

**Audit of USAID/El Salvador-Financed Housing
Reconstruction Activities**

Audit Report No. 1-519-03-001-P

November 19, 2002

San Salvador, El Salvador



November 19, 2002

MEMORANDUM

FOR: USAID/El Salvador Director, Mark Silverman

FROM: RIG/San Salvador, Timothy E. Cox

SUBJECT: Audit of USAID/El Salvador-Financed Housing Reconstruction Activities (Report No. 1-519-03-001-P)

This is our final report on the subject audit.

The report contains two recommendations. Management decisions have been made for Recommendations Nos. 1 and 2. Final action has been taken on Recommendation No. 1, and the recommendation is closed with the issuance of this report. The Office of Management and Planning and Innovation will determine final action for Recommendation No. 2 after it has been completely implemented.

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

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Summary of Results

Phase I of USAID/El Salvador's housing reconstruction program, the subject of this audit, was planned to finance the construction of 7,527 new houses at a cost of approximately \$30 million. (See page 4.)

As part of its fiscal year 2002 audit plan, the Regional Inspector General/San Salvador audited Phase I of the housing reconstruction program to determine whether (1) USAID/El Salvador's housing reconstruction activities were on schedule to achieve the planned outputs and (2) eligibility criteria were properly applied to potential beneficiaries. (See page 5.)

With respect to the first objective, the mission planned that 7,135 houses would be completed under Phase I of the housing reconstruction program by July 31, 2002. However, only 3,903 houses, or 55 percent of the number planned, were completed by that date. On this basis, we concluded that USAID/El Salvador's housing reconstruction program was not on schedule. (See page 6.)

Regarding the second objective, based on a review of policies and procedures for determining eligibility of beneficiaries and interviews with 140 randomly selected applicants, we concluded that eligibility criteria were properly applied to potential beneficiaries. (See page 14.)

USAID/El Salvador agreed with the recommendations in this report. The mission's comments are included in their entirety in Appendix II.

Background

Major earthquakes struck El Salvador on January 13 and on February 13, 2001. Housing damage reported by municipal mayors through the Vice Ministry of Housing and Urban Development included 149,528 housing units destroyed and 185,338 units damaged. According to the Economic Commission for Latin America, the replacement cost of the damaged housing totaled \$790 million.

During fiscal year 2001, USAID/El Salvador obligated approximately \$30 million for the construction of 7,527 houses for Phase I of the housing reconstruction program. As of June 30, 2002, accrued expenditures for Phase I activities totaled approximately \$16 million.

Preliminary development of the housing reconstruction program began on January 22, 2001 with the preparation of a strategy document. The strategy document was sent for review and approval to USAID/Washington on March 19, 2001. The mission signed a grant agreement with the Government of El Salvador on May 18, 2001 and signed six cooperative agreements with U.S. private voluntary organizations between May and September 2001. The audit covered the period from the housing program's inception on May 18, 2001 through July 31, 2002.

To support the program, USAID/El Salvador entered into an interagency agreement with the U.S. Army Corps of Engineers (Army Corps of Engineers) for engineering services to assist with review of environmental assessments, construction quality assurance, and final acceptance of completed houses. USAID/El Salvador also entered into a cooperative agreement with the Foundation for Reconstruction and Development (REDES) to assist local governments in identifying beneficiaries for the National Popular Housing Fund's (FONAVIPO) housing program. Finally, through an amendment to the grant agreement with the Government of El Salvador, USAID/El Salvador arranged non-USAID funding for the Institute for Freedom and Progress, a Salvadoran government agency, to assist with the verification of land titles.

The following table summarizes USAID funding and construction targets for Phase I of the housing reconstruction program.

<i>Organization</i>	<i>USAID Obligations (000)</i>	<i>Number of Houses</i>	<i>Planned Completion Date</i>
National Popular Housing Fund (FONAVIPO)	\$11,500	3,050	9/30/03
Cooperative Housing Foundation	5,500	1,315	6/30/02
Cooperative for Assistance and Relief Everywhere (CARE)	3,912	989	9/15/02
Samaritan's Purse	4,796	1,248	10/31/02
World Vision	1,200	325	7/31/02
Catholic Relief Services	1,200	300	7/31/02
Save the Children	1,192	300	6/28/02
U.S. Army Corps of Engineers	175	N/A	12/31/03
Foundation for Reconstruction and Development (REDES)	486	N/A	7/2/02
<i>Totals</i>	<i>\$29,961</i>	<i>7,527</i>	

Audit Objectives

As part of its fiscal year 2002 audit plan, the Regional Inspector General/San Salvador audited Phase I of the housing reconstruction program to answer the following questions:

- Were USAID/El Salvador's housing reconstruction activities on schedule to achieve the planned outputs?
- Were eligibility criteria properly applied to potential beneficiaries?

The audit scope and methodology are presented in Appendix I.

Audit Findings**Were USAID/El Salvador's housing reconstruction activities on schedule to achieve the planned outputs?**

The mission had planned to complete 7,135 houses by July 31, 2002 under Phase I of the housing reconstruction program. However, only 3,903 houses, or 55 percent of the number planned, were actually completed on that date. On this basis, we concluded that USAID/El Salvador's housing reconstruction program was not on schedule. The following table summarizes the status of Phase I of the housing reconstruction program as of July 31, 2002.

<i>Grantee</i>	<i>Scheduled Number of Houses as of 7/31/02</i>	<i>Actual Number of Houses as of 7/31/02</i>	<i>Percent Completed as of 7/31/02</i>
National Popular Housing Fund (FONAVIPO)	2,880	357	12%
Samaritan's Purse	1,100	515	47%
Catholic Relief Services	300	222	74%
World Vision	325	279	86%
Cooperative for Relief and Assistance Everywhere (CARE)	915	915	100%
Cooperative Housing Foundation	1,315	1,315	100%
Save the Children	300	300	100%
<i>Total</i>	<i>7,135</i>	<i>3,903</i>	<i>55%</i>

The activities carried out by the Cooperative Housing Foundation, Save the Children, CARE, and World Vision, representing 40 percent of the houses to be built under Phase I of the program, were either completed or were on schedule. Several factors contributed to the success of these organizations:

- Two of the four organizations – the Cooperative Housing Foundation and CARE – had recent experience in managing reconstruction programs in El Salvador. Because of the experience gained under USAID-financed grants responding to the Hurricane Mitch disaster, these organizations were already mobilized and had trained, experienced staff to manage reconstruction activities in El Salvador.
- Three organizations – Save the Children, CARE, and World Vision – focused on relatively small, concentrated geographical areas, simplifying the logistics involved. In addition, Save the Children chose to build houses in areas where CARE was already working with communities to upgrade water systems, which simplified the logistics and coordination issues involved in obtaining water service for newly-constructed houses.

On the other hand, the housing reconstruction activities carried out by FONAVIPO, Samaritan's Purse, and Catholic Relief Services, representing 60 percent of the houses to be built under Phase I of the housing reconstruction program, were not on schedule. Their experiences are described in the following sections.

FONAVIPO's Program Was Significantly Delayed

According to the action plan agreed to by FONAVIPO and USAID/El Salvador, FONAVIPO was to have completed 2,880 houses by July 31, 2002. By that date, only 357 houses, or 12 percent of those planned, had been completed. In general, the shortfall was due to coordination and planning problems at the outset of the program, inflexible payment procedures that caused liquidity problems for some contractors, and weaknesses in FONAVIPO's supervision of its contractors. As a result, houses were not being delivered to beneficiaries as quickly as planned.

Implementing FONAVIPO's portion of the housing reconstruction program required coordination among many organizations, each of which had a critical role to play in the approval, contracting and construction process:

- The Foundation for Reconstruction and Development (REDES), a local non-governmental organization, identified eligible beneficiaries, obtained copies of land titles and associated legal documents for submission to the Institute for Freedom and Progress, and prepared environmental and socio-economic assessments for the beneficiaries and sites where houses were to be constructed.
- The Institute for Freedom and Progress (ILP), an agency of the Government of El Salvador, was responsible for verifying land titles and associated legal documents.
- USAID/El Salvador, assisted by the U.S. Army Corps of Engineers (Army Corps of Engineers) and the U.S. Geological Survey, reviewed and approved the environmental assessments prepared by REDES.
- FONAVIPO was responsible for awarding contracts and supervising the eight contractors it had hired.

Given the complexity of the undertaking and the number of different entities involved, the procedures for approving, contracting and constructing houses have evolved over time. For example, REDES assumed the responsibility for completing environmental assessments which was initially the responsibility of FONAVIPO. In addition, steps that USAID/El Salvador and its grantees and contractors planned to accomplish consecutively sometimes were accomplished concurrently to save time.

REDES Assessments – REDES identified eligible beneficiaries and prepared environmental and socio-economic assessments for the sites where houses were to be constructed. This required that REDES staff visit each potential housing construction site and coordinate reconstruction plans with municipal government authorities. Most of the housing sites were for individual homes and were dispersed geographically. REDES staff was required to prepare community maps showing the location of each housing site, a task they were initially not well prepared to perform. As a result, it was sometimes difficult for USAID/El Salvador and the Army Corps of Engineers staff to find the sites identified by REDES. This problem was addressed when USAID/El Salvador provided global positioning system (GPS) information and mapping software to REDES.

Over the course of the program, it has taken REDES an average of approximately four months to identify eligible beneficiaries and prepare the required environmental and socio-economic assessments for each contract to be awarded by FONAVIPO. For some contracts, the process took as little as one month. For other contracts, covering areas deemed to be “at-risk” for future seismic activities that had to be addressed through an iterative process involving REDES, USAID/El Salvador, and the Army Corps of Engineers, the process has taken as long as seven months.

While FONAVIPO originally was responsible for preparing environmental checklists, this responsibility was shifted to REDES in October 2001. This required REDES to re-visit four municipalities. USAID/El Salvador staff indicated that REDES initially submitted incomplete environmental checklists since REDES staff were unfamiliar with USAID’s requirements for environmental assessments. Recognizing the difficulties that REDES was experiencing with the environmental assessments, USAID/El Salvador arranged formal training for REDES staff involved in preparing the environmental checklists and provided additional instructions and guidance. REDES staff, on the other hand, maintained that USAID/El Salvador’s instructions were unclear and changed frequently. We believe that implementing Recommendation No. 1 (see page 10), in combination with the corrective actions already taken by USAID/El Salvador, will help impose more structure and discipline on the process.

ILP Verification of Land Titles – The need to verify land titles was addressed in the USAID/El Salvador Action Memorandum dated May 9, 2001. However, in June 2001 private voluntary organizations participating in the program informed USAID/El Salvador that many potential beneficiaries were unable to demonstrate legal title to land they were occupying.

Consequently, USAID/El Salvador, FONAVIPO, the Salvadoran National Registry, and the Salvadoran Ministry of Foreign Affairs agreed that the Government of El Salvador would reimburse USAID if a house was built that ILP

could not verify the beneficiary's legal title to the property. Presently, USAID/El Salvador staff estimate that approximately 40 percent of beneficiaries cannot demonstrate legal title to their land.

An amendment to the grant agreement was signed in August 2001 to provide financing from reflows from the Agrarian Reform Financing Project for ILP's title reviews. Initially, many of the documents submitted to ILP by REDES were incomplete because REDES staff did not understand what documents were required. This problem was addressed when ILP provided training to REDES staff.

Other procedural changes in the review process have also reduced the potential for delays in construction due to delays in the land title review process. Initially, REDES sent groups of land titles and associated documents to ILP for review, and ILP responded to REDES and FONAVIPO with letters listing the titles that were approved and those that were rejected. Currently, the mission, FONAVIPO and ILP are working to implement an electronic database in order to make communication among the three organizations more efficient and less subject to misdirected and lost correspondence. In addition, ILP maintains that it now takes ILP a maximum of 20 days to review land titles. In light of these changes, we are not making any formal recommendations to USAID/El Salvador. However, this activity will require continued close monitoring to help ensure that delays will not affect Phase II construction activities.

USAID Review of Environmental Assessments - USAID/El Salvador reviewed and approved the environmental assessments prepared by REDES.

USAID entered into an interagency agreement with the Army Corps of Engineers on July 11, 2001 to assist in reviewing environmental assessments and in providing expert advice related to construction quality assurance and final inspections of completed houses. However, it took several months for the Army Corps of Engineers to recruit and hire staff to provide the required services. Meanwhile, USAID/El Salvador had to arrange for short-term assistance from Army Corps of Engineers personnel located in other countries in Central America in order to obtain the necessary engineering services. In addition, the mission trained its own personnel and temporarily contracted three engineers to assist in reviewing environmental assessments. In late 2001 and early 2002, the Army Corps of Engineers completed hiring six new staff and the permanent program coordinator. By March 2002, the Army Corps of Engineers was fully staffed.

Also making it difficult to accomplish reviews in a timely fashion were the original environmental assessment review procedures for the program, which required Army Corps of Engineers staff to visit each individual housing site. Subsequently, in May 2002, USAID/El Salvador and the Army Corps of Engineers agreed that only a sample of 20 to 30 percent of the housing sites would need to be visited in the future.

The problems associated with the preparation of environmental assessments by REDES led to delays in USAID/El Salvador's review and approval of environmental assessments. Over the duration of the housing reconstruction program, it has taken USAID an average of approximately two and a half months to approve the environmental assessments supporting each contract to be awarded by FONAVIPO. Some reviews took as little as one month to complete. Other reviews took as long as three and a half months.

The actions taken by USAID/El Salvador to improve the quality of the environmental assessments, to obtain assistance from the Army Corps of Engineers to help review the assessments, and to streamline the review process should reduce the time needed for these reviews in the future. It should also be noted that USAID/El Salvador has committed itself to hiring two additional staff members to assist with the increased workload associated with Phase II housing reconstruction activities. Notwithstanding the above, there is wide agreement among USAID/El Salvador, FONAVIPO and the implementing partners that the major bottleneck in the program has been the preparation and review of environmental assessments. The time required for these reviews has not changed significantly in recent months. Therefore, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/El Salvador implement timeliness standards with procedures and a clear statement of responsibilities for preparing and reviewing environmental assessments.

FONAVIPO Contracting Process – FONAVIPO was responsible for developing and publishing invitations for bids, awarding contracts, and issuing construction orders. Over the course of the program, the contracting process has taken an average of approximately two and a half months. Some of the first contracts took substantially longer – up to four and a half months – because of the delays in reviewing environmental assessments described above. FONAVIPO initiated the contracting process for several contracts before the environmental assessments were approved but did not actually award any contracts until the environmental assessments were approved by USAID/El Salvador. However, recent contracts have been awarded more quickly. For the last six contracts signed by FONAVIPO, it took an average of two months from issuance of the invitation for bids to issuance of the order to proceed. As of July 31, 2002, FONAVIPO had yet to award contracts for 435 houses because the environmental assessments for those particular sites had not yet been completed.

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The combined impact of the problems associated with environmental assessments, land title reviews and contracting was to delay the start of housing construction.

According to the action plan agreed upon by FONAVIPO and USAID/El Salvador, housing construction should have started on October 8, 2001. However, because of the delays described above, the first contractor did not receive the order to begin construction until February 11, 2002, approximately four months later than planned. The following sections discuss problems that occurred during the construction.

Payment Procedures – FONAVIPO’s contractors received an advance of 10 percent of the contract amount when FONAVIPO issued the order to proceed with construction, but it was difficult for contractors to obtain additional payments.

While FONAVIPO’s contracts permitted the contractors to be paid as houses were completed, in practice very few payments to the contractors were made until July 2002. One reason was that, while FONAVIPO could have paid contractors once FONAVIPO’s own supervisors determined that a house was completed in accordance with the specifications, in practice, FONAVIPO waited for the U.S. Army Corps of Engineers’ inspection and approval before making any payments. Another reason was that, when the Corps of Engineers found that houses were constructed in accordance with applicable specifications, but drainage works or other site works that were the responsibility of the beneficiaries were not yet finished, then FONAVIPO withheld payment from the contractor until the site work was completed.

When it became evident that these payment procedures were contributing to liquidity problems for some of FONAVIPO’s construction contractors, USAID/El Salvador began working with FONAVIPO to develop improved payment procedures that would more closely match payments with the physical progress of the work performed. On July 15, 2002, FONAVIPO began to pay contractors 10 percent of the contract price upon issuance of the order to begin construction, 65 percent of the fixed price per house upon acceptance by FONAVIPO, and 25 percent of the fixed price per house upon acceptance by USAID/El Salvador. USAID/El Salvador is continuing to monitor payments and progress to see if this change in payment procedures addresses contractors’ liquidity problems.

Construction Supervision – FONAVIPO was slow in assigning supervisors to monitor the work performed by its construction contractors. In June, the Army Corps of Engineers alerted USAID/El Salvador staff to this problem. When USAID/El Salvador brought the problem to FONAVIPO’s attention, on June 24, 2002, FONAVIPO responded immediately by providing a list of supervisors assigned to each work site.

Unanticipated Construction Problems – As is typical of construction projects, FONAVIPO’s contractors encountered numerous unanticipated problems and obstacles that contributed to delays in completing houses by agreed-upon dates. For example, in some cases, the soils encountered by the contractors were different than expected. As a result, replacing soil with the use of heavy machinery was

required. As another example, after one contractor had already begun work, the Army Corps of Engineers found that the roof design being used by FONAVIPO was inadequate and needed to be changed. This contributed to delays and a price adjustment. Other contractors experienced difficulties in finding qualified staff and in finding space to store heavy construction equipment such as cement mixers.

* * *

The effect of the payment, supervision, and other unanticipated problems discussed above was to make it difficult for contractors to meet the construction schedules included in their contracts. According to the construction schedules originally included in these contracts, 899 houses were to be completed by July 31, 2002. Subsequently, and at least partly in response to the problems discussed above, the schedules were revised to require the completion of only 670 houses by July 31, 2002. However, only 357 houses were actually completed by July 31, 2002.

On July 30, 2002, USAID/El Salvador extended FONAVIPO's program from September 30, 2002 to March 31, 2003, giving FONAVIPO another six months to complete its planned total of 3,050 houses. This will be a challenging goal to meet. USAID/El Salvador is currently working with FONAVIPO to develop a work plan to accomplish this goal.

Recommendation No. 2: We recommend that USAID/El Salvador obtain a detailed action plan from the National Popular Housing Fund, showing how the Fund will complete 3,050 houses by March 31, 2003.

Samaritan's Purse's Program Was Delayed

As of July 31, 2002, Samaritan's Purse was to have completed 1,100 houses. By that date, only 515 houses, or 47 percent of those planned, had actually been completed. This shortfall was mainly due to delays in obtaining ILP's approval of land titles and obtaining USAID/El Salvador's approval of environmental assessments.

Samaritan's Purse was initially scheduled to complete all 1,248 of its houses by May 17, 2002. This completion date was based upon an expected two-week turnover rate of land title approvals by ILP and environmental assessment approvals by USAID/El Salvador. Beginning in May 2001, Samaritan's Purse submitted 1,592 beneficiaries to USAID/El Salvador for approval. Of this amount, 657 beneficiaries were pending approval as of March 21, 2002. Of the pending applications, over 300 were located in the department of San Vicente, a region initially described as "no risk" by the mission. Later the mission put these beneficiaries on hold, forcing Samaritan's Purse to find 300 replacements. Also, as of March 21, 2002, Samaritan's Purse submitted 2,369 names to ILP for

approval, of which 519 were still pending as of that date. For these reasons, on March 23, 2002, Samaritan's Purse requested and received an extension of its completion date to October 31, 2002.

By April 30, 2002, ILP had completed its approval process of those pending beneficiaries, according to Samaritan's Purse officials. However, as of May 23, 2002, USAID/El Salvador still had 334 potential beneficiaries pending. Samaritan's Purse requested of the mission that a determination of the pending beneficiaries be made in order for their goal to be met by the completion date. By July 31, 2002, according to Samaritan's Purse officials, 247 beneficiaries were still pending.

According to USAID/El Salvador officials, the review of these environmental assessments took longer to accomplish because many of the housing sites proposed by Samaritan's Purse were in high-risk areas near the San Vicente volcano. They also asserted that the Samaritan's Purse selection teams did not complete the environmental checklists as thoroughly as expected, particularly in locations without water access. These checklists were returned in order to be properly completed. Approximately 60 beneficiaries were without water access. Accordingly, Samaritan's Purse contracted with PCI International in April 2002 for water access projects.

Nevertheless, by July 31, 2002, Samaritan's Purse had 559 houses under construction. According to USAID/El Salvador officials, these houses were expected to be completed within approximately three months, indicating that Samaritan's Purse should at least come close to completing all of the planned houses by the time the cooperative agreement expires on October 31, 2002. Accordingly, we are not making any recommendations concerning the portion of the housing reconstruction program implemented by Samaritan's Purse.

Catholic Relief Services' Program Was Slightly Delayed

By July 31, 2002, Catholic Relief Services (CRS) was to complete 300 houses but had only completed 222 houses, or 74 percent of those planned. Therefore, we concluded that CRS' portion of the program was not on schedule as of the cut-off date for our audit. However, CRS reported that all 300 planned houses were completed by August 31, 2002, and were only awaiting final acceptance by USAID/El Salvador.

As with Samaritan's Purse and FONAVIPO, delays in CRS's program were caused by the amount of time required for USAID/El Salvador to review and approve environmental assessments. Over the course of the program, it took USAID/El Salvador an average of two and a half months to review the environmental assessments submitted by CRS. Some approvals took as little as two months and others took as long as four months. The actions already taken by

USAID/El Salvador and implementation of Recommendation No. 1 above should make it possible to complete these reviews more quickly in the future.

Another delay was reportedly caused by a miscommunication between CRS and ILP. According to USAID/El Salvador's contract technical officer for CRS, when the original cooperative agreement with CRS expired on May 31, 2002, ILP thought that CRS's portion of the program had ended. Therefore, ILP stopped reviewing land titles submitted by CRS for ILP's approval until ILP learned on June 21, 2002 that the cooperative agreement with CRS was extended.

As a result of the delays discussed above, CRS's portion of the housing program was slightly delayed. However, the impact was limited since, according to CRS's housing coordinator, all 300 planned houses were completed by August 31, 2002, and were only awaiting final acceptance by USAID/El Salvador.

Were eligibility criteria properly applied to potential beneficiaries?

Eligibility criteria were properly applied to potential beneficiaries in the assignment of houses.

The target groups for USAID/El Salvador assistance were rural and semi-rural poor families that lost their homes during the earthquakes. USAID/El Salvador proposed in its special objective strategy that all the housing solutions under this activity be fully subsidized as grants. The eligibility criteria for families under the housing reconstruction program are the following:

- To be a permanent member of the target community.
- To have suffered the total destruction of one's only home during the earthquakes that occurred in 2001.
- To have a total family income of less than two urban minimum salaries (be living below the poverty line).
- To be the owner of the land where the house will be built.
- To plan to rebuild one's home in an area not significantly at-risk to problems associated with possible future seismic activity.
- To agree to provide labor in the construction of homes and activities in the community such as: demolition, removal of debris, cleaning, etc.
- To agree to sign a commitment not to sell one's home for a period of five years from the date of construction.

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- In the case of a high demand for houses in some communities, single mothers, large families, people with disabilities, and seniors are given high priority.

We interviewed 140 randomly selected applicants, of whom 90 received housing and 50 did not receive housing. Our review of the policies and procedures regarding the selection of beneficiaries and the results of our interviews with these 140 applicants revealed no instances of eligibility criteria being improperly applied or any favoritism shown in selecting beneficiaries.

We have communicated certain minor matters, that did not affect our answer to the audit objective, in a letter to USAID/El Salvador management dated October 2, 2002.

**Management
Comments and
Our Evaluation**

USAID/El Salvador agreed with the recommendations in this report, and management decisions have been made for Recommendations Nos. 1 and 2. Final action has been taken on Recommendation No. 1, and the recommendation is closed upon the issuance of this report. The Office of Management and Planning and Innovation will determine final action after Recommendation 2 has been implemented.

Management comments were included in their entirety in Appendix II.

Scope and Methodology**Scope**

The Regional Inspector General/San Salvador audited USAID/El Salvador-financed housing reconstruction activities in accordance with generally accepted government auditing standards.

The audit was conducted at USAID/El Salvador's offices, and the offices of the U.S. Army Corps of Engineers, the National Popular Housing Fund (FONAVIPO), the Foundation for Reconstruction and Development (REDES), the Institute for Freedom and Progress (ILP), the Cooperative Housing Foundation, Cooperative for Assistance and Relief Everywhere (CARE), Samaritan's Purse, World Vision, Catholic Relief Services, and Save the Children.

In planning and performing the audit we obtained an understanding of management controls related to the program. We conducted interviews with key USAID/El Salvador personnel and reviews of pertinent documentation. We examined 1) fund controls, 2) procedures for ensuring beneficiary eligibility, 3) housing construction monitoring procedures, 4) the mission's FY 2001 self-assessment with the Federal Financial Manager's Act of 1992, 5) the mission's Management Control Review Committee's minutes and results, 6) the Special Objective Team's procedures and work objectives, 7) coordination and contact procedures with the implementing partners, 8) site visit procedures, and 9) prior audit findings.

The audit covered the period from the housing program's inception on May 18, 2001 through July 31, 2002. The audit fieldwork was performed from June 10, 2002 through September 7, 2002.

Methodology

To answer the audit objectives, we interviewed responsible officials and reviewed relevant documentation maintained by USAID/El Salvador, the Army Corps of Engineers, and USAID/El Salvador's contractors and grantees.

To answer the first audit objective, addressing whether housing reconstruction activities were on schedule to achieve planned outputs, we reviewed construction schedules included in grant and cooperative agreements and work plans. We also reviewed other documentation such as progress reports, correspondence, and briefing documents on the project's progress. To verify that progress reported by USAID/El Salvador and the implementing partners was consistent with the physical progress of construction, we visited 121 randomly selected construction sites, selected from a population of 6,668 sites approved for housing construction. The audit sample was designed to provide for a 95 percent confidence level assuming a 5 percent error rate and a precision of plus or minus 4 percent. We

considered that construction was on schedule if the number of houses completed as of July 31, 2002 was within 15 percent of the planned number of houses to be completed by that date.

To answer the second audit objective, addressing whether eligibility criteria were properly applied to potential beneficiaries, we reviewed beneficiary application criteria and selection procedures used by USAID/El Salvador's grantees. We reviewed pertinent documentation to determine how the criteria were applied and to see if any favoritism was shown in the selection process.

From a population of 13,484 applicants for housing, we randomly selected 140 applicants for interviews. The audit sample was designed to provide for a 95 percent confidence level assuming a 5 percent error rate and a precision of plus or minus 4 percent. We interviewed 50 potential beneficiaries who did not receive housing and 90 beneficiaries who did receive housing to determine if selection criteria were properly applied. Each of the 90 beneficiaries who did receive housing is also included in the sample of construction discussed under the first audit objective above. The eligibility criteria were considered to be properly applied if they were applied correctly to at least 90 percent of the population.

Management Comments

Date: October 30, 2002

To: Timothy E. Cox, Regional Inspector General
San Salvador

From: Mark Silverman, Mission Director

Subject: Audit of USAID/El Salvador – Financed Housing Reconstruction
Activities

USAID/El Salvador appreciates your efforts to review our Housing Reconstruction activities and your recommendations to expedite implementation of this important Earthquake Reconstruction Program.

Our response to each recommendation included in your draft report is as follows:

Recommendation No. 1: “We recommend that USAID/El Salvador implement timeliness standards with procedures and a clear statement of responsibilities for preparing and reviewing environmental assessments.”

The attached Environmental Review Procedures which are part of the Programmatic Environmental Assessment, developed and implemented by the Mission, clearly define the procedures and responsibilities related to the assessment process. The document has been amended to incorporate the timeliness standards as recommended by your Office.

Recommendation No. 2: “We recommend that USAID/El Salvador obtain a detailed action plan from the National Housing Foundation showing how the Foundation will complete 3,050 houses by March 30, 2003.”

While FONAVIPO’s action plan proposed to complete the 3,050 houses by March 2003, USAID/El Salvador believes it is more realistic to complete the 3,050 houses by September, 2003. Additionally, we believe FONAVIPO can complete another 5,200 houses by September 2004.

The draft FONAVIPO detailed action plan to construct a total of 8,250 houses using both FY 2001 and FY 2002 resources is currently under review by the Mission. We expect to

see a revised action plan with new procedures and an updated schedule for completion of houses shortly.

Additionally, we provide the following comments regarding statements included in the audit report:

Page 3, third paragraph. While the completion date has slipped for the first phase of houses being funded through FONAVIPO, adjustments are being made and all 8,250 houses funded through FONAVIPO, as well as another 18,000 houses funded through other organizations, are expected to be completed within the life of the Earthquake Recovery Program. Accordingly, USAID/EL SALVADOR believes that its housing reconstruction program is being implemented on a timely basis.

Page 6, third paragraph. The phrase “14 organizations” seems to be inconsistent with the bullets that follow which list 4 organizations.

Page 7, fourth paragraph. The need to verify land ownership was anticipated in the Action Memorandum dated May 9, 2001 authorizing the activity. In June 2001 USAID/El Salvador identified the need to provide legal assistance to beneficiaries in order to facilitate obtaining legal title to the land.

Page 8, fifth paragraph. It should be noted that the delays were not attributable to the environmental review procedures as contemplated under this program but to delays in USACE hiring contemplated staff to review each individual housing site. The decision to review a sample of housing sites was related to the increase in the number of houses from 7,135 to approximately 26,000 based on additional funding made available under the FY 2002 budget.