons camps who have been determined ineligible for project benefits; and, (b) establish a system to ensure that eligible families receiving permanent housing solutions are moved out of the camps as soon as possible after the house is turned over to the family.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

CAJA DE AHORROS
AUDIT OF THE HOUSING
FOR DISPLACED FAMILIES FROM CHORRILLO COMPONENT
OF THE IMMEDIATE RECOVERY PROJECT
USAID/PANAMA PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter and Summary	
Background	1-2
Audit objectives and scope	3
Results of audit	4
Summary of management comments	5
Fund Accountability Statement	
Report of independent accountants	6
Fund accountability statement	7-8
Notes to the fund accountability statement	9-11
Internal Control Structure	
Report of independent accountants	12-13
Compliance with Applicable Laws, Regulations and Agreement Terms	
Report of independent accountants	14-15
Finding	16
Report on Project Status as of August 21, 1990	17-30

Price Waterhouse



December 27, 1990

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

Dear Mr. Howard:

This report presents the results of our concurrent financial audit of the Housing for Displaced Families from Chorrillo (Housing) component of the Immediate Recovery Project (the Project), managed by the Caja de Ahorros for the period from March 7, 1990 through July 31, 1990 under Project Agreement No. 525-0302 between the Republic of Panama and the U. S. Agency for International Development (A.I.D.).

BACKGROUND

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

Due to the emergency nature of the project, implementation began immediately upon obligation of funds and was originally scheduled to end in 150 days. On April 12, 1990, the Project completion date was extended from August 3, 1990 to December 31, 1990. An amendment was signed on June 29, 1990 increasing the total amount of the Grant Agreement to \$30,000,000 and extending the Project completion date to March 31, 1991.

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

<u>Project Component</u>	<u>Project Budget(\$000)</u>
Housing for Chorrillo families	\$15,708
Emergency employment	7,000
Technical assistance and commodities	4,590
Contingencies	802
Care of displaced families at Albrook	<u>1,900</u>
TOTAL	<u>\$30,000</u>

This report addresses only activities related to the Housing component of the Project, which initially totalled \$12.733 million. The June 29, 1990 amendment increased the Housing component by \$2.975 million; and added a new line item for \$1.9 million to cover the cost to support families housed at several camps for displaced persons. The purpose of the Housing component is to provide direct and immediate housing assistance to an estimated 1,950 families whose homes were destroyed or damaged during the U.S. military action of December 20, 1989.

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

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

AUDIT OBJECTIVES AND SCOPE

The overall objective of our audit was to perform a concurrent financial audit of the Housing for Displaced Families from Chorrillo (Housing) component of the Immediate Recovery Project, USAID/Panama Project No. 525-0302, managed by the Caja de Ahorros.

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

1. The fund accountability statement of the Housing for Displaced Families from the Chorrillo (Housing) component of the Immediate Recovery Project, managed by the Caja de Ahorros, presents fairly the Project's receipts and expenditures from March 7, 1990 through July 31, 1990, in accordance with the terms of the Grant Agreement.
2. The Caja de Ahorros' internal control structure was adequate for the Project's purposes.
3. The Caja de Ahorros complied with applicable laws, regulations and agreement terms.
4. The Caja de Ahorros is meeting the objectives of the Program.

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

Receipts

We confirmed directly with A.I.D. the funds provided to the Caja de Ahorros under Grant Agreement No. 525-0302.

Disbursements

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

Other Procedures

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

RESULTS OF AUDIT

Fund Accountability Statement

In our opinion, the fund accountability statement of the Housing for Displaced Families from Chorrillo (Housing) component of the Immediate Recovery Project, managed by the Caja de Ahorros, presents fairly, in all material respects, the Project's receipts and expenditures for the period from March 7, 1990 to July 31, 1990, in accordance with the terms of the respective Grant Agreement with A.I.D.

Internal Control Structure

In planning and performing our audit of the fund accountability statement of the Project for the period from March 7, 1990 to July 31, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

As a result, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control structure and its operation that we have reported in writing upon identification to A.I.D.

Compliance with Applicable Laws, Regulations and Agreement Terms

We tested transactions and records for the period from March 7, 1990 to July 31, 1990, which included receipts and disbursements, and observed on-site activities for compliance with the applicable laws, regulations and agreement terms. The results of our tests indicate that, with respect to the items tested, the Caja de Ahorros complied, in all material respects, with applicable laws, regulations and agreement terms.

The Caja de Ahorros may have not complied with certain terms of the Grant Agreement by transferring from the Project's interest-bearing account to its non-interest-bearing account an amount in excess of the funds required for eligible purposes under the agreement.

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

Project status

The results of our review of the Project's status commences on page 17.

SUMMARY OF MANAGEMENT COMMENTS

The draft report was discussed with officials of USAID/Panama, and they generally concurred with the report's findings and recommendations.

Pricewaterhouse

CAJA DE AHORROS

AUDIT OF THE HOUSING
FOR DISPLACED FAMILIES FROM CHORRILLO COMPONENT
OF THE IMMEDIATE RECOVERY PROJECT
USAID/PANAMA PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM MARCH 7, 1990 TO JULY 31, 1990

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability statement of the Housing for Displaced Families from Chorrillo (Housing) component of the Immediate Recovery Project (the Project), managed by the Caja de Ahorros under Grant Agreement No. 525-0302 for the period from March 7, 1990 to July 31, 1990. The fund accountability statement is the responsibility of the Caja de Ahorros' management. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

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

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, the receipts and expenditures for the Housing for Displaced Families from Chorrillo component of the Immediate Recovery Project managed by the Caja de Ahorros under Grant Agreement No. 525-0302 for the period from March 7, 1990 to July 31, 1990, in accordance with the terms of the respective Grant Agreement with A.I.D.

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

Pricewaterhouse

September 20, 1990

CAJA DE AHORROS

AUDIT OF THE HOUSING
FOR DISPLACED FAMILIES FROM CHORRILLO COMPONENT
OF THE IMMEDIATE RECOVERY PROJECT
USAID/PANAMA PROJECT NO. 525-0302 (NOTE 2)
MANAGED BY THE CAJA DE AHORROS

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM MARCH 7, 1990 TO JULY 31, 1990
Expressed in U.S. Dollars (Note 1)

	<u>Budget</u> (Note 3)	<u>Receipts</u> and <u>Disbursements</u> (Note 4)	<u>Balance</u> (Over) Under <u>Budget</u>
<u>Receipts</u>			
Grant	\$17,473,400	\$8,869,173	\$8,604,227
Total receipts	<u>\$17,473,400</u>	<u>8,869,173</u>	<u>\$8,604,227</u>
<u>Disbursements</u>			
Housing/passbook accounts	\$12,675,000	321,581	\$12,353,419
Titling	432,000	4,869	427,131
Appraisals/ inspections	176,400		176,400
Fixed fee- administrative cost	90,000	58,400	31,600
Moving in allowance	<u>2,000,000</u>	<u>436,400</u>	<u>1,563,600</u>
Sub-total	<u>15,373,400</u>	<u>821,250</u>	<u>14,552,150</u>
Service to displaced families:			
Salaries		46,982	
Local training		-	
Transportation		1,450	
Publicity		23,402	
Printing costs		745	
Office equipment		16,410	
Public utilities		1,755	
Contingencies		<u>7,313</u>	
Total services	<u>200,000</u>	<u>98,057</u>	<u>101,943</u>
Carried Forward	\$15,573,400	\$ 919,307	\$14,654,093

CAJA DE AHORROS

AUDIT OF THE HOUSING
FOR DISPLACED FAMILIES FROM CHORRILLO COMPONENT
OF THE IMMEDIATE RECOVERY PROJECT
USAID/PANAMA PROJECT NO. 525-0302 (NOTE 2)
MANAGED BY THE CAJA DE AHORROS

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM MARCH 7, 1990 TO JULY 31, 1990
Expressed in U.S. Dollars (Note 1)

	<u>Budget</u> (Note 3)	Receipts and <u>Disbursements</u> (Note 4)	Balance (Over) Under <u>Budget</u>
Brought forward	\$15,573,400	\$ 919,307	\$14,654,093
Care of displaced families (Note 5)			
Administrative cost		14,254	
Food medicine		207,435	
Miscellaneous		<u>5,021</u>	
Total displaced family costs	<u>1,900,000</u>	<u>226,710</u>	<u>1,673,290</u>
Total disbursements	<u>\$17,473,400</u>	<u>1,146,017</u>	<u>\$16,327,383</u>
Excess of receipts over disbursements		<u>\$7,723,156</u>	

CAJA DE AHORROS

AUDIT OF THE HOUSING
FOR DISPLACED FAMILIES FROM CHORRILLO COMPONENT
OF THE IMMEDIATE RECOVERY PROJECT
USAID/PANAMA PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM MARCH 7, 1990 TO JULY 31, 1990

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

Basis of Accounting:

The accrual basis of accounting is used in recording the expenditures of the Project.

The records of the Project are kept in United States dollars.

NOTE 2 - HISTORY AND OPERATIONS OF THE PROJECT

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

Due to the emergency nature of the Project, implementation began immediately upon obligation of funds and was originally scheduled to end in 150 days. On April 12, 1990, the Project completion date was extended from August 3, 1990 to December 31, 1990. An amendment was signed on June 29, 1990 increasing the total amount of the Grant Agreement to \$30,000,000 and extending the Project completion date to March 31, 1991.

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

<u>Project Component</u>	<u>Project Budget(\$000)</u>
Housing for Chorrillo families	\$15,708
Emergency employment	7,000
Technical assistance and commodities	4,590
Contingencies	802
Care of displaced families at Albrook	<u>1,900</u>
TOTAL	<u>\$30,000</u>

This report addresses only activities related to the Housing component of the Project, which initially totalled \$12.733 million. The June 29, 1990 amendment increased the Housing component by \$4.875 million; and added a new line item for \$1.9 million to cover the cost to support families housed at displaced persons camps.

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

NOTE 3 - BUDGET

The budget total does not include \$135,000 in audit and some administrative costs.

NOTE 4 - RECEIPTS AND DISBURSEMENTS BY COMPONENT ELEMENT

USAID/Panama provided the Caja de Ahorros advances for \$8,846,373 and reimbursed \$22,800 to cover the Caja's administrative costs.

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

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

NOTE 5 - DISPLACED FAMILY COSTS

On June 28, 1990 USAID/Panama amended the Project agreement and included another line item to the Project to provide care to displaced families. To implement this subcomponent, an agreement was signed with the Chamber of Commerce, Industry and Agriculture of Panama to provide support for the operation of a shelter at Albrook for displaced persons. USAID/Panama budgeted \$1,900,000 for this component. The Chamber of Commerce reported expenditures for the first month of operations (July 16 to August 17, 1990) of \$226,710. These funds were not audited.

CAJA DE AHORROS

AUDIT OF THE HOUSING
FOR DISPLACED FAMILIES FROM CHORRILLO COMPONENT
OF THE IMMEDIATE RECOVERY PROJECT
USAID/PANAMA PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS

INTERNAL CONTROL STRUCTURE

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability statement of the Housing for Displaced Families from Chorrillo (Housing) component of the Immediate Recovery Project (the Project), for the period from March 7, 1990 to July 31, 1990 and have issued our report thereon dated September 20, 1990.

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

In planning and performing our audit of the fund accountability statement of the Project, for the period from March 7, 1990 to July 31, 1990, we considered the internal control structure of the Project in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the Caja de Ahorros is responsible for establishing and maintaining an internal control structure for the Project. In fulfilling this responsibility, estimates and 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 assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

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

For all of the 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.

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

However, we noted certain matters involving the internal control structure and its operation that we have reported in writing upon identification to A.I.D.

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

Price Waterhouse

September 20, 1990

CAJA DE AHORROS

AUDIT OF THE HOUSING
FOR DISPLACED FAMILIES FROM CHORRILLO COMPONENT
OF THE IMMEDIATE RECOVERY PROJECT
USAID/PANAMA PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS

COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS
AND AGREEMENT TERMS

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability statement of the Housing for Displaced Families from Chorrillo (Housing) component of the Immediate Recovery Project (the Project), managed by the Caja de Ahorros, under Grant Agreement No. 525-0302 for the period from March 7, 1990 to July 31, 1990 and have issued our report thereon dated September 20, 1990.

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

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

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

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

Price Waterhouse

September 20, 1990

CAJA DE AHORROS

AUDIT OF THE HOUSING
FOR DISPLACED FAMILIES FROM CHORRILLO COMPONENT
OF THE IMMEDIATE RECOVERY PROJECT
USAID/PANAMA PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS

COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS
AND AGREEMENT TERMS

FINDING

1. The Caja de Ahorros may have failed to comply with certain Grant Agreement provisions.

Condition:

The Caja de Ahorros may have failed to comply with certain Grant Agreement provisions set forth in Project's Implementation Letter No. H-3 by transferring from the Project's interest-bearing account to its non-interest account an amount in excess of the funds required for eligible purposes under the Agreement.

Criteria:

According to Project Implementation Letter No. H-3, the Caja de Ahorros will "move funds from the interest-bearing account to the non-interest-bearing checking account as needed to make payments on behalf of the beneficiaries for the costs of eligible housing solutions".

Cause:

According to the Caja de Ahorros' Project Manager their understanding and interpretation of the existing guidelines established under the various Project Implementation Letters authorized the type and amounts of transfers made by the Caja de Ahorros.

Effect:

As a result of not applying the procedures set forth in Project Implementation Letter No. H-3 approximately \$46,000 in interest was not earned due to the transfer of funds from the interest-bearing account to the non-interest-bearing account.

Recommendation:

We recommend that the Caja de Ahorros and USAID Panama clarify the doubt that exist with respect to the interpretation of the various Project Implementation Letters so that this issue can be resolved.

CAJA DE AHORROS

AUDIT OF THE HOUSING
FOR DISPLACED FAMILIES FROM CHORRILLO COMPONENT
OF THE IMMEDIATE RECOVERY PROJECT
USAID/PANAMA PROJECT NO. 525-0302
MANAGED BY THE CAJA DE AHORROS

PROJECT STATUS AS OF AUGUST 21, 1990

The Housing Component of the Immediate Recovery Project No. 525-0302, was the response to a January 8, 1990 request by the Government of Panama for assistance to meet the housing needs of the families displaced by the military action of December 20, 1989. The Housing Component was to provide housing to 1,800 displaced families from the Chorrillo area of Panama City and was classified as an "Emergency Project" with a 150 day time frame and a planned completion date of August 3, 1990. By early April, 1990 USAID/Panama recognized that completing construction of 1,800 homes within 150 days was unrealistic because of the project's design.

In order to provide housing assistance to eligible families the project design requires that a linear sequence of events be accomplished. These events are: certification of family eligibility, issuance of passbooks, selection of housing option, signing of construction contracts, and delivery of completed houses. Due to delays during project implementation USAID/Panama had to extend the project completion date twice. In April, 1990 USAID/Panama extended the project to December 31, 1990 and again in June, 1990 to March 31, 1991. The Housing Component's progress under this linear sequence as of August 21, 1990 is summarized in the chart prepared by USAID/ Panama on the following page:

AUDIT OF USAID/PANAMA
IMMEDIATE RECOVERY PROJECT 525-0302
HOUSING COMPONENT

PROJECT OUTPUTS TO 8/21/90

DESCRIPTION	MAR	APRIL	MAY	JUNE	JULY	AUG	TOTAL
ESTIMATED ELIGIBLE FAMILIES	1800			150		189	2139
CERTIFIED ELIGIBLE FAMILIES		1331		100	104	123	1658
PASSBOOKS ISSUED	456	13	378	316	31	41	1235
PRELIMINARY HOUSING SELECTIONS	163	152	236	342	282	47	1222
CONTRACTS SIGNED		2	208	224	171	150	755
HOUSES DELIVERED		2	8	12	89	28	139

The statistics show that there has been some progress in the delivery of houses; however, our review disclosed that there are certain issues that need to be addressed for the satisfactory completion of the project. Our report discusses these issues under the following topics: 1) determination of eligibility, 2) issuance of passbook accounts, 3) selection of housing option and signing of contracts, 4) housing construction, 5) delivery of suitable housing, and 6) interim family support at displaced persons camps.

Determination of Eligibility

According to the Grant Agreement, Panama's Ministry of Housing (Ministry) had the initial responsibility for developing the list of families that were left homeless after the events of December 20, 1989 and certifying these families for eligibility. This list was to be used in determining who would receive grant assistance for the acquisition of a new home. To prepare this list, the Ministry used not only its own information but that provided by others such as the Catholic parish in Chorrillo. The list prepared by the Ministry identified the specific room or apartment occupied by each family. Problems encountered by the Ministry in determining eligible occupants of a room/apartment were to be sent to an Appeals Committee which would make a final determination for these conflict cases.

Originally, USAID/Panama estimated the number of houses in the Chorrillo area to be 1,800. Additional information indicated that this number had been underestimated and it was determined that some homes outside the Chorrillo area had also been damaged or destroyed and should be included under the Project. Based on this new information, the Project agreement was amended on June 29, 1990, to include an additional 150 eligible families, increasing the total number of eligible families to 1,950 and increasing funding by about \$1.1 million.

As of August 21, 1990, 1,658 families had been certified as eligible. Currently, the Ministry is in the process of preparing an additional list of about 481 eligible families. As a result, the final number of eligible certified families could reach 2,139. Project budgets were amended to cover 1,950 of the currently estimated 2,139 eligible families; however, no budget provisions have been made to cover 189 eligible families (2,139 less 1,950) which could cost as much as \$1.5 million.

Issuance of Passbook Accounts

According to the Grant Agreement, families whose homes in Chorrillo were destroyed or damaged were to receive grant assistance up to \$6,500 toward the purchase of a house or apartment anywhere in Panama as long as it became the family's permanent residence. Once the Ministry made a determination on the eligibility of a family, the names would be included in a certified list which the Ministry would send to the Caja de Ahorros (the Caja). The Caja would then prepare the needed documents to open an individual family account in which eligible families' grants would be deposited. A certified list of accounts from the Caja would be presented to USAID/Panama as a request for disbursement. USAID/Panama would then disburse funds to the account of the Caja in The Chase Manhattan Bank, N. A. Once the funds had been deposited, the Caja would proceed to establish individual beneficiary passbook accounts.

The family was to receive a passbook as evidence of the grant but could only draw down funds from the account to pay for either the purchase or construction of a home. The funds would be disbursed directly to the contractor, seller of the homes/apartments or to the suppliers in the event that the beneficiaries choose to construct their own home.

Our review of the project disclosed that the issuance of passbooks has been limited. According to information provided by the Caja, 1,235 passbooks had been issued to August 21, 1990. The chart on page 22 presents a breakdown of the monthly issuance of passbooks in relation to the certification of eligible families and the actual signing of contracts with the housing developers.

Caja representatives indicated that there had been a number of factors contributing to the slow issuance of passbooks, some of which have been resolved and others which are still delaying the issuance of passbooks. Problems still delaying passbook issuance are:

- i. According to the agreement, the Caja would begin issuing passbooks after receiving the certified list from the Ministry. The Ministry, however, did not provide the initial list until April 6, 1990. Even though the Caja had issued some 469 passbooks in March, the process had to be discontinued to await the certified list. Updates to the certified list from the Ministry have been slow in reaching the Caja. As of August 21, 1990, 1,658 families had been certified by the Ministry of Housing.
- ii. After receiving the first certified list from the Ministry, the Caja found some conflict cases among those certified by the Ministry. This slowed the process since the Caja would not issue additional passbooks until it was assured that all conflict cases had been identified and sent to the Appeals Committee for final determination. About 113 cases out of the 1,331 certified in April were identified as conflict cases and sent to the Appeals Committee for final determination. The Committee has made determinations in 88 of these cases; the other 25 were pending as of August 21, 1990.
- iii. After receiving the certified list from the Ministry, the Caja prepared a request for funds from USAID/Panama on April 6, 1990. Funds of \$8,651,500 were provided to the Caja on May 8, 1990 which covered the initial 1,331 families certified eligible. From July 2, 1990 to August 21, 1990, although the Caja had requested three more disbursements to cover an additional 322 passbooks, as of August 21, 1990 USAID/Panama had not disbursed the funds to the Caja.
- iv. Although the names of eligible families were published in a local newspaper, about 122 families failed to go to the Caja to obtain their passbooks. According to Caja representatives and our own review, 25 of these families were classified as "in conflict" and therefore could not obtain their passbooks. The remaining 97 eligible families are believed to be in the country side and have no knowledge of their eligibility. We found no evidence that additional efforts were being made to reach these families.

Selection of Housing Option and Signing Contracts

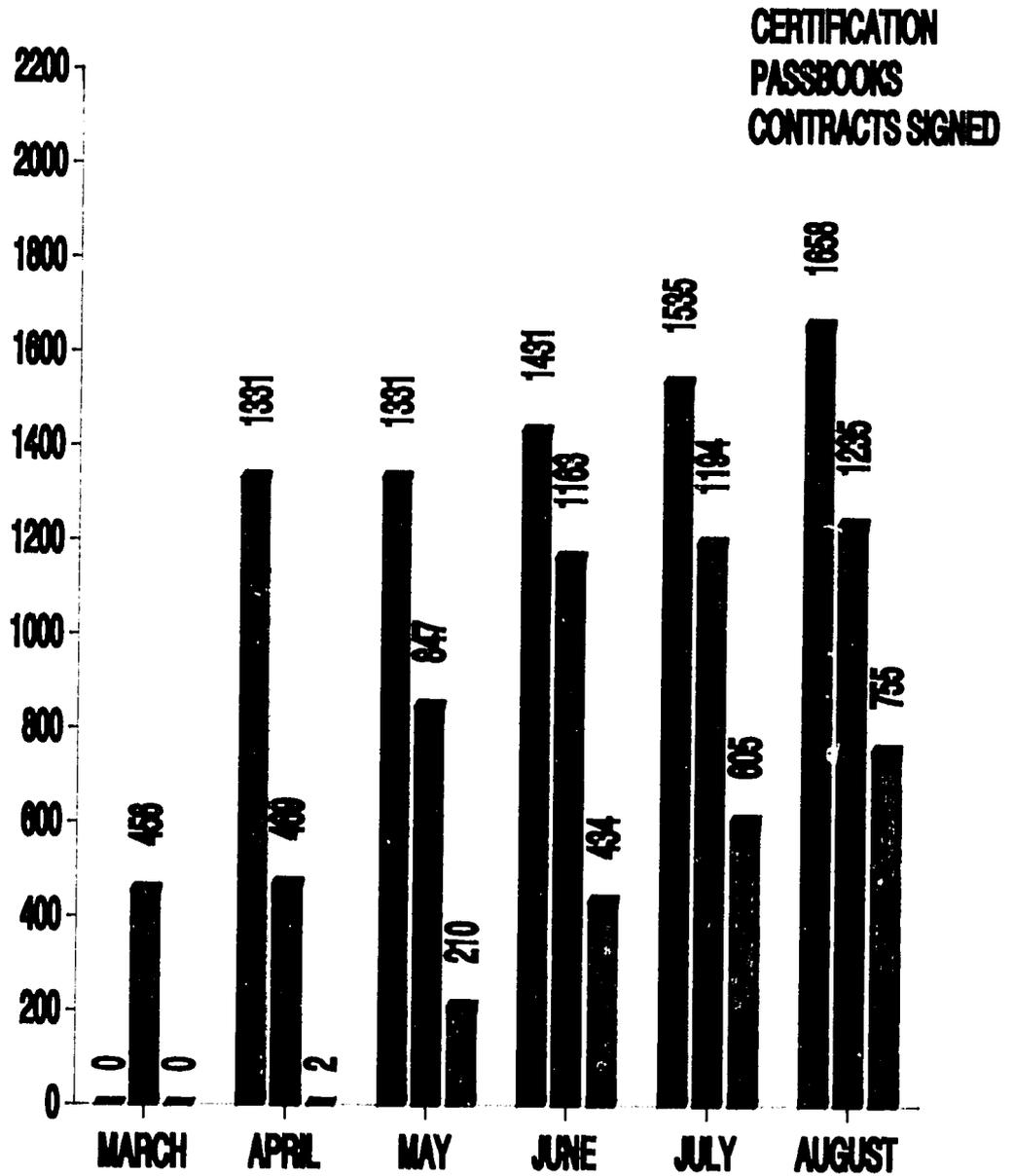
The Grant Agreement was designed to provide a wide range of housing options within a \$6,500 budget. A choice of four housing options was given to beneficiaries as it was expected that the "free choice" approach would produce better results than the traditional approach used by A.I.D. The traditional approach provides funds to a public or private organization to produce a specific number of housing units within a specific time frame but does not allow a choice of site or housing type by the beneficiary.

According to the terms of the Agreement, families were allowed up to 90 days to select a housing option. For those families unable to make a decision, intensive individual assistance would be given for an additional 30 days. If a family was unwilling to make a decision after this period they were to be referred to the Appeals Committee which would make a final determination within 30 days. Failure to act on the Appeal Committee recommendation could result in the family being declared ineligible thereby losing all rights to Project assistance.

Selecting a housing option is very important since all Project activities hinge upon this selection. Once a selection has been made a contract must be signed with a developer before construction can begin. Thus, the signing of a contract is also very important. Both of these events have taken longer than anticipated. For example, after the first 90 days of Project activities only 634 families had made preliminary housing selections, and only 226 had signed contract to have houses built. As late as August 21, 1990 when all eligible families should have selected a housing option and signed a housing construction contract, only 1,222 families out of the 1,658 eligible families had selected a housing option, and only 755 had signed construction contracts. Although a specified time frame had been established for the required selection of a housing option, a specified time frame for the signing of construction contracts was not established. We believe this is the reason for the large difference between the number of housing options selected and the number of contracts signed.

The Project's slow progress can be traced to the Project design. The decision to allow eligible beneficiaries up to 150 days to select a housing option was a built-in delay in the project design. We found that most beneficiaries did not select a housing option within the time frame allowed under the Agreement. Furthermore, we found that an estimated 300 families were not referred to the Appeals Committee by the end of July 1990. A.I.D. and other implementing officials agree that the time given to make a housing decision was too long and that 30 days would have been more appropriate. There seems to have been a general lack of emphasis by the Caja to enforce families to select a housing option within the time frame allowed under the Agreement.

PROJECT STATUS



Housing option selection needs to be emphasized because many eligible beneficiaries do not want to make a decision until they are forced to as they are living in the displaced person camps receiving free food, assistance, and medical care. Once they make an option selection and receive a house they will have to move out of the camps and cover all their living expenses.

The slow decision making process for housing option selection and the lack of a definitive time frame for signing housing contracts has resulted in fewer houses being constructed and delivered. Less than ten percent of the required housing has been provided as of August 21, 1990. This would indicate that something needs to be done to expedite the process. Expediting the process would also save the U.S. Government money because families could be removed from the displaced persons camps sooner. Currently it costs approximately \$268 per month to support each family.

Housing Construction

The Grant Agreement, as amended, provides for 1,950 housing solutions by March 31, 1991. As of August 21, 1990 only 187 housing solutions have been either completed or will be completed soon.

Due to delays during the initial steps of the Project, USAID/Panama recognized that constructing the required number of homes within 5 months could not be met which resulted in the Project being extended to 10 months. Further delays caused a second extension to 13 months.

A.I.D. officials contend that housing will be provided to the 1,950 families by March 31, 1991. However, this housing would not be sufficient for the current estimate of 2,139 eligible families. Based on our discussions with participating housing developers concerning their construction schedules, we concluded that only 1,817 houses will be available by March 31, 1991 (a shortfall of 322 houses).

Project delays have resulted from the factors mentioned previously, i.e. eligibility determination, issuance of passbooks, etc. Housing construction has also been delayed because interim financing was not made readily available to housing developers. This financing problem was made known to A.I.D. as early as March 27, 1990 through a request by the Caja de Ahorros to use Project funds to provide interim financing to contractors. During our June 4, 1990 interview with the contractor for the San Bernardino Housing Project, a project to build 245 houses, we were told that the Caja had been pressing them to start construction but they could not because interim financing was unavailable. The Regional Inspector General for Audit/Tegucigalpa reported this situation to USAID/Panama in an interim audit report dated July 17, 1990. On August 10, 1990 USAID/Panama addressed the problem by issuing a Project Implementation Letter authorizing up to \$8,190,000 in Project funds for construction financing. One requirement for obtaining the financing is that builders must have signed contracts with approved families. Thus, families need to sign contracts as soon as possible so contractors can get financing and start construction.

Many housing developers have stated their unwillingness to participate in the Project because of the \$300 to \$500 profit margin on the basic \$6,500 housing solution. Since USAID/Panama projected that many eligible families would want homes over the basic \$6,500 grant, the Grant Agreement stated that loan funds of up to \$7,000 to qualified families would be provided from the Panama Housing Guaranty Project, No. 525-HG-012.

The amendment required to activate the Housing Guaranty Project has not been signed by the Government of Panama; thus, funds have not been available from this source. Although some families have received loans supplementing their \$6,500 grant, the loans have come from sources other than the Panama Housing Guaranty Project.

As already mentioned, determining which families qualify for loans is the first step to establish the demand for houses costing more than \$6,500; without knowing this demand developers have been unwilling to join the project. The number of qualified families requesting loans in excess of the \$6,500 grant has never been determined. This determination should be made in order to increase developer participation.

Another problem facing the Project is that projected construction schedules will not be maintained by developers if payments for completed houses are not made timely. The president of Econoplade, the largest developer in the Project, stated that as of August 14, 1990 it had not been paid for 66 houses delivered July 18, 1990. Although Econoplade started 100 houses on August 16, 1990, it would be forced to delay the third phase if it did not receive payment for the first 66 houses soon. The developer currently plans to build over 700 homes.

Contributing to the delay in contractor payments has been the Caja's decision not to make final contractor payments until titles are registered. This results in delays of up to two months and has increased contractor interest expense on borrowed monies. According to developers, a lack of coordination between the different entities involved in the housing process is a major cause for delays in the delivery and payment of houses.

If fewer homes are being constructed more Project beneficiaries will be left without homes by the end of the Project. Moreover, the slow construction of housing has left many families living in displaced family camps for too long.

We believe this problem can be resolved by 1) trying to induce more developer involvement in the Project by identifying families qualifying for loans over \$6,500 and 2) seeing that contractors are paid timely in order to maintain construction schedules.

Delivery of Suitable Housing

As previously discussed, the Project permitted various housing options to the displaced families. The Standard Option called for a concrete block house on a fully-serviced lot. These houses were to be available in the short-term and their cost covered fully by the \$6,500 grant. The following page contain photographs of basic housing constructed at two housing projects visited.

During our review, we visited 107 of the total newly constructed homes which were available as of August 21, 1990. We found that 37 homes in Villa Lochin Project were not on fully-serviced lots since electrical lines had not been connected to the houses. Twenty-six of these homes without electricity had been officially turned over to beneficiary families (we could establish that only nine families were actually living in their homes). Because these homes were not on fully-serviced lots as required by the Grant Agreement, we believe they should not have been turned over to the families until the lots were fully serviced.

BASIC \$6,500 HOUSES



As of 8/21/90, the contractor at Vista Alegre had completed 70 houses. The owners had to pay extra for electrical hookups. Transportation was also a problem.



The contractor at Villa Lochin has completed 37 units. Houses had not been connected to the main electrical supply. Streets have not been upgraded and there are no street lights. Transportation to this site was also a problem.

At Vista Alegre Project where 65 homes had been turned over to beneficiaries on July 18, 1990 we found similar problems with electricity and water hook-ups. However, at this site the developer had purchased and installed the materials needed to make the lots fully-serviced and had added these costs to the overall price of the house. Thus, the standard \$6,500 house was now costing more than the Grant Agreement intended. Before families were allowed to move into their homes they had to make arrangements with the developer to cover these added costs. Some families with no other funds available have had to use a portion of the \$800 grant provided by A.I.D. for the purchase of personal effects, to cover these additional developer charges.

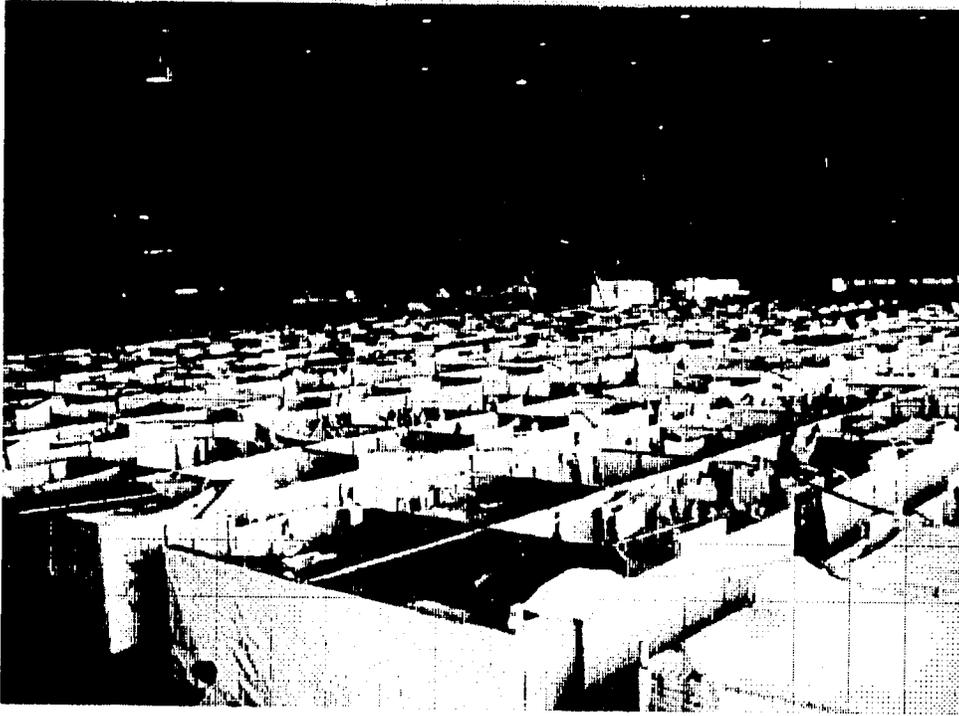
The final hook-ups of electricity and water are the responsibility of agencies of the Panamanian Government; however, these agencies did not have the supplies or financing needed to fulfill their duties. Without direct assistance from the developers no houses would have been in a condition to turn over to families. This situation should be discussed with the Government of Panama and a decision made as to how to provide the necessary utilities and services without increasing costs to beneficiary families.

Interim Family support at Displaced Persons Camps

Responding to the emergency situation resulting from the military actions in Panama, the A.I.D. Office of Foreign Disaster Assistance opened a displaced persons camp at the Albrook Airfield in Panama on January 11, 1990. The camp was opened to all families displaced by the events of December 20, 1989. The camp was set up in a former airplane hangar to temporarily house 506 families. The number of displaced persons at the Albrook camp was initially calculated at 3,226 persons; total displaced persons were estimated at 5,000 to 7,000. Some of the additional displaced persons were housed in 50 tents set up at Albrook while others were housed in various local facilities. Later a second hangar was opened to house most of those families living in tents and local facilities, and about 800 persons were living at five other locations. A partial view of the Chorrillo area following the December 20, 1989 events as well as some of the temporary housing facilities are shown on the following pages.

Displaced persons living in the Albrook camp receive food and basic necessity items, medical care, and school transportation. In addition, a nursery school was established at the Albrook camp for pre-schoolers, and a clinic for senior citizens. According to Red Cross estimates, about \$224,000 per month is needed to cover the camp expenses, or an average of \$268.48 per family per month. Funding through June 30, 1990 came from the disaster assistance budget; however, since disaster assistance is provided usually for no longer than three months, the funding source was changed to A.I.D.'s direct assistance budget on July 1, 1990. USAID/Panama budgeted \$1.9 million in direct assistance to cover camp expenses through March 31, 1991. The day to day management of the camp was left to the Red Cross and the "Patronato Pro-Damnificados", a nonprofit private organization established to assist the displaced families. An agreement was signed with the Panamanian Chamber of Commerce to act as the purchasing agent for the camps.

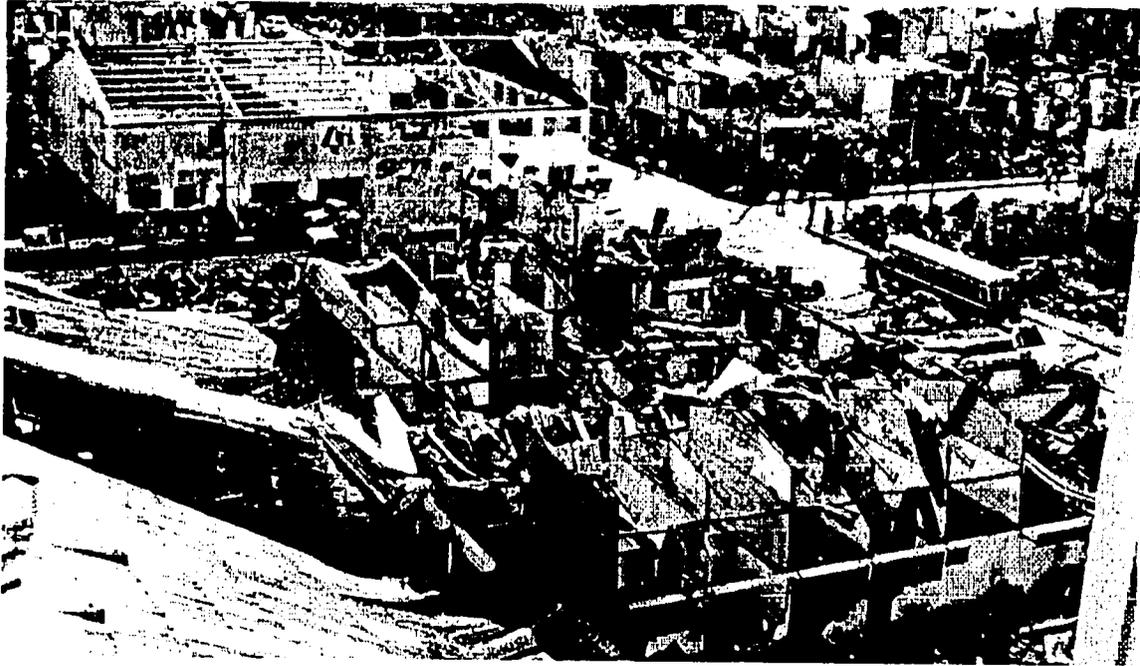
DISPLACED PERSONS CAMP AT ALBROOK



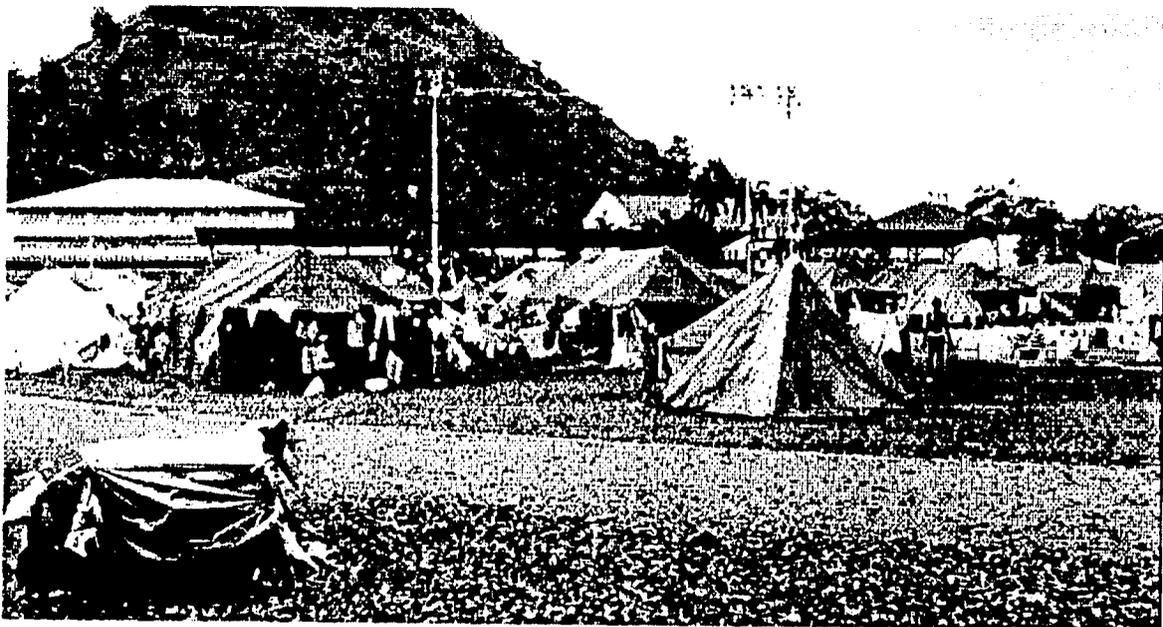
On January 12, 1990 a hanger was conditioned to temporarily house about 506 families.



Some families that could not be placed inside were housed in tents (50 tents to house about 200 families).



Partial view of Chorrillo after the events
of December 20, 1989



Chorrillo families were originally housed at
the Balboa High School Stadium

According to the Ministry there have been about 258 claimant families declared ineligible; an undetermined number of these families are still living at the displaced persons camps. In part, this problem was inherited by USAID/Panama, since the camps were originally established as a humanitarian campaign coordinated by the U.S. Military to provide shelter for all displaced persons. At the time of our review, USAID/Panama had contracted for a survey to determine the number of ineligible families living at these camps. With this information in hand a decision will need to be made as to what to do with these families.

During our review of newly constructed homes, we visited 38 homes at Villa Lochin and Vista Alegre Projects that have been turned over to families living at displaced persons camps. However, only 14 families had actually moved into the new homes. The remaining families were still living in camps. Interviews with these families indicated that families were staying in camps for personal convenience (some said that the camp was closer to their place of work or to the children's schools, others were not ready to take on the responsibility of maintaining their own house, and still others were satisfied with the free food, shelter and medical care provided at the camp). Our review disclosed that a system should be in place to assure that families who had received a permanent housing solution move out of the camps to their homes as soon as possible.

As previously discussed, the prolonged stays at the camps by non-eligible families and those eligible families having received permanent housing but deciding not to leave the camps have created an additional financial burden for the Project. Based on Red Cross estimates, each non-eligible family could cost up to \$2,416 in direct assistance funds between July 1, 1990 to March 31, 1991. Moreover, it will cost another \$6,444 per month for the 24 families we identified that are still remaining in the camps although they have received permanent housing. To assist in the closure of the camps, a determination of the non-eligible families has to be made and a system to assure that families receiving permanent housing solutions evacuate the camps as soon as possible needs to be established.