

Audit of USAID/Dominican Republic's Housing Reconstruction Activities

**Audit Report No. 1-517-01-001-P
December 1, 2000**

**Regional Inspector General
San Salvador**



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

December 1, 2000

MEMORANDUM

FOR: USAID/Dominican Republic Director, Elena Brineman

FROM: RIG/A/San Salvador, Timothy E. Cox

SUBJECT: Audit of USAID/Dominican Republic's Housing Reconstruction Activities (Report No. 1-517-01-001-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments on the draft report are included in Appendix II.

This report contains one recommendation for your action. Based on the information provided by the Mission, final action has been taken for Recommendation No. 1.1 and a management decision has been reached on the Recommendation No. 1.2. A determination of final action for Recommendation No. 1.2 will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

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

Background

Hurricane Georges struck the Dominican Republic in September 1998 with heavy winds and rain which covered nearly 70 percent of the country. Damage to the housing sector was one of the major effects of the storm. The Dominican government reported that 170,000 houses, about ten percent of the country's housing stock, were damaged by the hurricane, including 49,000 that were completely destroyed.

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 Dominican Republic received \$29 million of the \$621 million.

To combat the effects of the hurricane, USAID/Dominican Republic and the Dominican government signed a Limited Scope Grant Agreement (grant), dated February 17, 1999, for the “Hurricane Georges Reconstruction Program.” The original agreement was for \$7.5 million from development assistance and child survival funds. The grant was amended on August 3, 1999 to include the \$29 million in CACEDRF funds, for a total of \$36.5 million.

Under the grant, USAID/Dominican Republic included a housing activity to repair and reconstruct the homes of hurricane victims. In order to implement this activity, USAID/Dominican Republic signed a \$7.8 million cooperative agreement with the Cooperative Housing Foundation. This agreement was subsequently amended to increase the funding to \$8,267,000:

Budget Item	USAID Amount	Cost Sharing	Total
Housing Construction Sub-Awards	\$6,791,547	\$2,325,000	\$9,116,547
Other Costs	1,475,453	0	1,475,453
Total	\$8,267,000	\$2,325,000	\$10,592,000

USAID/Dominican Republic’s cooperative agreement with CHF provides for the construction of 2,250 homes and the repair of 2,750 damaged homes. CHF is to make sub-awards with Dominican non-governmental organizations (NGOs) that have the technical capacity to build new homes and repair damaged homes.

Audit Objectives

As part of its fiscal year 2000 audit plan, the Regional Inspector General/San Salvador performed an audit to answer the following questions:

- Are USAID/Dominican Republic’s housing reconstruction activities on schedule to achieve the planned outputs?
- Has USAID/Dominican Republic implemented an adequate monitoring system for its housing reconstruction activities?

The audit scope and methodology is presented in Appendix I.

Audit Finding

Are USAID/Dominican Republic's housing reconstruction activities on schedule to achieve the planned outputs?

For the new housing construction, USAID/Dominican Republic is currently on track to complete all construction activities on time. Current plans are to complete the 2,250 new houses by August 2001. However, for the housing repair activity, the Mission has decided to repair only 1,541 houses compared to the 2,750 houses in the approved work plan in order to focus on the inclusion of water and sanitation facilities for the new home construction. The changes in the strategy for this activity are discussed in more detail in the following section.

The accomplishments under the housing reconstruction activity during the first 11 months of project implementation were significant. CHF has signed 26 sub-agreements with 12 NGOs for construction of 1,402 houses and the repair of 1,291 houses—a total of 2,693 housing solutions—which is over half of the 5,000 houses in the approved work plan. Since construction began in April 2000, 596 new houses and 370 housing repairs have either been completed or are expected to be completed by September 30, 2000. In addition, CHF has stayed within the project budget by limiting new housing construction proposals to a cost of \$2,500 per unit and housing repair proposals to \$300 per unit. CHF requires that any costs above these levels must be absorbed by the implementing NGO as cost sharing. As of September 22, 2000, total disbursements to NGOs under the construction sub-agreements totaled \$2.7 million.

Change in Focus for USAID/Dominican Republic's Housing Reconstruction Strategy

During the life of the project, USAID/Dominican Republic has made several programmatic changes to the housing reconstruction activity, which have resulted in revised projected outputs. The primary change has been the decision to focus more on improving the quality of the new housing by providing basic water and sanitation facilities and reducing the number of repaired homes.

When the program was initiated, the Mission did not include requirements that all new housing construction projects provide water and sanitation facilities. However, the Mission is now committed to provide such facilities in all of the remaining construction projects. Although the Mission increased the project funding by \$467,000 for water and

sanitation, more funds will be needed for this purpose. For this reason, the Mission has reprogrammed approximately \$360,000 which became available by reducing the number of repaired houses by 1,209. The Mission has also received verbal agreement from the Dominican government to provide cost sharing for water and sanitation in the communities where USAID/Dominican Republic is funding new housing construction. The successful completion of the housing reconstruction activity could depend on obtaining this cost sharing contribution.

The Mission cited other reasons for de-emphasizing housing repairs and focusing more on new housing communities. First, two years have passed since Hurricane Georges and many of the houses needing repairs could or should have already been repaired by other means. Also, the repair programs are more difficult to implement and would take more time to complete. The added complexity of housing repairs versus new home construction is due to the fact that each of the repaired houses has unique repair needs and, therefore, must be addressed on an individual basis. For this reason, the Mission has decided to focus more on building new housing communities which include proper water and sanitation facilities. Also, better economies of scale can be achieved by building a large number of houses in one place. Such communities also have a stronger impact and more visible results than building or repairing houses spread over a wide area.

Revisions Needed for Activity Work Plan and Cooperative Agreement

The Mission's decision to focus more on new housing construction with water and sanitation facilities represents a significant change to the housing reconstruction activity. While the original cooperative agreement and work plan provided for the agreement to assist 5,000 families with rebuilding or repairing their homes, the revised outputs will result in only 3,791 families being assisted. The cooperative agreement should provide a written understanding between USAID and CHF as to the expected outputs under the agreement. Any significant changes to the expected outputs, such as those mentioned above, should be formalized in writing between USAID and CHF in order to establish a clearer understanding of the expectations of both parties to the agreement.

Although both USAID/Dominican Republic and CHF officials expressed their agreement with the reduced outputs, neither the Mission, nor CHF has taken action to formalize these changes by revising the activity work plan or the cooperative agreement. The Mission stated that the amendment has not yet been made to the cooperative agreement or to the work plan because Mission officials and CHF have been focusing on ensuring that the various construction projects are initiated in a timely manner and that they are

designed and constructed in accordance with USAID/Dominican Republic's housing reconstruction strategy. As a result of the above, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/Dominican Republic:

- 1.1 require the Cooperative Housing Foundation to submit a revised work plan that accurately reflects the planned housing reconstruction activity outputs and meets the objectives of the Mission's housing reconstruction strategy; and*
- 1.2 modify the Cooperative Housing Foundation cooperative agreement to reflect the revised outputs.*

Audit Finding Has USAID/Dominican Republic implemented an adequate monitoring system for its housing reconstruction activities?

USAID/Dominican Republic has generally implemented an adequate monitoring system for the housing reconstruction activities. The Mission established a reconstruction team to implement the \$36.5 million Hurricane Georges reconstruction program. The team consists of 13 individuals assigned full-time to the program and four others who are assigned part-time. The team includes a program manager who is assigned full-time to ensure proper implementation of the housing reconstruction activities. The program manager has worked closely with CHF to provide for design of housing projects that are consistent with USAID/Dominican Republic's housing reconstruction strategy. The program manager and other individuals on the reconstruction team have made numerous site visits to the housing construction sites to ensure proper implementation of the project and to monitor progress towards project completion. In addition, the project 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 also contracted the services of the accounting firm of Horwath, Sotero Peralta & Asociados to perform a concurrent financial statement audit of the CHF agreement.

We did note, however, a few areas in which the documentation of the project monitoring could be more effective. For example, Mission officials have not documented their visits to housing reconstruction sites via the use of trip reports or other documentation. In addition, the substantial involvement clause of the CHF cooperative agreement requires, among other things, that

USAID/Dominican Republic approve the sub-awards between CHF and the NGOs. Mission approval of the housing construction work sites is also required. Although the Mission has worked closely with CHF on the design and implementation of the project, there was no documentary evidence of these required approvals. Since the Mission is actively monitoring the activity, we are not making a recommendation in this area; however, we suggest the Mission take action to improve its documentation of the above-mentioned monitoring activities.

**Management
Comments and
Our Evaluation**

USAID/Dominican Republic's management comments indicated that implementation has begun on our audit recommendation. Based on the Mission's comments, final action has been taken for Recommendation No. 1.1 and a management decision has been made for Recommendation No. 1.2.

Scope and Methodology

Scope

We audited USAID/Dominican Republic's housing reconstruction activities in accordance with generally accepted government auditing standards. The audit was conducted at USAID/Dominican Republic from September 5, 2000 through September 22, 2000.

The housing reconstruction activity had two categories of planned outputs to be completed by September 30, 2001: 2,250 new houses constructed and 2,750 damaged houses repaired. Tables I through III in Appendix III contain a detailed listing of the housing reconstruction sites to be executed by the Cooperative Housing Foundation (CHF) through sub-agreements with local non-governmental organizations (NGOs).

Methodology

To answer the audit objectives, we interviewed responsible officials at USAID/Dominican Republic, as well as CHF and implementing NGOs. In addition, we reviewed relevant documentation obtained from USAID/Dominican Republic and CHF.

To determine whether housing reconstruction activities were on schedule to achieve planned outputs, we reviewed documentation at USAID/Dominican Republic which included project design documents and the limited scope 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 CHF progress reports that included work plans and milestones for achieving the planned outputs. We reviewed sub-agreement financial information from CHF to obtain current reconstruction costs.

In addition, we performed site visits to the construction areas to determine the extent of progress made to date on the construction activities. We visited 13 of the 25 housing reconstruction sites and one of the six housing repair sites. We randomly selected three of the 14 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. The three randomly selected sites were: (1) San Pedro de Macoris, (2) Haina Duey, and (3) the housing repair site in Bayaguana. We visited six other sites that were in the same areas of the country as the three randomly selected sites. An additional five sites were visited on two trips previously programmed by USAID/Dominican Republic. Tables I through III of Appendix III contain listings of all housing reconstruction and repair sites, indicating those we visited.

To determine whether USAID/Dominican Republic had implemented an

adequate monitoring system for the activity, we interviewed USAID/Dominican Republic project officials to determine what monitoring mechanisms are 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 agreement with CHF to determine if the Mission has complied with the agreement's substantial involvement clause.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
Santo Domingo, Dominican Republic

**UNITED STATES GOVERNMENT
MEMORANDUM**

Date: October 26, 2000
To: Timothy E. Cox, Regional Inspector General, San Salvador
From: Elena Brineman, Mission Director *EB*
Subject: Draft Report on the Audit of USAID/DR's Housing Reconstruction Activities.

Subject draft report contains one (two part) recommendation. The audit of USAID/DR Housing Reconstruction Activities had the following objectives: to determine if USAID/DR's housing reconstruction activities are on schedule to achieve the planned outputs and to assess if USAID/DR has implemented an adequate monitoring system for its housing reconstruction activities. The recommendation made to USAID/DR follows:

1.a ensure that the Cooperative Housing Foundation (CHF) submits a revised work plan that accurately reflects the modifications to planned housing reconstruction activity outputs and meets the revised objectives of the Mission's housing reconstruction strategy; and

1.b modify the Cooperative Housing Foundation cooperative agreement to reflect the revised outputs.

In connection with recommendation 1.a, USAID/Dominican Republic and the Cooperative Housing Foundation have completed an analysis of the program to review projected outputs. As a result of this analysis, CHF prepared and submitted for approval a revised activity work plan that reflects the new expected housing reconstruction activity outputs. The work plan has been reviewed by USAID/DR.

In connection with recommendation 1.b, USAID/DR is proceeding with the amendment to the cooperative agreement with CHF in order to reflect the revised outputs, described in the revised CHF work plan.

The auditors also made a suggestion to the Mission concerning the need for improved documentation of its monitoring activities with the housing reconstruction program. USAID/DR had established procedures for the documentation of its monitoring visits and approvals of sub-awards between CHF and the NGOs. The Mission is working closely with CHF to assure that all documentation is current, including formal written approvals of all subgrants. Visits to housing reconstruction sites are being documented by CHF supervisors through the use of written trip reports. CHF will provide reports to the Mission. The USAID/DR Housing Program Manager will also start documenting monitoring visits to the various CHF project sites with trip reports.

TABLE I
Cooperative Housing Foundation In-Situ Housing Reconstruction Sites

Site Name	Implementing NGO	Number of Houses	Start Date	Completion Date	Site Visit
Los Alcarrizos I	IDDI	53	April 2000	August 2000	✓
San Pedro de Macoris	IDDI	90	May 2000	September 2000	✓
San Luis	IDDI	73	May 2000	September 2000	
Los Negros	CII-Viviendas	32	May 2000	September 2000	✓
San Rafael de Yuma	CII-Viviendas	68	May 2000	October 2000	✓
Boca de Yuma	CII-Viviendas	33	May 2000	September 2000	✓
Haina Duey	CII-Viviendas	90	May 2000	November 2000	✓
Barahona	Plan International	150	June 2000	October 2000	✓
Villa Altigracia	IDDI	127	June 2000	November 2000	
Villa Altigracia	World Vision	50	June 2000	October 2000	✓
Hato Mayor	IDDI	84	July 2000	December 2000	
El Naranjal	ADESJO	53	July 2000	November 2000	
Los Guandules	Ciudad Alternativa	26	July 2000	November 2000	
Los Alcarrizos II	IDDI	80	August 2000	December 2000	✓
Jarabacoa	MUDE	40	August 2000	December 2000	
Sabana Grande de Boya	COTEDO	25	August 2000	November 2000	✓
Bayaguana	CII-Viviendas	70	August 2000	January 2001	✓
Sabana Perdida	Ciudad Alternativa	26	August 2000	November 2000	
San Juan de la Maguana	FUDECO	40	August 2000	January 2001	
Total		1210			

Note: In-Situ housing sites refer to those where new houses are constructed in the same site as the house that was destroyed or damaged by Hurricane Georges

TABLE II
Cooperative Housing Foundation New Housing Development Sites

Site Name	Implementing NGO	Number of Houses	Start Date	Completion Date	Site Visit
El Tamarindo I	Centro Bono	60	June 2000	October 2000	
Nuevo Cepillo I	FUNDASEP	132	July 2000	January 2001	✓
Bayahibe	IDDI	250	November 2000	August 2001	
Batey Gautier	IDDI	189	October 2000	June 2001	
El Tamarindo II	Centro Bono	200	October 2000	April 2001	
Nuevo Cepillo II	FUNDASEP	134	February 2001	June 2001	✓
To Be Determined		75		July 2001	
Total		1040			

TABLE III

Cooperative Housing Foundation Housing Repair Project Sites

Site Name	Implementing NGO	Number of Houses	Start Date	Completion Date	Site Visit
Jarabacoa	MUDE	250	May 2000	November 2000	
Various Communities	IDDI	491	June 2000	November 2000	
Bayaguana	Children International	250	August 2000	May 2001	✓
San Jose de Ocoa	ADESJO	300	September 2000	May 2001	
Los Conucos	IDDI	125	October 2000	January 2001	
Constanza	MUDE	125	October 2000	February 2001	
Total		1541			

IDDI – Instituto Dominicano de Desarrollo Integral

CII-Viviendas – Consejo Inter-Institucional para la Coordinación de Programas de Viviendas, Inc.

ADESJO – Asociación para el Desarrollo de San José de Ocoa

MUDE – Mujeres en Desarrollo, Inc.

COTEDO – Comisión de Trabajo Ecuménico Dominicano

FUDECO – Fundación de Desarrollo Comunitario

FUNDASEP – Fundación de Desarrollo Azua, San Juan, Elías Piñas, Inc.