

PD-ABT-898

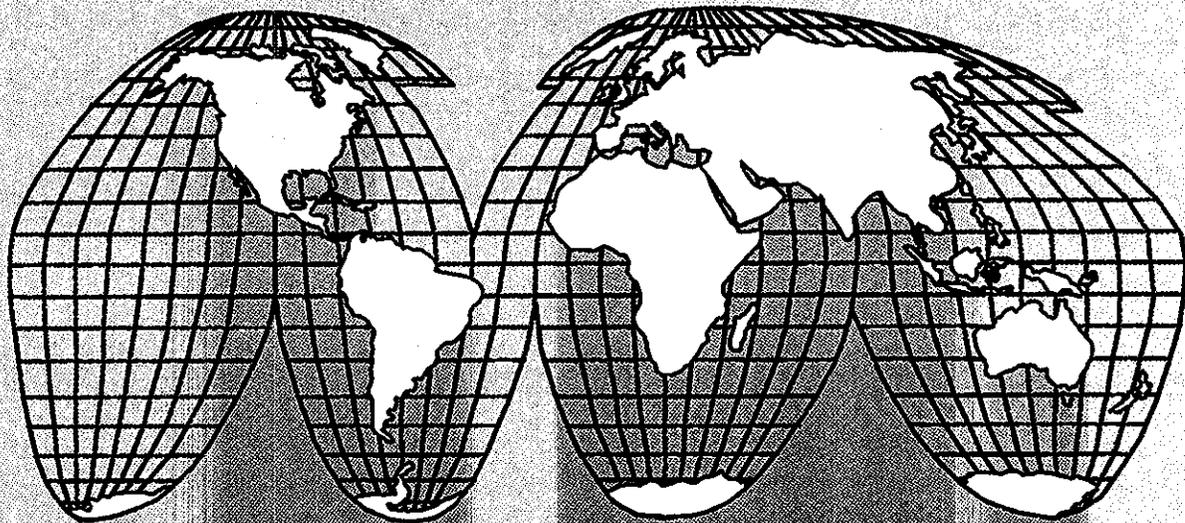
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Honduras' Hurricane Mitch Housing Reconstruction Activities

Audit Report No. 1-522-01-006-P

July 18, 2001



U.S. Agency for International Development
Regional Inspector General / San Salvador

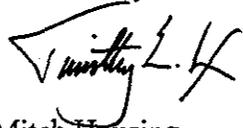


U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

July 18, 2001

MEMORANDUM

FOR: USAID/Honduras Director, Timothy M. Mahoney
FROM: RIG/A/San Salvador, Timothy E. Cox 
SUBJECT: Audit of USAID/Honduras' Hurricane Mitch Housing
Reconstruction Activities (Report No. 1-522-01-006-P)

This memorandum transmits our final report on the subject audit. The report contains no recommendations.

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

**Table of
Contents**

Summary of Results	3
Background	3
Audit Objectives	5
Audit Findings	5
Are USAID/Honduras' housing reconstruction activities on schedule to achieve the planned outputs?	5
Has USAID/Honduras implemented an adequate monitoring system for its housing reconstruction activities?	6
Management Comments and Our Evaluation	7
Appendix I – Scope and Methodology	8
Appendix II – Management Comments	10

Summary of Results

As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed an audit of USAID/Honduras' Hurricane Mitch Housing Reconstruction Activities to answer the following audit objectives:

- Are USAID/Honduras' housing reconstruction activities on schedule to achieve the planned outputs?
- Has USAID/Honduras implemented an adequate monitoring system for its housing reconstruction activities?

USAID/Honduras' housing reconstruction activities are currently on schedule to achieve the planned outputs. For the permanent housing activities, current plans are to complete the construction by the end of December 2001. As of March 31, 2001, 33 percent of the planned housing solutions had been completed, 35 percent were under construction, and 32 percent were remaining to be started. With regard to temporary shelters, construction was completed in November 2000 with a total of 2,646 families receiving temporary shelter—546 more than the programmed amount. (See page 5.)

USAID/Honduras has implemented an adequate monitoring system for the housing reconstruction activities. The Mission hired a housing activity manager who has worked closely with the implementing organizations to ensure that construction was consistent with USAID/Honduras' housing reconstruction strategy.

USAID/Honduras approved housing construction sites in advance and made numerous site visits to ensure proper implementation of the project and to monitor progress towards completion. (See page 6.)

Background

Hurricane Mitch struck Honduras in October 1998 with devastatingly heavy rainfall. An estimated 33,000 houses were completely destroyed and 50,000 were damaged, affecting approximately 662,000 people. It is estimated that over 200,000 people were relocated to temporary shelters in the period immediately following the hurricane.

In May 1999, Congress passed the Emergency Supplemental Appropriations Act, creating the Central America and the Caribbean Emergency Disaster Recovery Fund (CACEDRF), which contained a total of \$621 million in reconstruction assistance for countries hit by Hurricanes Mitch and Georges and for earthquake damages in Colombia. Due to the extent of damage caused by the hurricane, the Honduras received \$293.1 million of the \$621 million.

To combat the effects of the hurricane, USAID/Honduras and the Honduran government signed a Special Objective Agreement, dated June 9, 1999, for the

“Hurricane Reconstruction Program.” The original agreement was funded for \$1.4 million using funds from USAID’s Office of Transition Initiatives (OTI). Subsequent amendments increased the agreement amount to include the \$293.1 million in CACEDRF funds, for a total of \$294.5 million.

Under the grant, USAID/Honduras included a \$19.1 million housing activity to (1) construct temporary shelters for displaced families, (2) develop permanent housing units through support to non-governmental organization (NGO) programs, (3) develop basic sites and services for housing developments, and (4) provide community development services to transitional shelter residents and newly resettled communities. In order to implement this activity, USAID/Honduras signed four cooperative agreements and one grant totaling \$18.6 million with three organizations—the Cooperative Housing Foundation (CHF), Samaritan’s Purse, and the International Office on Migration (IOM). Funding for this activity is as follows:

Implementing Organization	Award Amount (\$000)	Cost Sharing (\$000)	Purpose
CHF Hogar Program	\$7,808	\$3,800	Sub-awards to NGOs for 3,000 housing solutions
Samaritan’s Purse	\$5,632	\$1,529	1,650 permanent houses
CHF Starter Homes	\$1,635	\$343	600 starter homes (with loan component)
IOM	\$3,054	--	1,100 temporary shelters
CHF Temporary Shelters	\$481	--	1,000 temporary shelters
USAID Administrative	\$320	--	Housing activity manager/other
To be determined	\$130	--	To be determined
Total	\$19,060	\$5,672	

As of March 31, 2001, accrued expenditures totaled approximately \$14 million, according to USAID/Honduras.

Audit Objectives As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed an audit to answer the following questions:

- Are USAID/Honduras' housing reconstruction activities on schedule to achieve the planned outputs?
- Has USAID/Honduras implemented an adequate monitoring system for its housing reconstruction activities?

The audit scope and methodology is presented in Appendix I.

Audit Findings **Are USAID/Honduras' housing reconstruction activities on schedule to achieve the planned outputs?**

USAID/Honduras' housing reconstruction activities are currently on schedule to achieve the planned outputs. For the permanent housing activities, the three cooperative agreements (two with CHF and one with Samaritan's Purse) provided for the construction of 5,250 permanent houses or housing solutions. As of March 31, 2001, a total of 2,278 housing solutions had been completed, 2,340 were under construction, and approximately 1,700 were remaining to be started. For the 2,100 planned temporary shelters, construction of a total of 2,646—546 more than planned—was completed in November 2000, 1,638 constructed by IOM and 1,008 by CHF.

The accomplishments under the housing reconstruction activity through March 31, 2001 were substantial. Under its Hogar Program, CHF had signed 19 sub-agreements with 11 NGOs for construction of 1,441 houses and the provision of other housing solutions (potable water, sanitation infrastructure, land purchase, electricity, and lot grading) for an additional 1,567 houses—a total of 3,008 housing solutions—exceeding the 3,000 housing solutions in the agreement's program description. CHF is on track to construct over 4,000 housing solutions—1,000 more than planned—by September 2001 due to some participating NGOs exceeding the minimum 32 percent counterpart contribution established in the agreement.

For Samaritan's Purse, as of March 31, 2001, construction had been completed for 1,451 homes—88 percent of the 1,650 houses planned to be constructed. Samaritan's Purse is on schedule to construct the remaining 199 homes by December 2001, including 150 houses that were added to its agreement in March 2001.

For the CHF Starter Home Program, as of March 31, 2001, 400 of the projected 600 homes were completed and 40 were under construction. Sites had been selected for all 600 homes to be constructed. CHF has a projected construction completion date

of June 2001 for this program—six months prior to the housing activity's completion date.

Has USAID/Honduras implemented an adequate monitoring system for its housing reconstruction activities?

USAID/Honduras has implemented an adequate monitoring system for the housing reconstruction activities.

Automated Directives System (ADS) 202.3.4 requires cognizant technical officers and strategic objective teams to monitor the quality and timeliness of outputs produced by implementing partners. While the ADS does not specify how missions should monitor outputs, we examined whether USAID/Honduras staff approved proposed housing sites, made regular visits to housing construction sites, made recommendations to grantees to improve overall activity results, and arranged for financial statement audits of the implementing partners.

The Mission hired a housing activity manager to provide oversight to the implementing organizations for the \$19.1 million Hurricane Mitch housing reconstruction program. The activity manager has worked closely with CHF, Samaritan's Purse, and IOM to ensure that housing projects are consistent with USAID/Honduras' housing reconstruction strategy.

USAID/Honduras approved housing construction sites in advance, ensuring that the sites complied with environmental standards and that the sites selected by the different implementing organizations did not duplicate efforts.

The activity manager and other individuals made numerous site visits to ensure proper implementation of the project and to monitor progress towards completion. These visits have resulted in the Mission identifying several facets of the activity that have subsequently been strengthened. For example, one result was better compliance with USAID environmental standards and adherence to USAID/Honduras' comprehensive housing approach to ensure that beneficiaries have access to water and sanitation facilities and schools, and that the new communities provide safe and accessible residential environments.

In addition, the reconstruction budget includes funds for monitoring activities, such as personnel for project supervision, travel and per diem for site visits, and audits and evaluations. The Mission has worked with the Office of Inspector General to arrange for quarterly concurrent financial statement audits being conducted by the Defense Contract Audit Agency (DCAA) of the agreements with CHF and Samaritan's Purse. To date, no questioned costs or reportable internal control or compliance findings have been identified by the DCAA auditors for either organization. An audit of IOM was not programmed since it is a public international organization for which USAID does not normally conduct financial statement audits.

**Management
Comments and
Our Evaluation**

USAID/Honduras agreed with the report findings. The Mission's comments are presented in Appendix II.

**Scope and
Methodology****Scope**

We audited USAID/Honduras' housing reconstruction activities in accordance with generally accepted government auditing standards. The audit was conducted at USAID/Honduras from March 26, 2001 through April 19, 2001.

The housing reconstruction activities had two categories of planned outputs to be completed by December 31, 2001: (1) 5,250 new permanent houses or housing solutions and (2) 2,100 temporary shelters. The objectives of our audit were to determine if USAID/Honduras' housing reconstruction activities were on schedule to achieve the planned outputs and if USAID/Honduras had implemented an adequate monitoring system for its housing reconstruction activities. As of March 31, 2001, obligations for the housing reconstruction activity totaled \$19.1 million and accrued expenditures totaled \$14 million, of which \$9.2 million had been disbursed by USAID/Honduras.

Our audit included management controls related to the Mission's monitoring of the non-governmental organizations implementing the housing activity, including controls established to ensure timely implementation of the activity. Our audit was limited to the housing construction portion of the housing activities and did not include a review of other planned outputs under the grants and cooperative agreements with the Cooperative Housing Foundation (CHF), Samaritan's Purse, and the International Organization for Migration (IOM). Our audit did not include a review of compliance with housing construction quality standards established under this activity.

Methodology

To answer the audit objectives, we interviewed responsible officials and reviewed relevant documentation from USAID/Honduras, as well as CHF, Samaritan's Purse, and IOM.

To determine whether housing reconstruction activities were on schedule to achieve planned outputs, we reviewed documentation at USAID/Honduras which included project design documents and the special objective grant agreement and its annexes, including the project's activity description. These documents provided the activity's funding, listed the expected outputs and identified the activity timeframe. We reviewed and verified progress reports from the implementing organizations that included work plans and milestones for achieving the planned outputs. Since no specific output targets were established other than life-of-activity targets, we compared progress as of March 31, 2001 to the final target outputs in the cooperative

agreements. In determining whether activities were on schedule, we considered the amount of time available to complete the construction, as well as other factors, such as the rate at which previous houses have been constructed.

In addition, we performed site visits to the construction areas to determine the extent of progress made to date on the construction activities and verify the information reported by the implementing entities. We visited a total of 9 sites—8 of the 51 permanent housing construction sites and 1 of the 3 temporary housing sites. We randomly selected 7 of the 9 sites visited using probability proportional to size sampling, in which the probability of a site's selection was proportional to the number of houses being constructed at the site. We visited two other sites that were in the same areas of the country as the randomly selected sites. We believe that this sample was representative of the overall housing activity because it covered all three implementing entities and included housing sites in various phases of construction, including some completed sites.

To determine whether USAID/Honduras had implemented an adequate monitoring system for the activity, we interviewed USAID/Honduras project officials to determine what monitoring mechanisms were in place. In addition, we reviewed the project budget to determine the level of resources budgeted for monitoring project activities as well as reviewing the cooperative agreements with CHF and Samaritan's Purse to determine if the Mission has complied with the agreements' substantial involvement clauses.

**USAID/HONDURAS
MEMORANDUM**



DATE : June 6, 2001
TO : Tim Cox, RIG/SS
FROM : Timothy Mahoney, Mission Director *TM*
SUBJECT : **DRAFT AUDIT REPORT N° 1-522-01-xxx-P**
Audit of USAID/Honduras' Housing Reconstruction Activities

This memorandum represents USAID/Honduras response to the draft report of the audit of USAID/Honduras' Housing Reconstruction Activities No. 1-522-01-xxx-P. Mission has reviewed subject draft report and concurs with its contents.

In addition, Mission would like to comment that the original goal of 5,000 permanent housing solutions has been amended to 5,250. Furthermore, barring any unforeseen circumstances, Mission is expecting to exceed its current housing portfolio and provide approximately 6,000 permanent solutions to the Honduran people.

In closing, USAID/Honduras would like to express its appreciation for the valuable information provided through the audit to the Housing Reconstruction Program and for the matter in which it was conducted by the RIG's auditors.