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UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE AREA CONTROLLER
GUATEMALA CITY, GUATEMALA

RESULTS OF EXAMINATION

of the

LATIN AMERICA

HOUSING INVESTMENT GUARANTY PROGRAM

IN EL SALVADOR

through March 31, 1969

(PROJECT No. 519-HG-002)

DEPARTMENT OF STATE
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INSECTOR GENERAL
FOMENTO ECONOMICO

AUDIT REPORT No. 70-26-ES4

DATE ISSUED: September 26, 1969



Referral Center
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Office of the Area Controller

Guatemala City, Guatemala

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I. SCOPE OF EXAMINATION

At the request of the AID Auditor General, Audit Division (AG/AUD), we have examined the Latin America Housing Investment Guaranty Program (LA-HIG) in El Salvador from its inception through March 31, 1969. The audit was performed in San Salvador, El Salvador during the period April 10 to May 21, 1969, as part of a functional audit to review the implementation of the total LA-HIG Program in Latin America (LA). The AG/AUD Audit Guide for Functional Audit of the LA-HIG Program dated April 4, 1969, was used in conducting this review.

Our review was accomplished on a selective basis and covered all phases of the LA-HIG Program, including Project No. 519-HG-002, the only project under construction during the audit. This report includes only those conditions and recommendations for which corrective action can be accomplished by the U.S. AID Mission to El Salvador (USAID). Conditions and recommendations requiring corrective action above the USAID level have been transmitted to the AID/W office of AG/AUD to be included in a report to LA/HUD. It is anticipated that this functional audit of 16 LA countries will disclose the existence of trend conditions which may

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require changes in procedures currently utilized by the USAIDS in LA; however, these conditions and recommendations will be included in the AG/AUD consolidated audit report to LA/HUD.

II. BACKGROUND INFORMATION

Pursuant to the provisions of Section 224 of the Foreign Assistance Act of 1961, as amended, AID is authorized to guaranty investments of U.S. investors in housing projects in LA similar in manner to that which the Federal Housing Administration (FHA) insures housing loans in the U.S. The U.S. Congress does not appropriate funds for the program but pledges the full faith of the U.S. Government as security to the U.S. investors. LA/HUD presently anticipates that the guaranty fee imposed by AID will provide sufficient resources to pay any claims which may develop under the program.

The LA-HIG authorization is presently set at \$550 million, which represents a substantial contingent liability requiring strict financial controls and close monitorship of all aspects of the program. As of March 31, 1969, of the \$550 million authorized, \$373 million had been approved for guaranty authorizations. These authorizations have been

publicized in three announcements; \$240 million for 1964, \$100 million for 1966, and \$33 million for 1967.

The initial LA-HIG Project No. 519-HG-001 in El Salvador was authorized under a \$4.525 million Contract of Guaranty dated May 15, 1964. There were about 500 houses constructed in this project, located in San Salvador, in the price range of \$9,369 to \$11,676. The project was started in June 1964 and completed in November 1966. Subsequent to completion of the project damages developed in some of these houses due to soil deficiencies. These problems were under review and the eight houses most seriously affected were either under reconstruction or repair when we departed on May 21, 1969. (See "Contracts for Repair of Damaged Houses", page 33).

The principal subject of our review was LA-HIG Project No. 519-HG-002, which was the only project under construction at the time. This project was authorized under a Contract of Guaranty for \$4,556,250 dated December 15, 1966. It was increased by \$1.5 million under Supplemental Agreement No. 1, (dated May 1, 1967) to the Contract of Guaranty. This project is also being constructed in San Salvador, and will include about 601 housing units by type,

sales prices and number as follows:

<u>Type</u>	<u>Sales Price</u>	<u>Number of Units</u>
"A"	\$ 10,300	100
"B"	8,800	123
"C"	7,800	<u>378</u>
Total		<u><u>601</u></u>

There were 134 mortgages under the LA-HIG guaranty for Project No. 519-HG-002 as of March 31, 1969. The project is scheduled for completion in 1971.

There were two more LA-HIG projects in the pipeline at the time of our review. Project No. 519-HG-004 was authorized for \$2.0 million on April 2, 1968. This project will include about 680 housing units in the price range of \$ 3,263 to \$3,343. The other Project No. 519-HG-005 was authorized for \$2.0 million on April 17, 1968. This project will include about 427 housing units in the price range of \$4,912 to \$5,456. These projects were being negotiated as Host Country guaranties. The Financiera de la Vivienda (National Housing Bank) will act as Borrower, and the Central Reserve Bank of El Salvador will act as Guarantor. The latest meeting was held between the USAID,

LA/HUD and Host Country officials on April 24, 1969, in an effort to consummate the Host Country Guaranty Agreements.

III. SUMMARY OF MAJOR FINDINGS

Our major audit findings are summarized below and are referenced to the applicable page numbers in the report. A separate listing of the recommendations appears in Exhibit A of this report.

The Administrator has performed its responsibilities satisfactorily for Project No. 519-HG-002, but certain actions are necessary to assure the continuance of satisfactory performance. (See page 14).

The Administrator had not developed formal operating procedures for use in carrying out its responsibilities for Project No. 519-HG-002 required under the administration agreement. (See page 15).

The Administrator was collecting mortgage payments in accordance with the respective two, ten, fifteen and twenty year terms, but was remitting to U.S. investors in accordance with twenty year amortization tables. (See page 20).

The Administrator was not documenting its actions concerning the reimbursement of purchase deposits for houses in Project No. 519-HG-002. (See page 25).

The USAID had not established a Housing Investment Guaranty Committee to review all aspects of the LA-HIG Program and projects thereunder in El Salvador. (See page 27).

The Administrator was holding funds in escrow for Project 519-HG-002 representing balance of first monthly payments of homeowners from the first of the month to date of closing. There was no provision for disposition of such funds in the Contract of Guaranty and related agreements and no decision had been reached by the USAID for disposition of these funds. (See page 29).

The USAID performed weekly site inspection of the ongoing LA-HIG Project No. 519-HG-002 but was not preparing a record of the site inspections made. (See page 31).

The USAID did not have copies of contracts under which the reconstruction or repair work of damaged houses was being performed in the completed LA-HIG Project No. 519-HG-001. (See page 33).

IV. FINDINGS AND RECOMMENDATIONS

1. Country Program Development

The approval and implementation of any specific program within AID is normally preceded by in-country program development by the USAID which includes these four major areas: (1) an analysis of the Host Country needs and available resources in the specific area under consideration; (2) a consideration of assistance that may be forthcoming from other external aid agencies such as the United Nations (UN), Inter-American Development Bank (IDB), etc.; (3) a consideration of U.S. objectives; and (4) an assessment of the type of activities that can be effectively undertaken with U.S. assistance. Then, based on the USAID recommendations, plans for implementation, and other data developed by the USAID, the appropriate Bureau and other elements of AID/W may approve and arrange for financing of the particular aid program under review. This type of program development assures AID that there is a definite need for the program; the priority for the program is high enough to warrant immediate approval; and that the USAID will have capability available to implement the program.

The survey performed by AG/AUD in AID/W showed that the authorization for the LA-HIG Program by the U.S. Congress in the Foreign Assistance Act of 1961 was not preceded by any requests from AID. The authorization of the program in this manner, therefore, by-passed the normal development of a basic program at the USAID level. Consequently, AID has responsibility for the LA-HIG Program and to establish adequate controls and provide guidelines to the USAID to assure sound program development and monitorship for its implementation.

A. Delegation of Responsibility

The AG/AUD survey of the LA-HIG Program showed that no Manual Orders were issued by AID/W to provide official delegations of authority and specific responsibilities to the USAID. In lieu of normal policy of issuing Manual Orders to cover such programs, LA/HUD has used LA and XA airgrams to communicate information to the USAID in respect to the LA-HIG Program. These airgrams, in our opinion, have not provided adequate guidance to the USAID. In general, the USAID has considered the LA-HIG Program as an AID/W Program and the USAID feels that it has no specific official delegations of authority or responsi-

bility for the LA-HIG Program.

The ongoing "Jardines de Guadalupe" Housing Project No. 519-HG-002 in San Salvador, which was the principal subject of our review, was authorized under the 1964 Announcement. This was prior to the time of issuance of any LA or XA instructional guidelines to the USAID. In reference to this project, the USAID had been assigned specific delegations of authority to mark notes and review closing documentation. The principal parties under the Contract of Guaranty for this project were:

Company: Guadalupe Inversiones, S.A.

Administrator: Ahorro y Vivienda, S.A. (ATLACATL)

Lenders: The Fidelity Mutual Life Insurance Company
Bankers Life Company

Builder: Jardines de Guadalupe, S.A.

Sponsors: Blackmon & Associates, Inc.
Alfaro, Noltenius & Sol

B. Country Program

The USAID had not initiated a study to fully develop a "Country Program" to utilize the LA-HIG Program in El Salvador. The ongoing HIG project provides houses to the middle income level market in the \$8,000 to \$11,000

price range. There was some evidence that the USAID had coordinated the LA-HIG Program with AID and IDB housing loans but a "Country Program" to identify the Host Country housing needs for type of housing required on a geographic basis had not been accomplished. Actually, the LA-HIG Program in El Salvador has a fairly low USAID priority following Education, Health and AID Housing Loan Programs to the Host Country. Based on our review, the reasons for USAID failure to initiate a study and fully develop a "Country Program" utilizing LA-HIG were:

(1) The USAID does not have a qualified Housing Advisor on its staff. The Program Officer for Operations was also acting as the LA-HIG Housing Officer, but does not have the required expertise in this capacity. It was indicated that he provides liaison assistance between LA/HUD, the Administrator, Inspector, Borrower, Builder and others involved in the ongoing LA-HIG Project.

(2) The USAID feels that it has never been officially delegated responsibility to fully develop a "Country Program". It was indicated that the LA-HIG is an AID/W program, and the USAID provides any required assistance to LA/HUD when specifically requested to do so.

Also, the USAID had not developed any procedural guidelines for use in the implementation of the LA-HIG Program. This condition is primarily due to the absence of official delegation of authority and a lack of qualified staff as indicated.

Although LA/HUD has provided some instructional guidance to the USAID through the LA and XA Circular Airgrams, in our opinion, the role of the USAID in the LA-HIG Program has not been clearly defined. In view of the forthcoming functional report of audit of AG/AUD, in which the recommendations of this nature will be directed to LA/HUD, we have no recommendation to the USAID in this regard.

2. Pre-Feasibility Studies

Our review showed that the USAID does not have staff capabilities to perform the pre-feasibility studies required for projects under the LA-HIG Program. The completed LA-HIG Project No. 519-HG-001 and the ongoing Project No. 519-HG-002 were authorized under the 1964 Announcement. The two LA-HIG Projects in the pipeline in the aggregate of \$4.0 million were submitted in September 1966 and authorized in April 1968. There was some evidence that the USAID reviewed the applications and participated in the

pre-feasibility studies. Also, there was some evidence that the USAID provided some assistance to the FHA in its feasibility studies of the projects under an AID contract. However, the USAID lacks staff capability to fully perform pre-feasibility studies on its own.

Subsequent to our review of the LA-HIG Program in El Salvador, we learned that a Regional Housing Advisory position has been authorized for ROCAP. This action, when completed, should provide the required expertise to the USAID for future pre-feasibility studies for LA-HIG projects, and therefore, no recommendation is now deemed necessary.

3. Project Construction and Sales

The FHA Feasibility Recommendation for Project No. 519-HG-002 was submitted to AID on May 4, 1965. The Contract of Guaranty and related agreements were signed December 15, 1966, and the USAID records indicate that construction of the project was started in the first half of 1967. The initial price range of houses in the project was from \$7,800 to \$10,300 depending on type "A", "B" or "C".

Early in the project the builder had some difficulty in selling the houses. The Agreement required that a

house must be sold before constructed, and therefore, potential purchasers of houses were unable to fully visualize what they would receive for their money. It was also indicated that the builder's sales force was inadequate. The builder requested AID approval for the construction of model houses, and AID approval was granted on basis the builder used his own funds and constructed the model houses at his own risk. The builder also became associated with others who provided a new sales approach similar to U.S. methods and practices. At the time of our review, the builder was selling about 25 houses a month, about 75 houses were under construction and the sales outlook continued to be good.

There have been three price increases for houses in the project. The first price increase resulted from the construction of a retaining wall determined to be necessary in the project. The cost of the retaining wall was approximately \$24,000, which increased the price of the houses remaining to be sold by about \$40 per unit. The second price increase was due to a change in plans for certain houses from single to two story units and were to be constructed on larger lots. The price increase for these houses was about \$310 per unit. The third price increase

resulted from higher labor costs and improvement in street curbs. This increase was about \$240 per unit affecting those houses on which sales agreements had not been consummated. As all major problem areas were being satisfactorily resolved, no recommendation is deemed warranted.

4. Project Administration

The Administrator for Project No. 519-HG-002 is the Asociacion de Ahorro y Prestamo (ATLACATL) under Administration Agreement dated December 15, 1966. Our review of the Administrator's records from inception through March 31, 1969, showed that the Administrator has performed very satisfactorily in the period reviewed. The Administrator has (1) made adequate credit reviews of homebuyers, (2) utilized effective collection practices, (3) maintained an adequate accounting system for transactions related to the LA-HIG project, and (4) provided adequate staffing to handle its administrative responsibilities. As evidence of the effective administration of the project, we found that only 14 of the 134 mortgagors (10%) were delinquent as of March 31, 1969, for the periods as follows:

<u>Period of Delinquencies</u>	<u>Number of Mortgagors</u>
1 to 30 days	11
31 to 60 days	2
61 to 90 days	<u>1</u>
Total	<u><u>14</u></u>

Although the project administration was found to be satisfactory in most respects, there were problems disclosed which affect project administration and require action to resolve under the agreements by topic referenced to our comments in this report as follows:

1. Administration Procedures. (See page 15).
2. CPA Audit of Administrator. (See page 18).
3. Provision for Mortgage Prepayments. (See page 19).
4. Short Term Mortgages. (See page 20).
5. Multiple Purchases of Houses. (See page 23).
6. Refunds of Purchase Deposits. (See page 25).

5. Administration Procedures

The Administrator had not developed a manual of operating procedures for use in carrying out its administrative responsibilities for Project No. 519-HG-002 as required under the Administration Agreement dated December 15,

1966. We believe that formal operating procedures are necessary guidelines because of the complexity of the Contract of Guaranty and related agreements thereunder which affect the Administrator's operations.

The Administration Agreement (Art. V, Sec. 5.10) states that the Administrator shall:

(a) Submit to AID, Lenders and Company a detailed statement (with copies of all forms it may use attached thereto) of the credit review, inspection and collection procedures it will follow in discharging its obligations hereunder. Such detailed statement shall be satisfactory in form and substance to AID and shall be modified from time to time as AID shall reasonably direct.

(b) Submit to AID, Lenders and Company, as AID may reasonably request, a detailed statement (with copies of all forms it may use attached thereto) of any other procedures it will follow in discharging its obligations hereunder.

Our review showed that Washington Federal Savings and Loan Association (WFSLA) completed its most recent review of the Administrator's operations in November 1968.

The WFSLA report, dated December 2, 1968, indicated that the procedures used by the Administrator and its internal controls were satisfactory. The report did not mention that no formal operating procedures had been developed by the Administrator. We also found that the credit reviews made by the Administrator were satisfactory and its accounting system and staff were adequate. However, as stated, no procedural guidelines had been developed to assure the continuance of satisfactory performance.

In meeting with the Administrator on May 20, 1969, the need for formal operating procedures was discussed. The concurrence of the Administrator was received, and it was indicated that a Manual of Procedures covering the administration of the project would be developed in the near future. We consider this action to be of importance in view of the possibility that this Administrator may also act in this capacity for another LA-HIG project now in the pipeline for El Salvador.

Recommendation No. 1

The USAID should act to follow-up with the Administrator to be assured that a Manual of Operating Procedures is developed covering the administration of Project No. 519-HG-002 acceptable to AID.

ACTION: USAID Acting Housing Officer

6. CPA Audit of Administrator

The Administrator engaged the services of a local CPA firm to perform an audit of its books and records for calendar year 1968. An unqualified report of audit on results of the review was issued on January 16, 1969. We learned during our review that the audit performed by the CPA firm did not cover the transactions pertaining to the LA-HIG Project No. 519-HG-002.

The LA-HIG project provides a significant part of the Administrator's operations, and we inquired of the Administrator the basis for its exclusion from the audit by the CPA firm. The Administrator advised us in a meeting that the LA-HIG project transactions are in a separate accounting system of its operations and was thus excluded. It was indicated that the Administrator will discuss this subject with the CPA firm for the purpose of including the transactions related to the LA-HIG project in the next annual audit of the Administrator's operations. Since the LA-HIG transactions are a vital part of the Administrator's business, we believe this action is necessary.

Recommendation No. 2

The USAID should act to follow-up with the Administrator to assure that transactions related to Project No. 519-HG-002 are covered by the local CPA firm in its next annual audit of the Administrator's operations.

ACTION! USAID Acting Housing Officer

7. Provision for Mortgage Prepayments

There was a conflict in the provision for mortgage prepayments between the mortgage agreement, (Sec.V) signed by the individual mortgagors and the Administration Agreement (Art.III, Sec.3.01 (iii)) under the Contract of Guaranty Agreement for HIG Project No. 519-HG-002 dated December 15, 1966.

The mortgage agreement (Sec.V) provides that:

"...homeowners have the right to prepay, free of any charges, on the 20th of any month, one or all remaining installments under these mortgages. Such payments must be made to Administrator in amounts not less than two hundred and fifty colones or multiples of this amount..."

The Administration Agreement (Art. III, Sec.3.01 (iii)) states that:

"...Administrator shall not accept any prepayments, except prepayments resulting from the death of a homeowner or a casualty loss, prior to June 30, 1969..."

The Administrator indicated in a meeting that at least one homeowner was adamant about not being able to make prepayments as provided by the Mortgage Agreement. This is understandable since the homeowner could not be expected to know the contents of the Administration Agreement under the Contract of Guaranty. It is anticipated that the AG/AUD functional audit report will include a recommendation that LA/HUD review all future LA-HIG and related agreements to avoid conflicts in the provisions of these agreements. As indicated above, the Administration Agreement provides for prepayments after June 30, 1969, and therefore, no recommendation for USAID action is now deemed necessary.

8. Short Term Mortgages

Our review of the administration of Project No. 519-HG-002 showed that 134 mortgages were under the Contract of Guaranty as of March 31, 1969. These mortgages were for periods of 2 years, 10 years, 15 years and 20 years as follows:

<u>Mortgage Period</u>	<u>Number of Mortgages</u>
2 years	1
10 "	8
15 "	10

<u>Mortgage Period</u>	<u>Number of Mortgages</u>
20 years	<u>115</u>
Total	<u>134</u>

We found that the Administrator was collecting mortgage payments in accordance with the individual mortgage agreements. However, the remittances of principal and interest to U.S. Investors was, in all cases, on the basis of the 20 year mortgage tables. This condition results in a shortage of remittances to U.S. Investors, and allows the Administrator to accumulate excess funds in respect to these short term mortgages which may be used in its own operations.

The Loan Agreement under the Contract of Guaranty does not prohibit short term mortgage agreements of less than 20 years, but no specific provision has been made for short term mortgages as indicated. The only specific reference to 20 years mortgage terms was found in the loan agreement (Art.IV, Sec.4.01,A.(i)) which states in part that:

"...Company will pay the principal of and interest (computed on the basis of a year of twelve 30-day months) on each loan hereunder in not more than 240 consecutive monthly installments (the exact number of installments to be equal to the number of installments due upon the last maturing

mortgage in respect of which said loan is being made), payable on the first day of each calendar month, commencing on the first day of the calendar month next following the calendar month during which such loan was made..."

The Administration Agreement (Art III, Sec.3.01

(iii)) states in part that the Administrator shall:

"...Remit in United States dollars ("Dollars") by cable to Fiscal Agent all amounts then remaining, including all principal prepayments on the mortgages and all net proceeds on foreclosures and other amounts received on or in respect of the mortgages..."

The Washington Federal Savings and Loan Association (WFSLA) reviewed the Administrator's operations in November 1968 under an AID contract. In the WFSLA report issued December 2, 1968, it showed (Page 6) that the mortgagors' monthly payments conform with the amortization tables prepared by the Administrator for the respective 2,10,15 and 20 year mortgage terms, but that the amortization tables prepared by the U.S. Investors are based on a 20 year term. It was stated that since the Administrator remits to the U.S. Investor according to the 20 year tables, the difference in principal and interest received by the Administrator from the mortgagors and that remitted to U.S. Investors on short term mortgages is accumulated monthly and held by the

Administrator. The WFSIA report (Exhibit 3, page 1) informed the Administrator that its remittances to U.S. Investors were not in accordance with the Administration Agreement. The Administrator indicated in reply that the Central Reserve Bank of El Salvador regulations require that remittances to U.S. Investors be in accordance with the 20 year amortization tables prepared by the U.S. Investors. It is important that remittances to U.S. Investors be in accordance with amortization tables for the respective mortgage agreements and that short term mortgages be removed from under the Contract of Guaranty when cancelled. In view of this condition, action to resolve the problem between the U.S. Investors and the Administrator is deemed warranted.

Recommendation No. 3

The USAID should request necessary assistance of LA/HUD to act with U.S. Investors, Administrator and the Central Reserve Bank of El Salvador to resolve the problem in respect to short term mortgages under the Contract of Guaranty for Project No. 519-HG-002 acceptable to AID.

ACTION: USAID Acting Housing Officer

9. Multiple Purchases of Houses

The Administrator's Certificate (Item 7) states

that:

"...To Administrator's best knowledge, no person owns more than one house in the Project..."

During interviews with homeowners in Project No. 519-HG-002, we learned that three houses have been sold to the Universidad Centro Americana de El Salvador (José Simeón Cañas). These houses are occupied by Priests who are associated with the University. The first house sold to the University (#A-11-A2) was included in the third closing dated June 6, 1968. The other two houses sold to the University (#A-16-A5 and B-15-A4) were included in the fifth closing dated December 3, 1968. We believe the intent of the Administrator's Certificate (Item 7), where "no person" is stated also means "no entity". In this instance, we believe the sale of the latter two houses in the fifth closing of December 3, 1968, was in violation of item 7 of the Administrator's Certificate.

We believe that the latter two sales to the University were also a violation of the mortgage agreement (Art. 7) which precluded the buyer of a house in the project from purchasing more than one house therein.

The Administrator stated in a meeting that the sales of the three houses to the University was discussed by Telcon with the former USAID Housing Officer at which time verbal approval was obtained. The present USAID Acting Housing Officer stated he was not aware of the purchase of the three houses by the University. We believe that in the future only one house should be sold to a person or entity. In the event that an exception is made to this single purchase requirement, formal approval of AID and revision of the Administrator's Certificate (Item 7), and the mortgage agreement (Art. 7) is deemed required.

Recommendation No. 4

The USAID should advise the Administrator that any future multiple sales of houses in Project No. 519-HG-002 will require formal AID approval and amendment of Administrator's Certificate (Item 7) and Mortgage Agreement (Art. 7) acceptable to AID.

ACTION: USAID Acting Housing Officer

10. Refunds of Purchase Deposits

Our review of Administrator's records showed a lack of documentation for its actions concerning reimbursement of purchase deposits for houses in Project No. 519-HG-002. Each applicant is required to make a deposit of 500

colones (U.S. \$200) with the application. If the applicant's credit is not approved by the Credit Review Committee, the deposit is fully reimbursed. However, if the applicant's credit is approved, but he does not consummate the purchase, no reimbursement is required under the Administration Agreement (Art. V, Sec. 5.03). In this instance, the Administration Agreement provides for payment of \$100 of the deposit to the Builder and for the \$100 balance to be credited to the Reserve Fund.

The Administrator had received 271 applications for the purchase of houses as of March 31, 1969. There were 24 applicants whose credit was approved but who did not consummate the purchase. It was determined that no reimbursement was made of the deposits in some instances. In other instances either a part or full reimbursement was made, or the applicant was allowed to transfer the deposit to another applicant. There was no basis for these actions available in the Administrator's records. The actions taken on deposits for these 24 applicants were as follows:

<u>Reimbursement Action</u>	<u>Number of Applicants</u>
100% Reimbursement	11
50% Reimbursement	2

<u>Reimbursement Action</u>	<u>Number of Applicants</u>
No Reimbursement	9
Deposits Transferred to Other Applicants	<u>2</u>
Total	<u>24</u>

The Administrator stated in a meeting that its decision for each action was made on an individual basis after oral discussions with the USAID Housing Officer. However, it was indicated that no record is usually made for these actions. We believe that the basis for each deposit reimbursement should be formalized and retained in the Administrator's files.

Recommendation No. 5

The USAID should request the Administrator to document its basis for reimbursement of purchase deposits in Project No. 519-HG-002. The USAID should participate in all such decisions and formalize its approval in each case for the Administrator.

ACTION: USAID Acting Housing Officer

11. Housing Investment Guaranty Committee

Our review showed that the USAID has not established a Housing Investment Guaranty (HIG) Committee to review all aspects of the LA-HIG Program in El Salvador.

We found that one project was under construction, one project had been completed in November 1966, but due to damages resulting from soil deficiencies several houses in this project were being reconstructed or repaired, and two projects were in the pipeline being negotiated as Host Country Guaranties. In view of these projects in the various phases as shown, it is believed that a HIG Committee is necessary to provide continuous monitorship and surveillance of construction and project administration.

The only USAID officials directly involved in the LA-HIG Program were the Program Officer for Operations (Acting Housing Officer) and the General Engineer. There was little evidence in USAID files that the Program Officer, Capital Development Officer, Controller, or other USAID officials were directly involved in the Program. Also, the USAID did not have a qualified Housing Advisor on board.

The Program Officer for Operations was assigned additional responsibilities as Acting Housing Officer by the Assistant Director's memorandum dated April 18, 1968. The LA-HIG responsibilities are mainly to act as liaison between LA/HUD, the Administrator, the local Project Inspector, and the Builder on matters pertaining to projects under the LA-

HIG Program. The General Engineer and the local assistant engineer make weekly site visits to the housing projects under construction, and reconstruction or repair, in addition to the review of other AID capital projects in El Salvador. We believe that a HIG committee is necessary to provide continuous adequate review of the LA-HIG Program and projects thereunder.

Recommendation No. 6

The USAID should establish a Housing Investment Guaranty Committee to provide adequate continuous review of the LA-HIG Program and related project affairs thereunder.

ACTION: USAID Director

12. First Monthly Payments to Date of Closing

As of May 31, 1969, the Administrator of Project No. 519-HG-002 was holding funds in escrow in the amount of \$2,191.46, representing principal and interest balance of first monthly payments of home buyers from the first of the month to the date of closing. The balance of principal and interest of first monthly payments from date of closing to end of month are remitted to the builder. The agreements do not provide for disposition of these funds held in escrow

by the Administrator.

The Washington Federal Savings and Loan Association (WFSLA) reviewed the Administrator's records in November 1968. The WFSLA pointed out this condition in its report to LA/HUD dated December 2, 1968. The WFSLA report indicated (Exhibit 3, page 3, Item 7) that, in its opinion, the amounts held in escrow should be reimbursed to the homeowners. It was indicated that the Administrator believes such action would help create good-will with the homeowners.

The Administrator advised us in a meeting that oral discussions have been held with the USAID concerning disposition of these funds held in escrow, but no final decision had been made. In our exit meeting with USAID officials on May 21, 1969, we were advised that the disposition of these funds had been discussed but was still under review. The USAID officials indicated, however, that it would be quite a problem to determine the amounts to be reimbursed each specific homeowner, but no final decision had been reached.

The funds held in escrow will increase each time there

is a closing for houses in the project. In view of this, we believe that a final decision should be made for disposition of these funds. In our opinion, if it is decided that funds will not be reimbursed to the homeowners, we believe such funds should be credited to the Reserve Fund.

Recommendation No. 7

The USAID should request LA/HUD assistance in determining proper disposition of the funds held in escrow by the Administrator representing the balance of first monthly payment of principal and interest to date of closing in Project No. 519-HG-002, and advise the Administrator accordingly.

ACTION: USAID Director

13. USAID Inspections of Projects

The continuous inspection of the construction of the ongoing LA-HIG Project No. 519-HG-002 and reconstruction or repair of the several damaged houses in the completed Project No. 519-HG-001 is performed by local project inspectors under their respective inspection agreements. In addition, the National League of Insurance Savings Associations (NLISA) inspector performs routine inspections of the project on a recurring basis under an AID contract. Also,

we learned during the review that the USAID General Engineer and his local assistant perform weekly inspections of these projects. However, it was indicated that no record is made of these inspections unless significant problems are encountered.

The USAID General Engineer stated in a meeting that the AID "Blue Book" of instructions is followed for site inspections of these projects. He also stated that he reviews monthly reports submitted by the local project inspector and transmits these reports to LA/HUD with USAID comments thereon. It was also indicated that meetings are held with the NLISA inspector while in El Salvador for project site inspections.

We believe that a record should be prepared of each USAID project inspection made. As a minimum, the USAID inspection report should show the housing units inspected, local project inspector and/or construction personnel contacted, nature of any problems encountered, the method used or action needed to resolve these problems, and the general status of the project.

Recommendation No. 8

The USAID should prepare a record of all future project site inspections made. This record should show, as a minimum, (1) specific housing units inspected, (2) contacts made, (3) nature of problems encountered, and (4) action taken or needed to correct the problems.

ACTION: USAID General Engineer

14. Contracts for Repair of Damaged Houses

During our review of the LA-HIG Program in El Salvador, we were requested by AG/AUD to review the background and status of damaged houses in the completed Project No. 519-HG-001. We found that this project was authorized under the 1964 announcement. This was a \$4.525 million guaranty for the construction of about 500 housing units in San Salvador in the price range of \$9,369 to \$11,616. The project was started in June 1964 and completed in November 1966. About one year after completion of the project, major damages were reported to have developed in at least eight houses in the project due to soil deficiencies. This was first reported to the USAID in November 1967 by the project sponsor, Financiera Roble S.A. As the builder's warranty expired one year after construction was completed, there was no indication that AID had recourse against any-

one involved in this project.

Our review of the USAID files showed that all inspection reports submitted by the local Project Inspector were reviewed by the USAID General Engineer and a lack of soils tests was indicated during the construction of the project. The USAID General Engineer who subsequently reviewed the local Project Inspector's reports arrived at post in January 1967, which was about two months after the project had been completed. There was no USAID General Engineer on board at USAID during the construction of the project.

Once the damaged houses in the project had been reported, prompt action was taken by the USAID, as directed by LA/HUD, to determine cause of problem, the extent of damage, and to accomplish emergency reconstruction or repairs. AID authorized the payment of costs for emergency actions from the Reserve Account held by the Project Administrator, Banco Capitalizador. We were advised as of May 7, 1969, that 80,000 Colones (U.S. \$32,000) had been paid for emergency work, and at the time, AID had already reimbursed the Reserve Account for all but 22,000 Colones (US \$8,800). The emergency work included tests of soils by a local en-

gineering firm and a review of legal aspects by a local attorney as authorized by AID. A thorough soils investigation was performed by the US firm of Holmes and Narver under AID Contract No. AID/csd-1569 (Task Order No. 3), with the assistance of the U.S. firm of Dames and Moore. The amount of \$80,497 was obligated under this task order on March 14, 1969. The amount disbursed was not available at the USAID, but would be a matter of record in AID/W.

On September 23, 1968, an agreement was drawn up in AID/W and signed by AID and Financiera Roble S.A. to accomplish the reconstruction or repair work in the project. Under this agreement AID has established a joint bank account at the First National City Bank in San Salvador with Financiera Roble S.A. Funds up to \$50,000 are to be provided through this account for the payment of approximately \$47,000 for reconstruction costs of these houses. This work was being done under contracts entered into between Financiera Roble S.A. and three local contractors. Copies of the contracts were not available at the USAID at the time. The USAID General Engineer provided the information shown below in reference to the contracts and work to be performed thereunder.

(1) Rodriguez - Melendez (R & M)

This engineering and architect firm has agreed to design and supervise the construction of eight damaged houses for a lump sum of approximately \$4,000.

(2) Alfaro, Noltenius and Sol

This contractor has agreed to a construction management contract for a lump sum of approximately \$4,000. This firm will receive material and contract for labor to accomplish the work. The cost of materials and labor was estimated at approximately \$36,000.

(3) Insueco

This engineering laboratory testing firm has agreed to test materials used in the reconstruction and repair of the damaged houses for a lump sum of approximately \$3,000.

Basic information in reference to the damaged houses was transmitted to AG/AUD by our handwritten memo dated May 8, 1969. We indicated in this memo that it appeared the USAID, as directed by LA/HUD, was doing everything possible to have damaged houses repaired to the satisfaction of AID. We also stated in the memo that the problems which developed in this completed project is a good example of the need for adequate inspection and close monitorship of construction of LA-HIG housing projects. We requested copies of the contracts with the three local contractors for the

repair of damaged houses for review of AG/AUD, but no copies were available at the USAID when we departed on May 21, 1969.

Recommendation No. 9

The USAID should provide AG/AUD with English language copies of the contracts with local contractors under which reconstruction and repair of damaged houses in Project No. 519-HG-001 was being performed.

ACTION: USAID General Engineer

LISTING OF RECOMMENDATIONS AND ACTION OFFICE

Recommendation No. 1

The USAID should act to follow-up with the Administrator to be assured that a Manual of Operating Procedures is developed covering the administration of Project No. 519-HG-002 acceptable to AID.

ACTION: USAID Acting Housing Officer

Recommendation No. 2

The USAID should act to follow-up with the Administrator to assure that transactions related to Project No. 519-HG-002 are covered by the local CPA firm in its next annual audit of the Administrator's operations.

ACTION: USAID Acting Housing Officer

Recommendation No. 3

The USAID should request necessary assistance of LA/HUD to act with U.S. Investors, Administrator and the Central Reserve Bank of El Salvador to resolve the problem in respect to short term mortgages under the Contract of Guaranty for Project No. 519-HG-002 acceptable to AID.

ACTION: USAID Acting Housing Officer

Recommendation No. 4

The USAID should advise the Administrator that any future multiple sales of

Recommendation No. 4 (continued)

houses in Project No. 519-HG-002 will require formal AID approval and amendment of Administrator's Certificate (Item 7) and Mortgage Agreement (Art. 7) acceptable to AID.

ACTION: USAID Acting Housing Officer

Recommendation No. 5

The USAID should request the Administrator to document its basis for reimbursement of purchase deposits in Project No. 519-HG-002. The USAID should participate in all such decisions and formalize its approval in each case for the Administrator.

ACTION: USAID Acting Housing Officer

Recommendation No. 6

The USAID should establish a Housing Investment Guaranty Committee to provide adequate continuous review of the LA-HIG Program and related project affairs thereunder.

ACTION: USAID Director

Recommendation No. 7

The USAID should request LA/HUD assistance in determining proper disposition of the funds held in escrow by the Administrator representing the balance of first monthly payment of principal and interest to date of closing in Project No. 519-HG-002, and advise the Administrator accordingly.

ACTION: USAID Director

Recommendation No. 8

The USAID should prepare a record of all future project site inspections made. This record should show, as a minimum, (1) specific housing units inspected, (2) contacts made, (3) nature of problems encountered, and (4) action taken or needed to correct the problems.

ACTION: USAID General Engineer

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The USAID should provide AG/AUD with English language copies of the contracts with local contractors under which reconstruction and repair of damaged houses in Project No. 519-HG-001 was being performed.

ACTION: USAID General Engineer