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AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A.I.D. MISSION TO BRAZIL

AUDIT REPORT
OF
IMPROVEMENT OF EDUCATION
STATE OF GUANABARA SCHOOL CONSTRUCTION
UNDER
GRANT AGREEMENT No. 512-11-640-037
FOR THE PERIOD
APRIL 22, 1964 THROUGH JUNE 30, 1965

REPORT No. 6/66
COPY No. 4

OFFICE OF THE CONTROLLER
AUDIT DIVISION
RIO DE JANEIRO, BRAZIL
DECEMBER 7, 1965

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AUDIT REPORT

No. 6/66

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SECTION I .. INTRODUCTION

A. PURPOSE

The purpose of this audit was to review and evaluate the progress and performance under this project as compared to project plans and objectives as set forth in the Grant Agreement, including an examination and review of the records maintained and the procedures established by the Secretaria de Educação e Cultura do Estado da Guanabara (Secretariat) for the utilization and administration of the funds contributed by USAID, as well as the Mission's performance and its records pertaining to the project.

B. SCOPE

This was the initial audit of the State of Guanabara School Construction Program and covered the period from its inception on April 22, 1964 to June 30, 1965, and, in addition, the final release of funds that was made during August, 1965.

We examined the accounting records and related files in the USAID/B Controller's Office, and made a selective review and evaluation of the Secretariat's accounting procedures and records, its

supporting documents and files, and its operations relating to this project.

Meetings and discussions were held with personnel of the Secretariat and of the USAID/B Human Resources Office, Education Division (HROE), and Engineering and Natural Resources Office, Transportation and Special Projects Division (ENRT). A field trip was made to six selected sites where schools were under construction.

The audit was performed in accordance with applicable Manual Orders, other AID directives, and generally accepted auditing standards.

SECTION II - GENERAL

A specific objective of the Alliance for Progress, as expressed in the Charter of Punta del Este, is to eliminate adult illiteracy, and by 1970 to assure, as a minimum, access to six years of primary education for each school-age child in Latin America.

When the capital of Brazil was moved from Rio de Janeiro to Brasilia in 1959, the former Federal District became the State of Guanabara. Following statehood, a study was made to determine, among other things, the number of children in the state within the seven to fourteen age group. This study, and subsequent planning based thereon, was performed with USAID financial assistance.

One of the facts brought to light by the study was that the number of children in this age group is increasing at a faster pace than construction of school facilities, in spite of the fact that the State always has put a high priority on the education of its children.

The Constitution of Brazil includes a provision decreeing that elementary education shall be free and compulsory. Accordingly, the State of Guanabara has developed a program, some parts

of which are already well underway, to provide basic education to all its school-age children.

In 1963, the State of Guanabara approached USAID with a request for a grant to support this building program, and an Agreement was subsequently executed on April 22, 1964 between the Government of the State of Guanabara (Guanabara) and the United States of America, acting through the Agency for International Development (AID), with the concurrence of the United States of Brazil (GOB), acting through the Coordination Commission for the Alliance for Progress (COCAP), whereby USAID agreed to contribute up to Cr\$2,300,000,000 for the project purposes.

The objective of this agreement was the construction and the equipping of approximately 25 schools of 10 classrooms each, for a total of 250 classrooms. On April 30, 1965 an Amending Grant Agreement (Amendment No. 1) was signed for an additional USAID contribution of Cr\$2,000,000,000. According to this second agreement, the additional funds were to be used jointly with the original grant to construct and equip a total of 28 primary schools containing a total of 280 classrooms. On the basis of this Agreement, the project was divided into two phases: Plan 1, the construction of 15 schools with 174 classrooms, and Plan 2, the construction of 13 schools with 130 classrooms. The State of Guanabara agreed to provide sufficient funds to cover the necessary additional costs to fully complete and equip these schools. The cost of the extra 24 classrooms being constructed under Plan 1 is also being financed by the State.

Since this project involves many parties, it might be useful at the outset, to list them and to briefly describe their functions and their relationships within the framework of the project.

The USAID/B Mission granted the funds for the project to the State of Guanabara. The State's agent in performing the project is the State Secretariat of Education and Culture. The Secretariat has its own architectural and engineering departments which prepared

the plans and working designs for the schools, selected the construction sites, and supervised the construction work. In accordance with a requirement in the Grant Agreement, the Secretariat engaged the firm of Montreal-Montagom as consulting engineers. The Secretariat awarded the contracts for construction to various contractors on the basis of competitive bids. Prior to the invitation for bids, the State and the consulting engineers agreed that the State of Guanabara Civil Construction Trade Association should "participate as an intermediary jointly responsible for the obligations assumed by the contractors." This responsibility was guaranteed by setting up a "Fund for the Redistribution of Risks" to which all the contractors contributed 5% of the total amount of the construction contract. Upon completion of the work, the amount contributed to the Fund is returned to the contractors, if there has been no need to use the funds. This method of guaranteeing the performance of the contract was adopted because of the good results achieved when it was used in connection with other projects already completed.

For the USAID/B Mission, the project has been administered by the Capital Development Staff, the Human Resources Office, Education Division (HROE), and the Engineering and Natural Resources Office, Transportation and Special Projects Division (ENRT).

SECTION III - SUMMARY OF AUDIT CONCLUSIONS

Based on our review and evaluation of the records maintained, the reports submitted, and our interviews with the various personnel involved in this project it is our opinion that the project is progressing satisfactorily and it is reasonable to expect it to be completed by February, 1966, the target date. If the target date is to be met, however, the State of Guanabara must make available, in time, the additional funds required as agreed between the State and AID.

The State of Guanabara in late 1964 first awarded contracts for construction of only 15 schools, as it was apparent at that time that the AID contribution of Cr\$2.3 billion would not be sufficient to finance construction of the 25 schools that were planned. In May, 1965 AID agreed to contribute an additional Cr\$2.0 billion and the State then awarded construction contracts for an additional 13 schools. It appears at present that the State will have to contribute approximately Cr\$ 1.1 billion to complete the construction.

All AID funds that were committed have been advanced to the State; 9 schools have been completed; and construction is progressing satisfactorily on 18 of the other 19 schools. The cost of the original 15 schools, however, has exceeded expectations due largely to unrealistic estimates by the State of the costs of preparing sites and of foundation works, and the resulting unanticipated delays. Also the Consulting Engineers have not been permitted to perform certain duties that were expected by the AID Mission.

The records maintained by the State Secretariat were found to be adequate and complete, and reports have been submitted to USAID/B as required.

This audit report was discussed in draft with the USAID/B Engineering and Natural Resources Office, Transportation and Special Projects Division (ENRT) and their comments were considered in the final preparation of the report.

SECTION IV - FINDINGS AND RECOMMENDATIONS

A. PROGRESS OF THE PROJECT

The Grant Agreement was signed on April 22, 1964 and on October 1, 1964, USAID/B accepted as fulfilled all conditions precedent to disbursement. Contractors' bids were opened on October 30, 1964, and contracts for the construction of thirteen of the fifteen schools contemplated under Plan 1 were signed on November 16, 1964. Contracts for the construction of two more schools were signed

December 30, 1964, bringing the total number of schools under construction under Plan 1 to fifteen schools. According to the State, contracts for the last two schools were not awarded earlier because construction sites had not been acquired.

The total of fifteen schools represented a downward revision of the project's original scope of twenty-five schools. The reason given by the Secretariat for the reduction in scope was higher costs due to inflation. Under the original plans, each school would have ten classrooms and, thus, the fifteen schools would have provided a total of 150 classrooms. However, in order to take advantage of sloping terrain, the plans for four of the schools were revised to provide for sixteen instead of ten classrooms each. Thus, the fifteen schools would contain a total of 174 classrooms. The cost of the additional 24 classrooms will be financed by the State. The change in the plans of the schools due to the increase in the number of classrooms, the delay in obtaining suitable sites for two of the schools, and foundation problems resulting from the topographical and soils condition of some of the sites, all caused delays in the progress of the project. Whereas originally it had been planned to begin construction in October, 1964 and to complete the project by May, 1965, work began on eight schools in November, 1964. For the remaining seven schools work began at various later dates, the latest date being May, 1965. As of September, 1965 nine schools had been completed and inaugurated. As of September 3, 1965, according to the Fifth Progress Report, the remaining schools were in varying stages of completion ranging from 10% to 90%.

Contracts under Plan 2 were awarded during June, 1965, and construction work was begun later that month on all but one of the thirteen schools. The schedule calls for completion of those schools during January and February, 1966.

Toward the end of the audit, members of the auditing staff and a representative of Montreal-Montagen made an inspection tour of six

of the schools being constructed under Plan 1. Two of the schools visited were complete, except for some minor work. The exteriors and interiors of these two schools were attractive and no defects in their construction were apparent. We observed that blackboards had been installed in those schools and that desks and chairs were on the premises. We verified that water was available in the schools.

We were informed by the Secretariat that a sufficient number of adequately trained teachers are available to staff the schools.

We were also informed by the Secretariat in November, 1965 that the first 9 schools completed and inaugurated are now in operation.

B. FUNDING

1. Summary of Contributions

As of August, 1965, the status of contributions agreed to under the Grant Agreement was as follows:

	<u>COMMITTED</u>	<u>PAID</u>	<u>BALANCE</u>
USAID	Cr\$4,300,000,000	Cr\$4,190,000,000	Cr\$ 110,000,000
State of Guanabara	<u>1,079,388,096</u>	<u>-o-</u>	<u>1,079,388,096</u>
TOTALS	<u>Cr\$5,379,388,096</u>	<u>Cr\$4,190,000,000</u>	<u>Cr\$1,189,388,096</u>

For a more detailed statement on the contributions received and expenditures made see Attachment 1.

2. USAID Contribution

The USAID contribution is derived from funds generated under the Fourth and Fifth Agricultural Commodities Agreements, PL 480, Title I, Section 104(c), Cruzeiro Grant Funds. In the original grant, USAID agreed to contribute Cr\$2,300,000,000 from the Fourth Agricultural Commodity Agreement and in the subsequent grant USAID agreed to contribute Cr\$2,000,000,000 from the Fifth Agricultural Commodity Agreement for a total contribution of Cr\$4,300,000,000.

We examined the USAID/B Controller's files and found them to be in order and we verified that releases through August 6, 1965 totalling Cr\$4,190,000,000 were made on the following dates:

1st Advance	July 2, 1964	Cr\$ 600,000,000
Reimbursement	May 18, 1965	504,413,712
2nd Advance	Aug 2, 1965	800,000,000
Final Release	Aug 6, 1965	<u>2,285,586,288</u>
TOTAL		<u>Cr\$4,190,000,000</u>

The balance of Cr\$110,000,000 represents an estimate made by the Controller's Office of the amount of interest which will be earned during the life of the project on the funds advanced. The final contribution date for the disbursement of the total Cr\$4.3 billion grant of USAID funds was changed from June 30, 1965 in the original Agreement to December 31, 1966 in the Amending Agreement.

The Grant Agreement does not specify that funds contributed by USAID be deposited in a particular bank. However, it does specify that such funds are to be deposited in a separate special account. The State has complied with this requirement by depositing all funds in an account titled "Secretaria de Educação e Cultura Conta Acôrdo AID-GB de 22/4/64" at the Banco do Estado da Guanabara S.A. We obtained a copy of the bank statement showing all activity in the account since its inception. All funds received from USAID were traced to deposit entries shown on the bank statement, and we found that no other deposits were made in the account. Interest earned up to June 14, 1965 amounted to Cr\$3,098,901 and was credited to the account on August 10, 1965.

3. State of Guanabara Contribution

The Grant Agreement does not specifically state the amount of the State of Guanabara's contribution to the project; however, it does indicate that the State will provide all the land needed for the project and will make available all funds which might be required to complete the project if any funds are needed in ad-

dition to those made available by USAID.

The State submitted a Project Schedule which presented financial information for the schools to be completed under Plan 1 and the estimated costs for those schools to be constructed under Plan 2. On the basis of this data, the following schedule shows the disposition of the entire USAID contribution and the estimate of the State's share of the cost of the project. The amount shown in the schedule for Plan 1 consists of the latest actual contract amounts; that for Plan 2 includes actual construction contract amounts with estimates for complementary costs. Consequently, the amount shown as the State's share is an estimate of its contribution.

<u>Cost of School Construction</u>		
Plan 1	- 15 schools	Cr\$2,867,388,096
Plan 2	- <u>13 "</u>	<u>2,512,000,000</u>
TOTALS	28 schools	Cr\$5,379,388,096
USAID Contribution		<u>4,300,000,000</u>
State of Guanabara Contribution		<u>Cr\$1,079,388,096</u>

The State of Guanabara agreed to provide sufficient funds to cover the necessary additional costs to fully complete and equip the 28 schools. AID provided Cr\$4.3 billion and the Amended Agreement did not allocate this between Plan 1 and Plan 2. According to the Project Schedule prepared by the State Secretariat, the State plans to pay the costs of the 24 additional classrooms under Plan 1 and to apply the remainder of the State's contribution to Plan 2. The following summary compares the State's estimated contribution applied according to the Project Schedule with what it would be if AID contributed Cr\$2.3 billion to Plan 1 and Cr\$2.0 billion to Plan 2.

<u>Summary of State of Guanabara Contribution</u>		
	<u>Project Schedule</u>	<u>AID Contributing Cr\$2.3 Billion to Plan 1</u>
Plan 1	Cr\$ 154,223,184	Cr\$ 567,388,096
Plan 2	<u>925,164,912</u>	<u>512,000,000</u>
TOTALS	<u>Cr\$1,079,388,096</u>	<u>Cr\$1,079,388,096</u>

The equipment for the schools is also being provided by the State.

The State, in the Project Schedule dated June 30, 1965, reported that Cr\$1 billion of the State's contribution was available as the result of an agreement signed with the Federal Government, through the Federal Funds for Primary Education, on April 4, 1965. The Project Coordinator has just recently reported that the State is in arrears in paying for complementary work, on the alleged grounds that the funds for this work, representing the State's contribution to the project, have not been received from the Federal Government. As a consequence, work on the basement part of at least one building has been stopped altogether by the contractor.

RECOMMENDATION No. 1

That the Project Coordinator follow up to see that the State contributes additional funds as required to complete the project on schedule and notify other USAID/B offices concerned with the project of any delays attributable to the State's delinquency.

C. BIDDING PROCEDURES AND AWARD OF CONTRACTS

1. General

The bidding procedures followed in awarding contracts are proscribed by State of Guanabara Decree No. 51155, dated February 15, 1960. According to the contract between Montreal-Montagem, consulting engineers, and the State, the consulting engineers are required to review bid documents, bid proposals and contract awards and to advise the State of concurrence with the bid proposals or of any substantial errors or omission. Our audit included a review and test examination of approximately one-third of the contracts awarded under Plan 1. Our review indicated that the contracts were awarded to the lowest bidders. In the contract files which were reviewed by us there was no written evidence of approval by Montreal-Montagem.

The construction of each school under Plan 1 is covered by two contracts, one for construction of the school building and another for complementary services. Each of these contracts includes an amount for cost increases due to inflation. The construction contract for the buildings is based on a cost budget for a standard type building prepared by the State's Engineering Department. The budgeted costs are the same for each of the schools because the basic plans are identical. The complementary service contracts cover all phases of construction work other than that covered by the standard building plan.

Construction contracts for schools 1/17 and 1/20, which were signed December 30, 1964, included certain complementary services. Complementary Service Contracts covering additional services for these two schools were signed at a later date when the Complementary Service Contracts for the other thirteen schools were re-negotiated.

2. Construction Contracts

The construction contract amount for each of the schools under Plan 1 varies only slightly, because the contractor's bid was in the form of a percentage of increase (according to law it must be under 10%) which was applied to the standard cost. The percentage submitted by the low bidder is applied to the basic construction cost budget prepared by the State's Engineering Department and the amount thus computed is added to the basic construction cost to obtain the total contract price. Since the various bid percentages cluster around 9%, there is little variance in the construction cost of each school except for schools 1/17 and 1/20 as explained in the previous paragraph. (See Attachment 1-A).

The Construction Contracts for the 15 schools under Plan 1 were awarded to 15 different builders.

For the first 15 schools the State stipulated that a contractor could be awarded contracts on no more than two schools on which he was low bidder. In such a case, the contract price of

one of the schools would then be reduced 5% below the bid price. This restriction did not apply to the last 13 schools and one contractor was awarded contracts for 6 schools.

3. Complementary Service Contracts

The contracts for complementary services under Plan 1 were awarded, without bidding, to the same contractors who were the low bidders for the construction contracts. The complementary services cover all phases of foundation work, from preliminary sub-soil testings to the laying of foundations and to the construction of basement classrooms. Although the building sites were known when the contracts were signed, the contract amounts were not based on an examination of the sub-soil conditions and the topographical features of the terrain. In other words, the amounts were originally determined by the State's Engineering Department on the basis of preliminary estimates which were subject to revisions caused by actual conditions. In the case of these contracts, actual conditions forced the changes which were made to the original amounts.

The original contracts for complementary services amounted to Cr\$246 million. Subsequently, new contracts, amounting to Cr\$ 877 million, were signed for those services. This represented an increase of Cr\$631 million over the original contract amounts. (See Attachment 2). A meeting between Mission personnel and a representative of the State was arranged in order to get an explanation for this increase. During the meeting it was suggested by the Mission technical personnel that examination of the sub-soil and the topography should have been made by engineering contractors rather than the construction contractors who do the foundation work and build the schools, and also, that this examination should have been done before the complementary service contracts were signed. By doing this, the type and design of the foundations and the other preliminary work required could have been determined more accurately and the contract amounts would have been more than rough

estimates. The Secretariat agreed that this would have been the ideal approach and that it had, in fact, been tried by the Secretariat on another project. In practice, however, it did not work out as planned because often the location of the structure within the plot was changed which, in turn, made the soil studies and preliminary work performed earlier valueless. Consequently, in executing this phase of the project, the Secretariat used a method that is generally used in Brazil, which is to have the construction contractor sub-contract the preliminary work to a firm specializing in this type of work or else do it himself. The role of the consulting engineers was mentioned in this connection and we found that they were not in a position to exert influence towards suggesting changes in the method of performance.

Throughout our discussions with the State's personnel regarding the increase in the cost of complementary services, the impact of inflation was cited by them as a fact increasing these costs. There is no doubt that inflation probably had an impact on them. However, it should be noted that the contracts were awarded in November, 1964 (by then inflationary forces had lessened) and that included in the total of each contract amount is an inflation adjustment. Further, as the preceding discussion indicates, it was the method of handling these Complementary Contracts that resulted in the initial unrealistic cost estimates.

The complementary service contract amounts for schools No. 10, 11, 18 and 20 under Plan 1 changed considerably because included in them is the cost of six additional classrooms for each school. Also, since the sites sloped, part of the area had to be filled in with soil. In the case of school No. 7 under Plan 1, the position of the school had to be changed because high tension lines were located beneath the planned location; this change was carried out only after some preliminary work had been done at the original site. The cost estimate for school No. 13 under Plan 1 increased because water had to be drained from the site before work could

begin. For the other changes in amount, both increases and decreases, the changes only reflected the effect on costs of topographic conditions encountered in performing the work.

For the 13 schools to be constructed under Plan 2 the costs of leveling, demolition and foundations are included in the construction contracts and appear to have been more realistically estimated. The Project Schedule estimates that complementary works, totalling Cr\$184 million and consisting of walls surrounding the schools, entrance gates, sidewalks, etc., will begin on December 1, 1965.

D. DUTIES AND RESPONSIBILITIES OF CONSULTING ENGINEERS

The duties and responsibilities of Montreal-Montagem, the consulting engineers, are stated in the contracts signed between Montreal-Montagem and the State of Guanabara, represented by the Department of Education and Culture. In general, Montreal-Montagem is expected to insure that the work is performed in accordance with the project plan and in an efficient manner. Two contracts were signed with Montreal-Montagem, the first on August 10, 1964 and the second on July 16, 1965. Both of these contracts were reviewed by the Mission engineering staff with the intent to ensure that they included USAID requirements for contracts of this type. At the request of the Mission engineering staff, the first contract with Montreal-Montagem was replaced by the second one primarily because of dissatisfaction with certain aspects of Montreal-Montagem's performance. This dissatisfaction was concerned mainly with the need for providing more realistic cost estimates, advising the State on the suitability of construction sites from the viewpoint of economy and technical feasibility, making sub-soil investigations to make it possible to prepare construction cost estimates for economical and feasible foundation work, and to ensure the carrying out of day-to-day construction supervision of the project. The large overall increase in the originally contracted cost of the complementary services might have been partially avoided had

the consulting engineers performed duties in these areas as anticipated by the Mission when the requirement for their services was made a part of the grant agreement. This does not mean that the costs would not have increased over the original amounts, since these amounts were merely estimates. However, if the consultants had performed as anticipated the cost estimates should have been more realistic, and it might have been possible to award the complementary work on a bid basis simultaneously with the building contracts, rather than on the basis of prices estimated by the State. Also, the Mission would have been better informed as to the problems that were arising in the performance of the project.

The Mission furnished the State a list of additional requirements to be included in the scope of work of the re-negotiated Consulting Engineering Contract. The re-negotiated contract, as signed, extended the services to March, 1966. Some of the additional requirements furnished by AID were included in the new contract. But those that called for Montreal to direct and supervise sub-soil investigations, issue written work orders to contractors, and to take full responsibility for all supervisory activities were revised to have Montreal just review sub-soil data and to advise the Department of Education. State personnel explained the revisions by stating that only State representatives are permitted to give orders to contractors.

E. PROJECT REPORTING REQUIREMENTS

The reporting requirements for the project are specified in the Grant Agreement and Implementation Letters. The requirements pertain to reimbursement requests and quarterly progress reports. The reimbursement requests submitted by the State conformed to the reporting requirements specified by the Mission, and included detailed information on the disbursement of USAID funds previously made available, the extent of progress in completing the project, and, in general terms, a description of changes in the estimated cost of the project.

The quarterly progress reports were prepared by the consulting engineers and were properly submitted and in a timely manner.

The reports give information on the changes in the amounts of the complementary service contracts. This matter was first mentioned in the third Progress Report for the period ending March 10, 1965 by noting that the cost of complementary work would exceed considerably the original estimates. In the fourth report for the period ending June 11, 1965 it was estimated that these costs would amount to Cr\$750,000,000. In the fifth report for the period ending September 3, 1965 contracts for complementary services amounted to Cr\$877,107,176 (Attachment 2).

The final release of funds by AID on August 6, 1965 amounted to Cr\$2,285,586,288. This involved a change in the disbursement procedures under the Agreement. As a result the State was requested, in Implementation Letter No. 5, to submit monthly statements showing itemized breakdowns of the use of funds provided by AID. The statements were to be submitted no later than the 15th of each month with the first one, covering the month of September, to be submitted by October 15, 1965. The report for September was not submitted until November 10th. However, the October report was submitted on November 12th and with the Capital Development Staff following up on these reports it is anticipated that they will now be submitted as required.

F. ACCOUNTING PROCEDURES - STATE OF GUANABARA

Our audit included an examination, on a selective basis, of the disbursement records kept by the Secretariat. The review indicated that the records were kept in an orderly manner and that disbursements were properly authorized. In examining the records of the Secretariat we satisfied ourselves as to the propriety and correctness of the disbursements shown by the State in its request for reimbursement. We traced all USAID funds released to the State to the bank statements and reconciled the balance

shown with the cash balance per books as of June 30, 1965.

A statement of Receipts and Disbursements is presented as Attachment 1.

G. USAID PROJECT COORDINATOR

We noted that responsibility for discharging the duties of project coordinator under this project had been shifted around over a period of time, making it difficult for the auditors to determine who in the AID Mission had had primary responsibility for overseeing its implementation. In this connection it should be noted that:

1) The project agreement was initially executed on April 22, 1964 and on October 12, 1964 Mr. Vanzolini of ENRP was appointed project coordinator.

2) Subsequently, on December 21, 1964, Mr. Martin Little of HROE was assigned as project coordinator.

3) On May 11, 1965, Mr. A. Lackey, Deputy Chief HRO was designated as "Action" officer by memo from the USAID Capital Development Staff.

4) When the auditors met with Mr. Little in July 1965 to discuss this project he explained he had turned over all of his files on the project to Mr. Bergier of ENRT, since the project was then in the construction stage. However, Mr. Bergier was not appointed project coordinator until August 11, 1965.

5) With the designation of Mr. Bergier in August 1965, the question of "project coordinator" for this activity appears to have been stabilized.

It would appear that the foregoing could be attributed in part to uncertainty as to whether a school construction project should be monitored by a USAID's education office or by its engineering office.

Since Mr. Bergier's appointment as Coordinator, he and Mr. Butterman of Capital Development have been closely following this project. In August, 1965, Mr. Bergier performed an inspec-

tion which covered fourteen of the fifteen schools under construction. During this inspection, shortcomings in the quality of the work were noted at three of the schools. The consulting engineers and the State were informed of these and were requested to take appropriate corrective action. In November, Mr. Bergior visited six sites. He reported a substantial improvement in the performance of the Consulting Engineers. He reported also on the State's delinquency in paying for complementary services.

It is our opinion that this project is currently being followed closely by the USAID/B staff.

H. PUBLICITY AND MARKING REQUIREMENTS

During our field inspection we noted that all the school sites visited had large signs which stated that the schools were being constructed under the auspices of the Alliance for Progress and AID. When construction is completed, those signs are removed. We noted that no permanent plaques giving recognition, in an appropriate manner, to the aid furnished by AID under the Alliance for Progress program had been affixed to the completed buildings. In Implementation Letter No. 1 the State was requested to affix permanent plaques and to transmit photographs of such signs.

Each of the schools that has been inaugurated has been given a name. Some of these names are: "Escola Amapá", "Escola Max Fleuiss" (for a Brazilian pioneer in aviation), "Escola Adlai Stevenson", and "Escola Miguel Couto". Another of the schools is named "Escola Londres" for the City of London, to commemorate the recent visit of that City's Lord Mayor to Rio de Janeiro. It is conceivable that in a future instance the name given to a school could be embarrassing to the United States. Although the grant agreement does not specify any requirements in this regard it would seem appropriate that the names contemplated for schools be cleared with USAID in order to avoid any possible unfortunate occurrences in this respect.

RECOMMENDATION No. 2

That the Project Coordinator ensure that permanent plaques, which give appropriate recognition to the Alliance for Progress and AID, be affixed to all schools being constructed under this agreement.

RECOMMENDATION No. 3

That the Project Coordinator arrange for the State to inform USAID of the names being considered for the schools so that they can be discussed before a final decision on any name is made.

ATTACHMENT 1

GUANABARA SCHOOL CONSTRUCTION
SOURCE AND APPLICATION OF FUNDS
APRIL 22, 1964 TO JUNE 30, 1965
(In Cruzeiros)

SOURCE

Contribution Pledged
LESS: Receivable (1)

4,300,000,000
3,195,586,288

1,104,413,712

APPLICATION

Payments made to contractors under
School Construction Contracts
(See Attachment 1-A)
Balance per Books (2)

863,531,897
240,881,815

- (1) During August, 1965, this receivable, except for Cr\$110,000,000 withheld as an estimate of interest to be earned on the account, was advanced to the State.
- (2) The balance per the books was reconciled to the balance per the bank statement.

GUANABARA SCHOOL CONSTRUCTION
DISBURSEMENTS ON CONTRACTS
APRIL 22, 1964 TO JUNE 30, 1965
PLAN 1
(In Cruzeiros)

ATTACHMENT 1-A

SCHOOL NUMBER	CONTRACTS		TOTAL	PAYMENTS MADE TO JUNE 30, 1965	BALANCE
	CONSTRUCTION	COMPLEMENTARY			
1/ 4	128,220,000	28,113,461	156,333,461		
1/ 7	122,990,000	75,586,559	198,576,559	59,182,570	97,150,891
1/ 8	127,880,000	22,637,722	150,517,722	54,345,695	144,230,864
1/ 9	128,580,000	32,894,994	161,474,994	73,872,000	76,645,722
1/10	127,650,000	111,502,123	239,152,123	48,116,629	113,358,365
1/11	128,000,000	104,466,011	232,466,011	34,901,486	204,250,637
1/12	127,760,000	43,044,383	170,804,383	56,482,743	175,983,268
1/13	128,120,000	75,703,801	203,823,801	89,496,000	81,308,383
1/14	128,120,000	27,465,215	155,585,215	64,523,450	139,300,351
1/15	128,000,000	21,978,652	149,978,652	73,160,500	82,424,715
1/16	129,030,000	42,328,555	171,358,555	82,340,190	67,638,462
1/17	142,285,560	21,180,100	163,465,660	65,353,421	106,005,134
1/18	128,500,000	127,728,037	256,228,037	13,597,548	149,868,112
1/19	127,880,000	14,518,875	142,398,875	16,120,557	240,107,480
1/20	141,765,360	127,958,688	269,724,048	69,597,000	72,801,875
Consulting Engineer			45,500,000	24,146,308	245,577,740
TOTALS	1,944,780,920	877,107,176	2,867,388,096	38,295,800	7,204,200
				863,531,897	2,003,856,199

GUANABARA SCHOOL CONSTRUCTION
 COMPLEMENTARY SERVICE CONTRACTS
 PLAN 1
 (In Cruzeiros)

ATTACHMENT 2

SCHOOL NUMBER	C O N T R A C T A M O U N T S		
	ORIGINAL	RE-NEGOTIATED	INCREASE
1/ 4	12,475,200	28,113,461	15,638,261
1/ 7	21,250,800	75,586,559	54,335,759
1/ 8	16,555,200	22,637,722	6,082,522
1/ 9	16,555,200	32,894,994	16,339,794
1/10	12,955,200	111,502,123	98,546,923
1/11	27,355,200	104,466,011	77,110,811
1/12	16,555,200	43,044,383	26,489,183
1/13	20,755,200	75,703,801	54,948,601
1/14	24,355,200	27,465,215	3,110,015
1/15	13,555,200	21,978,652	8,423,452
1/16	15,355,200	42,328,555	26,973,355
1/17 (1)	-	21,180,100	21,180,100
1/18	33,355,200	127,728,037	94,372,837
1/19	14,755,200	14,518,875	(236,325)
1/20 (1)	-	127,958,688	127,958,688
TOTALS	277,833,200	877,107,176	631,273,976

(1) No original contracts were negotiated.