

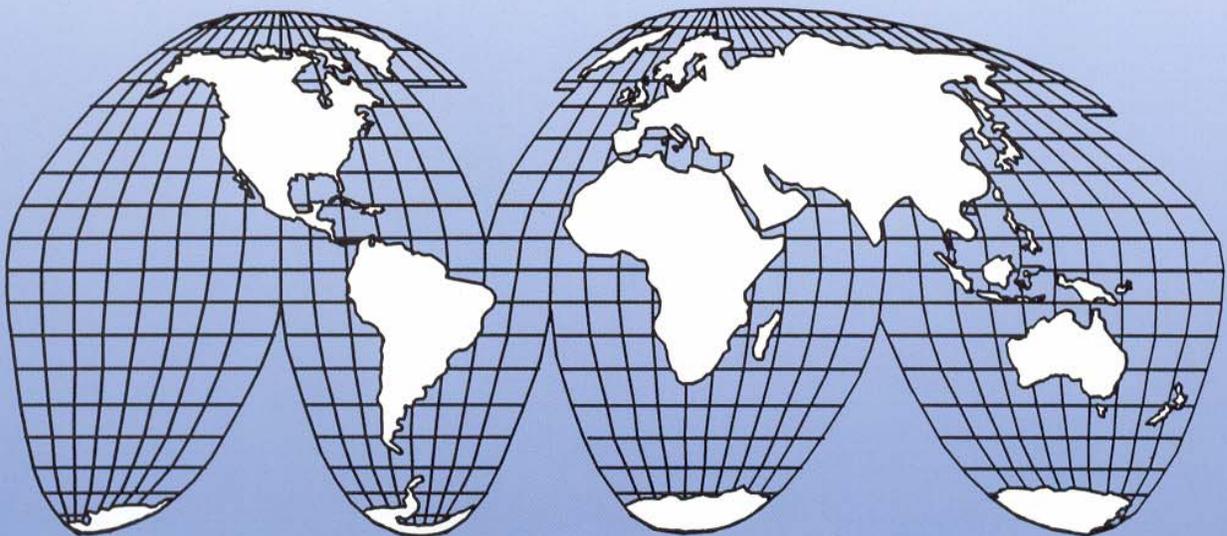
USAID

OFFICE OF INSPECTOR GENERAL

Follow-up Audit of USAID/El Salvador Housing Project Under the Earthquake Reconstruction Program

Audit Report No. 1-519-04-005-P

February 17, 2004



San Salvador, El Salvador



February 17, 2004

MEMORANDUM

FOR: USAID/El Salvador Director, Mark Silverman

FROM: Regional Inspector General/San Salvador, Steven H. Bernstein

SUBJECT: Follow-up Audit¹ of USAID/El Salvador Housing Project Under the Earthquake Reconstruction Program (Report No. 1-519-04-005-P)

This memorandum is our final report on the subject audit. In finalizing this report, we considered your comments on our draft report and have included your response in Appendix II.

This report contains two recommendations for your action. Based on your comments, management decisions have been reached for these recommendations. Determination of final action will be made by the Bureau for Management's Office of Management Planning and Innovation (M/MPI/MIC).

Once again, thank you for the cooperation and courtesy extended to my staff throughout the audit.

¹ The previous audit was "Audit of the USAID/El Salvador-Financed Housing Reconstruction Activities" (Report No. 1-519-03-001-P), dated November 19, 2002.

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Summary of Results

As part of its fiscal year 2004 audit plan, the Regional Inspector General/San Salvador performed this audit to determine whether USAID/El Salvador implemented Recommendation No. 1 from Audit Report No. 1-519-03-001-P and whether housing reconstruction activities were on schedule to achieve planned outputs (page 6).

USAID/El Salvador implemented Recommendation No. 1 from Audit Report No. 1-519-03-001-P by identifying environmental review activities and associating each activity with the organizations responsible for completing the activity. The Mission also set timeliness standards for those activities (page 6).

Seven of USAID/El Salvador's eight housing reconstruction activity implementers were on schedule to complete their planned houses by September 30, 2004; however, the eighth implementer will have to significantly increase construction output to meet its target by the Mission's stated deadline (page 7).

Recommendations in the report include that USAID/El Salvador expedite the approval of beneficiaries and obtain a set of activities from CHF that could be used, if necessary, to limit delays caused by rain (pages 9).

USAID/El Salvador agreed with the findings and recommendations presented in this report. The Mission committed to continue expediting the approval of the remaining houses and solicited mitigating activities from CHF (page 9).

Background

During the first two months of 2001, two powerful earthquakes struck El Salvador. According to a USAID/El Salvador publication, the earthquakes killed over 1,159 persons, wounded 8,122, and damaged or destroyed approximately 276,000 houses. The disasters affected 1.5 million people or 25 percent of the country's population.

In May 2001, USAID/El Salvador started Phase I of its earthquake reconstruction program. Phase II began later in mid-2002 and was scheduled to end on September 30, 2004.² In total, USAID/El Salvador planned to build 26,078 houses under the program.

During 2002, the USAID Office of Inspector General audited the first phase of the housing reconstruction program and issued Audit Report No. 1-519-03-001-P on November 19, 2002. The results from that audit identified that one implementer was delayed and a second was significantly delayed.

² The strategic objective grant agreement between USAID/El Salvador and the government of El Salvador was originally set to expire on September 30, 2003, but was extended to September 30, 2004.

The United States General Accounting Office conducted an audit in March 2003 and reported that Phase I housing reconstruction activities did not meet its initial target completion dates.

As of September 30, 2003, USAID/El Salvador had obligated \$99.2 million for housing activities under both phases of the earthquake reconstruction program. Accrued expenditures, as of the same date, were \$60.5 million.

Construction progress as of October 31, 2003 is shown in the table below.

Table – 1 Housing reconstruction progress as of October 31, 2003

Implementers	Houses Built	Houses Remaining	Total Target
World Vision	325	0	325
Mercy Corps	693	307	1,000
Samaritan's Purse	2,198	551	2,749
Catholic Relief Services	785	315	1,100
Salvation World Service Office	388	212	600
Save the Children	1,133	667	1,800
CARE	2,609	1,300	3,909
FONAVIPO	3,947	4,303	8,250
Cooperative Housing Foundation	2,027	4,318	6,345
Total	14,105	11,973	26,078

Audit Objectives

As part of its fiscal year 2004 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions:

- Has USAID/El Salvador implemented Recommendation No. 1 from Audit Report No. 1-519-03-001-P dated November 19, 2002?
- Were USAID/El Salvador's housing reconstruction activities on schedule to achieve planned outputs?

Appendix I contains a discussion of the audit's scope and methodology.

Audit Findings

Has USAID/El Salvador implemented Recommendation No. 1 from Audit Report No. 1-519-03-001-P dated November 19, 2002?

USAID/El Salvador implemented Recommendation No. 1 from Audit Report No. 1-519-03-001-P dated November 19, 2002. That recommendation was as follows:

We recommend that USAID/El Salvador implement timeliness standards with procedures and a clear statement of responsibilities for preparing and reviewing environmental assessments.

To implement the recommendation, USAID/El Salvador associated the environmental activities with the organizations responsible for completing the activities and set timeliness standards for those activities.

The Mission's environmental review activities consisted of several procedures carried out by a number of parties. Procedures included reviewing applications of proposed sites, conducting site reviews, completing the assessments, and obtaining approval. The parties involved included USAID/El Salvador, the U.S. Army Corps of Engineers, and implementing partners. The Mission set 17 days as the standard to complete the process and was using a control log to monitor the progress of its environmental assessments.

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

Seven of USAID/El Salvador's eight current housing reconstruction activity implementers,³ were on schedule to complete their planned houses by September 30, 2004; however, the eighth implementer will have to significantly increase construction output to meet its target by the Mission's stated deadline.

The table below shows when implementers would finish building their houses, if they continued to complete houses at their present rates.

Table 2 – Implementer construction rates and projected termination dates

Implementers	Number of houses built per month	Houses remaining as of 10/31/03	Projected completion Month/Year
Mercy Corps	129	307	Jan/2004
Samaritan's Purse	121	551	Mar/2004
Catholic Relief Services	66	315	Mar/2004
Salvation World Service Office	41	212	Apr/2004
Save the Children	120	667	Apr/2004
CARE	176	1,300	Jun/2004
FONAVIPO	441	4,303	Aug/2004
Cooperative Housing Foundation	125	4,318	Sep/2006

³ Construction of 4,661 houses under Phase I has ended. Current activity consisted of 13,167 houses being built by seven implementers under Phase II and 8,250 houses being built by FONAVIPO. FONAVIPO's target was not separated between Phase I and Phase II. The targets for Phase I, Phase II, and FONAVIPO total 26,078 houses.

The historical rate used in the analysis was the average number of houses built by each implementer during the three months from August to October 2003. Key assumptions for using average, historical construction rates from three recent months included:

- Recent activity would accurately depict future capacity.
- Preliminary or start-up duties would no longer impact construction capacity.

This analysis indicated that housing reconstruction activities were on schedule because several implementers were building houses at a faster pace than necessary to meet a September 2004 deadline. However, the analysis also implied that the program will not finish on schedule unless Cooperative Housing Foundation more than triples its housing completion rate from 125 to 393 houses per month.

Cooperative Housing Foundation's Construction Activities Were Delayed

Cooperative Housing Foundation (CHF) was not building houses at a pace that would ensure it would build its planned houses to meet USAID/El Salvador's September 2004 deadline. Based on the analysis above, CHF would have 2,943 houses remaining to be built when the deadline arrives. CHF's schedule delays resulted from a more complicated and lengthy beneficiary approval process than originally planned and from the impact of inclement weather.

Beneficiary approval – In a request to extend the term of its cooperative agreement,⁴ CHF presented how changes to the beneficiary approval process between Phase I and Phase II delayed the start of its construction activities. By the end of October 2002, CHF had submitted nearly 1,000 beneficiaries to USAID/El Salvador for approval. However, final approval was not received for the first 1,000 beneficiaries until March 2003. From December 2002 to March 2003, CHF received only 283 final beneficiary approvals.

In its monthly report for November 2003, CHF reported that it had received final approval for 4,025 beneficiaries. However, CHF still needed final approval for 703 beneficiaries – 258 of their applications were with the Instituto Libertad y Progreso (ILP), the Salvadoran organization responsible for verifying land titles and 445 had not yet been sent to the ILP for approval.⁵ Extended approval times,

⁴ CHF requested a six month extension from December 31, 2003 to June 30, 2004. CHF was not alone in requesting extensions. Five of the other implementers also requested extensions to their Phase II cooperative agreements varying from two to six months.

⁵ As of November 2003, the sum of the 4,025 approved beneficiaries and the 703 beneficiaries pending approval totaled 4,728. The 4,728 value included beneficiaries that had received their houses as well as 4,318 whose houses had not yet been built.

like those noted from December 2002 to March 2003 for the remaining 703 beneficiaries, could cause CHF to delay the start of construction of these homes to the point where CHF would not be able to finish them before September 2004.

The approval process included several organizations including CHF and the ILP. From its monitoring position, USAID/El Salvador could best identify actions needed to be completed by different organizations to obtain final approval.

Recommendation No. 1: We recommend that USAID/El Salvador expedite the approval of Cooperative Housing Foundation's remaining beneficiaries by January 31, 2004.

Inclement weather – Wet weather during the rainy season made some of CHF's communities inaccessible. Many of the construction sites under the housing program were located in remote areas that did not have access via paved roads. If construction materials could not be moved to these sites, construction was delayed. The rainy season in El Salvador runs from around April to about October each year. At current production rates, CHF's construction activities will overlap with the 2004 rainy season. Depending on the severity of the season, more construction delays could occur if alternative construction techniques were not developed or if materials were not pre-positioned.

Recommendation No. 2: We recommend that USAID/El Salvador obtain from Cooperative Housing Foundation a set of planned activities that could be used, if necessary, to limit delays caused by rain.

Management Comments and Our Evaluation

USAID/El Salvador agreed with the findings and recommendations presented in this report. The Mission committed to continue expediting the approval of the remaining houses and has solicited mitigating activities from CHF. Accordingly, management decisions were made for the recommendations. The Mission's comments are included in their entirety in Appendix II.

Three recommendations were made in the draft report. The second finding and recommendation from the draft report were deleted based on information that became available after the draft was issued. Recommendation No. 3 as discussed in USAID/El Salvador's comments was renumbered in the final report as Recommendation No. 2.

Determination of final action will be made by the Bureau for Management's Office of Management Planning and Innovation (M/MPI/MIC).

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

The Regional Inspector General/San Salvador conducted this audit in accordance with generally accepted government auditing standards.

In planning and performing the audit, we assessed the effectiveness of management controls related to monitoring housing construction progress. The management controls identified included monitors and supervisors reporting results of field visits, construction forecasts, and data quality assessments.

The housing activities under the earthquake reconstruction program were implemented by nine organizations. We conducted the audit at USAID/El Salvador and at the offices of the eight organizations which were building houses under Phase II of the program – Cooperative Housing Foundation, Catholic Relief Services, CARE, Salvation World Service Office, Mercy Corps, Samaritan’s Purse, Save the Children, and FONAVIPO. At these offices, we interviewed Mission and implementer officials and reviewed documents such as contracts, work orders, and construction schedules. We also traveled to implementer building sites to verify construction progress.

According to USAID/El Salvador, the \$99.2 million obligated for housing activities consisted of \$17.8 million for Phase I, \$50 million for Phase II, and \$31.4 million for FONAVIPO.

Audit fieldwork was conducted from October 27, 2003 through December 11, 2003.

Methodology

To determine whether USAID/El Salvador implemented Recommendation No. 1 from Audit Report 1-519-03-001-P dated November 19, 2002, we reviewed policies and procedures related to environmental assessments and examined the Mission’s monitoring log file.

To determine whether housing construction implementers were on schedule, we verified the progress of houses under construction and houses completed that was being reported by USAID/El Salvador’s implementing partners and projected historical construction rates over the remaining number of houses for each implementer. Verifying progress included a statistical sample that used an expected error rate of five percent and was designed to provide 95 percent confidence with four percent precision. The resulting sample size was 118 houses, out of 13,728, that were reported as under construction or completed as of

September and October 2003.⁶ We visited each of the houses from the sample to note their progress.

To determine the significance of our findings, we considered the following:

Opinion	Significance Criteria for Objective 1:	Significance Criteria for Objective 2:
Positive	<p>Written timeliness standards with procedures were developed by the Mission that clearly identify responsibilities for preparing and reviewing environmental assessments.</p> <p>Identified individuals are aware of and are performing their responsibilities.</p>	<p>All of USAID/El Salvador implementers were on schedule as of 10/31/03 and had a pipeline of houses and applicants in process to support reaching the target (in total or 100 percent) by 9/30/04.</p>
Negative	<p>Written timeliness standards with procedures were not developed by the Mission that clearly identify responsibilities for preparing and reviewing environmental assessments.</p>	<p>USAID/El Salvador did not have a pipeline of houses and applicants in process to support reaching the target (in total or 100 percent) by 9/30/04.</p>
Qualified	<p>Written timeliness standards with procedures were developed by the Mission that clearly identify responsibilities for preparing and reviewing environmental assessments.</p> <p>Identified individuals are not aware of or are not performing their responsibilities.</p>	<p>One or more USAID/El Salvador implementers were not on schedule as of 10/31/03 but had a pipeline of houses and applicants in process to support reaching the target (in total or 100 percent) by 9/30/04.</p>

⁶ We requested data as of the end of September. However, one implementer provided data as of the end of October because the organization maintained a single live database and did not have a hard copy of September's results.

Management Comments

Date: January 30, 2004

To: Steven H. Bernstein, Regional Inspector General
San Salvador

From: Mark Silverman, Mission Director

Subject: Follow-up Audit of USAID/El Salvador Housing Activity under the Earthquake Recovery Program (Report No.1-519-04-00X-P)

USAID/El Salvador appreciates your efforts in reviewing our Housing Reconstruction Activity and your recommendations to expedite implementation of this important portion of the Earthquake Recovery Program.

We agree with your recommendations and have discussed with CHF the implementation of the following actions in order to address your recommendations.

Recommendation No. 1: We recommend that USAID/El Salvador expedite the approval of Cooperative Housing Foundation's remaining beneficiaries by January 31, 2004.

As of January 21, 2004, CHF had received final approval for 4,550 beneficiaries for a revised projected target of 4,851 houses. The 301 remaining beneficiaries are in the approval process. USAID will continue working closely with the Cooperative Housing Foundation (CHF), the Instituto Libertad y Progreso (ILP) and the US Army Corps of Engineers (USACE) to complete the socioeconomic, legal and environmental reviews in order to expedite the process and obtain the approval of these beneficiaries no later than March 31, 2004. This will allow six months for the construction of the remaining houses, considering that the target completion date of the Program is September 2004.

Recommendation No. 2: Comments regarding this recommendation were deleted by the RIG/San Salvador.

Recommendation No. 3: We recommend that USAID/El Salvador obtain from Cooperative Housing Foundation a set of planned activities that could be used, if necessary, to limit delays caused by rain.

During February 2004, CHF will obtain a schedule from each contractor and NGO detailing the actions which will be taken by April 15, 2004, to limit delays. The schedules will address the following specific activities: 1) the work related to soil treatment, 2) the concrete foundations

placement in all the houses, 3) the transportation of materials to the construction site of communities with difficult access.

USAID concurs with these actions and believes that they will contribute to limiting delays caused by the rain and will monitor their implementation.

USAID believes that the actions discussed above along with their respective time frames address the intent of your recommendations, and request that you concur with our management decision. Please advise.