

5120 210 09/802
5120210 (7)

DEPARTMENT OF STATE PD-AAB-686-C1
AGENCY FOR INTERNATIONAL DEVELOPMENT 26p.

AREA AUDIT OFFICE
(BRAZIL, URUGUAY, ARGENTINA, PARAGUAY)

H-119
1193/805

REPORT ON EXAMINATION

OF

COMPANHIA PARANAENSE DE ENERGIA ELETRICA (COPEL) - BRAZIL

LOAN AGREEMENT Nos. 512-L-041 AND 512-G-048

FOR THE PERIOD

JULY 1, 1967 THROUGH SEPTEMBER 30, 1969

AUDIT REPORT No. 27/70 - COPY No. 3

DATE ISSUED: NOVEMBER 20, 1969

OFFICE OF THE CONTROLLER
USAID/BRAZIL



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A.I.D. MISSION TO BRAZIL
Office of the Controller

November 24, 1969

TO The Director of Mission
Minister William A. Ellis

The USAID/B Controller's Office, Audit Division, has completed an audit of Loan Nos. 512-L-041 and 512-G-048 made to Companhia Paranaense de Energia Eletrica (COPEL). With the exception of some delays in completion, the project appears to be progressing satisfactorily.

Unlike prior audits of this nature, the current audit undertook the task of implementing AID policy with regard to the audit of Consultant contracts financed under the loans. We were unable to satisfactorily complete this aspect of our audit as the Consultants home office and records are located in the U.S. We are notifying AID/W of our difficulties in implementing AID/W policy in this respect and asking that consideration be given to having the Auditor General of AID assume the responsibility for state-side audits.

The report contains 2 recommendations for USAID action in areas other than those mentioned above.

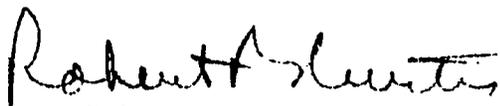

Robert B. Curtis
Controller

TABLE OF CONTENTS

	<u>PAGE</u>
<u>SECTION I - GENERAL</u>	1
A. PURPOSE AND SCOPE	1
B. BACKGROUND	2
1. General	2
2. Consultant Engineer Services	3
C. PROJECT PROGRESS	4
 <u>SECTION II - FINDINGS AND RECOMMENDATIONS</u>	 6
A. CONSULTANT ENGINEER SERVICES CONTRACT COST PROVISIONS	6
B. AUDIT OF CONSULTANT ENGINEER CONTRACT	8
C. TRAINING	10
D. UTILIZATION OF COMMODITIES AND MARKING	12
E. MARKET STUDY	13
F. EXPANSION PROJECT COST - COPEL PARTICIPATION	13
G. 50/50 SHIPPING	15
H. SMALL BUSINESS REQUIREMENT	15
I. PROCUREMENT	15
J. IMPORT LICENSES AND CUSTOMS CLEARANCES	15
K. REPORTING PRACTICES	16
L. SHIPPING AND COMMODITY ELIGIBILITY	16
M. CLAIMS PROCEDURES	16
 <u>EXHIBITS</u>	
EXHIBIT A - Financial Status of AID Loan No. 512-L-041 as of June 30, 1969	18
EXHIBIT B - Summary of Recommendations	19
EXHIBIT C - Distribution of Report on Examination	20

REPORT ON EXAMINATION
OF
COMPANHIA PARANAENSE DE ENERGIA ELETRICA (COPEL) - BRAZIL
LOAN AGREEMENT Nos. 512-L-041 AND 512-G-048

SECTION I - GENERAL

A. PURPOSE AND SCOPE

We have examined the project "COPEL - Electric Power System" located in the State of Parana, Brazil, to which subject loans have been made. This was the second examination of the project and covered the period from July 1, 1967 through September 30, 1969.

The principal objective of our examination was to review and evaluate the effectiveness of program implementation as compared with the objectives outlined in the project agreement. Other purposes were to determine the quality and effectiveness of financial and administrative management, and the degree of compliance with A.I.D. policies, regulations, and procedures. Unlike the prior audit (Report No. 9/68 dated September 18, 1967), this examination covered the consulting engineer contract to the extent possible.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of financial records, inspections, and discussions with USAID/B and host government officials, as we considered necessary in the circumstances.

Before finalization, this report was reviewed with the USAID Offices of Capital Development and Industry (ADCD), Legal (LGS), and Engineering and Natural Resources (ENRO), whose comments have been considered prior to

the final publication of this report. This report contains 2 recommendations.

The first audit covered the period from inception of the loan agreement through June 30, 1967. The Audit Report No. 9/68 contained one recommendation which was cleared shortly after its issuance.

B. BACKGROUND

1. General

In 1963 plans were made to increase the electrical generating capacity in the State of Parana, Brazil, from 134 MW to 400 MW by 1973. A five year program, estimated to cost \$25.2 million, for the expansion and integration of its already existing systems and connections to other electrical concessionaires was accordingly drawn up. This planned program included (1) construction of a main system connecting the northern and eastern part of the State; (2) expansion and improvement of the generation and transmission facilities of five isolated electric power systems in the western part of the State, and (3) assistance in establishing a training program in utility operations and maintenance, as well as improving cost control and accounting procedures. COPEL subsequently requested the USAID/B to finance the \$11.4 million estimated cost of required imports and NCr\$4 million to offset an anticipated Government of Brazil (GOB) contribution for local costs which had been cancelled. The proposal resulted in the signing of Loan Agreements Nos. 512-L-041 (\$11.4 million) and 512-G-048 (NCr\$4 million) (whose source was P.L. 480, Title I Section 104 (g) loans) on June 9, 1965. The cruzeiro loan of NCr\$4 million had been fully disbursed before July 1, 1967 and accordingly covered by the prior audit with the exception of end-

use observations, which were made during our current examination.

Under loan No. 512-L-041, three Letters of Commitment (L/C), as amended to date, have been issued as summarized below:

<u>L/C No.</u>	<u>Bank</u>	<u>Purpose</u>	<u>Amount</u>
1	Wells Fargo Bank, San Francisco	Consulting Engineer Costs	\$ 922,000
2	First National City Bank, N.Y.	Dollar Import Costs	10,436,000
3	Wells Fargo Bank	U.S. Training Costs	<u>42,000</u>
TOTAL			<u>\$11,400,000</u> =====

As of June 30, 1969 disbursements and commitment of dollar loan proceeds were the following:

Status of Loan Commitments and Disbursements

<u>L/C No.</u>	<u>Accrued and Committed</u>	<u>Disbursed</u> ^{1/}
1	\$ 702,451.23	\$ 660,654.19
2	8,475,694.04	6,684,058.51
3	2,935,80	1,655.50
Credit for Insurance Claims	<u>(9,209.26)</u>	<u>(9,209.26)</u>
TOTALS	<u>\$9,171,871.81</u> =====	<u>\$7,337,158.94</u> =====

^{1/} See Exhibit A for Account Distribution.

The terminal date on which COPEL may submit disbursement documentation has been extended by one year to March 31, 1971.

2. Consultant Engineer Services

An Agreement between COPEL and a joint venture consisting of Companhia Internacional de Engenharia e Construções (CIECO) of Rio de Janeiro, and the International Engineering Company (IECO) of San Francisco (the Consultants) was signed on July 12, 1965 in accordance with loan requirements.

The consultants in general are to provide certification and inspection services, technical assistance, engineering design, and procurement services, all as related to the project. This assured the U.S. Government with reasonable confidence that its interests and objectives would be protected with an on-site U.S. presence that would have extensive influence on the overall management and construction of the project. Although the Consultant Engineer has prime responsibility for procurement services, it sub-contracted the U.S. procurement responsibilities to the Morrison-Knudsen Company (EMKAY) of New York, N.Y., on July 16, 1965. The contract between COPEL and the Consultant Engineer provides that remuneration for purchasing services re-ordered in the U.S. will be based on a percentage of FAS prices. The same provisions are included in the contract between the Consultant Engineer and EMKAY.

The prior USAID/B Audit Report No. 9/68 may be consulted for further background information.

C. PROJECT PROGRESS

Our review disclosed that the procurement on the loan has been relatively limited since the prior audit. During the two years procurement commitments have increased by approximately \$600,000 or only about 6 per cent of that portion of the loan reserved for imports. It should be noted that the commitment for the Carrier System which was included in prior audit figures had not yet been purchased as of June 30, 1969. Additional procurement action was required to incorporate modifications to the system. Therefore, only the cost of the modification has been included in the above amount.

Physical progress on the procurement for and construction of the Main

Systems, Sub-Stations, Transmission Lines and Isolated Systems are compositely considered to be 73.5 per cent completed. Although not comparing favorably with the original or revised schedules which anticipated levels of completion of 98 per cent (initial) and 83 per cent (revised), it is not considered a serious set-back. It is generally believed by the parties concerned that the overall delay in completion will not exceed one year. Without an attempt to evaluate the effect of each, some of the factors contributing to the delay were a financial slump in 1967, the U.S. dock strike, changes in equipment allocation and delays in local procurement.

The prior audit report discussed the idle power transmission line between Figueira and Xavantes which at that time was anticipated to begin service in May 1968. We noted, however, that this was an overly optimistic estimate as the line was not energized until August 1969.

The Financial Analysis Division of the USAID/B Controller's Office is currently performing an analysis and comparison of the COPEL financial statements for 1967 and 1968. The analyst concluded that COPEL was making a commendable recovery from its 1967 slump and accordingly, if the current rate structure proves to be adequate, a recommendation for action at this time may not be required. While some of the analyst's ratios indicated a need for improvement, it is believed more desirable results will be seen upon completion of the current heavy construction period after which attendant income will be realized. The prior audit report alerted USAID to the possibility of a rate structure which would be too low to sustain a satisfactory level of income to cover operating costs, expansion, debt interest,

and debt amortization. Consequently, an intensive financial analysis was made in mid-1968 when it was concluded that an adequate rate appeared to be maintained. The current rate structure, though not the maximum permitted by law, has been increased as partially evidenced by the analyst's computation of the debt servicing ratio which showed that though the margin was not yet satisfactory, the trend has improved significantly (about 100 per cent as compared to 1967) and should continue to do so with activation of new electrical systems. We believe the matter of rate structure has been given adequate attention since it is a simple management decision to increase rates for servicing operational and long term financial needs. COPEL, for reasons which may contribute significantly to the economic development of the State, has elected to maintain conservative rates and any adamant opposition to such a policy may create a situation adverse to the overall objectives of AID.

SECTION II - FINDINGS AND RECOMMENDATIONS

A. CONSULTANT ENGINEER SERVICES CONTRACT COST PROVISIONS

The Consultant Contract between COPEL and IECO provides for the reimbursement of overhead expenses at the rate of 100 per cent of direct labor which includes an estimated 10 per cent profit factor. A similar cost provision, where fee is based on a "percentage of cost", is noted in the Contract and Sub-Contract between the Consultant and the Morrison-Knudsen Company. Remuneration for procurement services is computed at 2 per cent of the FAS price of bulk raw materials and large package units, and 3 per cent of the FAS price of the remaining material and equipment. Under such cost provisions, the Consultant and Sub-Contractor are offered little incentive

to keep costs at a minimum. In addition, "Cost plus a percentage of cost" provisions are not allowable in U.S. government contracting. We therefore feel that the USAID did not exercise the best judgment in approving the above contract and sub-contract cost provisions. Currently M.O. 1441.1 issued in January 1969 specifically provides that "A.I.D. will in no case finance a contract where the fee or profit is shown as a percentage of the cost". Since this contract was signed before issuance of M.O. 1441.1, we make no recommendation.

As indicated above, IECO is being reimbursed for overhead expenses at the fixed rate of 90 per cent of direct labor plus 10 per cent of direct labor as fee. In order to demonstrate the inequity and inaccuracy of fixed overhead rates, it is noted that according to a letter-report from the independent public accounting firm of Peat, Marwick, Mitchell and Co. dated July 25, 1969, its audit of the actual overhead rates over the applicable period disclosed the following:

	<u>Overhead Rates (%)</u>	
	<u>Home Office</u>	<u>Field</u>
1965	60.21	35.66
1966	46.09	33.84
1967	54.55	37.57
1968	63.21	49.63
1969	69.61	84.21

The foregoing demonstrates the desirability of using actual overhead rates as opposed to fixed overhead rates in order to realize the most equitable results for all parties concerned. M.O. 1441.1 indicates that fixed overhead rates are acceptable, therefore no recommendation will be made in this report; however, the USAID/B Mission, in view of the above, may wish to consider encouraging the use of actual or annual negotiated overhead

rates for cost-type contracts.

The above further points out the necessity for a more thorough analysis by the Borrower (or AID, if the Borrower doesn't do it) of overhead rates at the time of contract proposals and before contract signature. Guidance on this subject has been amply provided to the USAID/B in AID/W Audit Report No. 68-182, therefore no recommendation is made.

B. AUDIT OF CONSULTANT ENGINEER CONTRACT

Current AID regulations (M.O. 794.2) as treated in AID/W Audit Report No. 68-182 dated June 28, 1968 provide that the Borrower has initial responsibility to audit Borrower/Grantee Contracts but if for some reason is unable or unwilling to undertake the audit, the Mission Controller then must assume responsibility.

COPEL has stated they are unprepared to perform such an audit as it is their contention that the contractor's (IECO) billing procedures are accurate and reliable and that even if an audit were performed, any resultant savings would not begin to offset the cost of the review. While we are inclined to agree with the Borrower's premise, in view of the regulations we attempted to perform the audit.

Our review disclosed some minor exceptions in the application of the Direct Expense Rate and Computation of the Purchasing Fee which were accordingly discussed with the COPEL Engineer Representative, who assured us that the matter would be taken up and resolved with IECO.

It was found that only a small portion of the audit of subject contract could be performed at the Mission level. The difficulties in conducting the audit are topically and briefly discussed below.

- a. Direct Labor - American Engineers
1. Labor Hours - Brazil. Were verified to verifax copies of time-sheets. Originals are retained in San Francisco Home Office.
 2. Labor Rates - Brazil. Were verified to the COPEL approved rate schedule but could not be verified to earnings statements or personnel records.
 3. San Francisco Home Office Rates and Hours. Neither could be audited.
- b. Payroll Appendage Cost Rate - Could not be verified.
- c. Other Direct Expenses
1. Were verified to verifax copies of invoices and/or other supporting documentation. Originals are filed in the San Francisco Office of IECO.
 2. Tests as to propriety, allocability and account coding could not be made.
- d. Overhead/Profit Rate - No review of allocability nor tests for duplication could be made.
- e. Other Expenses Rate
1. A rate of 15 per cent is applied to Miscellaneous Administrative Expenses (included as Other Direct Charges) to cover indirect expenses and handling charges.
 2. No definitive analysis could be made to evaluate the propriety, consistency and allocability of the application of this rate.

Since we were unable to make a satisfactory audit, we must, therefore, seek the assistance of AID/W to perform the necessary audit steps of IECO's

Home Office records to resolve the above, or advice on what other course of action should be taken. As an alternative, we suggest the audit policy be reviewed by AID/W and are so recommending to AID/W in a separate communication in accordance with Program Audit Guidance No. 69-4. (See additional comments below).

The greater significance of the foregoing is that an audit at the Mission level, with the exception of end-use observations, is for this contract (and probably will be for other similar contracts) wholly inadequate, and unless the contractor is audited on a comprehensive basis, the results of which would be uniformly applicable to all contracts, it would be equally impractical to perform an individual assist audit by either the Borrower or AID/W for each contract. Consequently, as contracting of this nature is worldwide, it might be well for AID/W to consider assuming the audit cognizant role and limit Mission Controller audit responsibility to end-use observations and advice of audit necessity.

A centralized audit cognizant office at AID/W would not only relieve the Mission of attendant frustrations, but provide the framework for expedient and economical audit coverage of all consulting contracts by Company rather than by Contract. With the onset of full audit coverage of such contracts, as envisioned by AID/W Audit Report No. 68-182, the volume of requests for assist audits and related correspondence could become overwhelming.

C. TRAINING

Letter of Commitment No. 3 has been established under the Loan 041 in the amount of \$42,000 to finance the dollar costs of trainees while study-

ing in the U.S. Such costs are limited to tuition and related fees, training aids, living expenses of travel within the U.S. All other expenses such as international travel are to be borne by the Borrower.

The status of progress in the training program as of June 30, 1969 is summarized below:

	<u>Number of Trainees</u>
Completed Training	1
Training in process	4
Selected	5
Not selected	<u>2</u>
Total	<u>12</u> ====

Our review of this aspect of the loan brought to light several factors which may affect the propriety and effectiveness of the training program. Though the program was approved on July 22, 1968, this same correspondence reminded COPEL that the actual implementation must also have AID approval. However, no evidence was found that indicated USAID/B approval for the implementation phase was sought by COPEL and consequently USAID/B would have had no opportunity to review and evaluate the curriculum and personnel selected for training. It was furthermore noted that though the proposal only included 8 trainees, the planned program indicates 12 persons will receive training.

RECOMMENDATION No. 1

The USAID/B Engineering and Natural Resources Office (ENRO) should review the planned training program and make a determination as to the acceptability of curriculum, personnel and number of personnel selected for training.

D. UTILIZATION OF COMMODITIES AND MARKING

We performed a physical verification of selected items financed under the loans. As a result of this examination we were reasonably satisfied that most of the financed items were properly received and/or utilized. We also found that those items not yet installed were adequately protected against such hazards as fire, theft, and inclement weather conditions. Moreover, it was noted during our end-use observation that the eligible items procured under loan 041 were identified with emblems indicating the Alliance for Progress and adequate publicity was given at on-site locations.

There are a few items which were procured on the Cruzeiro Loan No. 512-G-048 which are believed to be stored for an unreasonable period of time. This was discussed in detail with the COPEL and USAID/B Engineers who assured us that the matter would be given immediate attention. It was furthermore noted that the items and crates of parts which were procured under the Cruzeiro Loan No. 512-G-048 did not bear AID and Alliance emblems in accordance with Section 102.3 of the loan agreement. The foregoing were discussed with the USAID/B cognizant engineer who noted the deficiencies and indicated that follow-up action would begin immediately.

RECOMMENDATION No. 2

The USAID/B Engineering and Natural Resources Office (ENRO) should notify COPEL and request periodic status reports in regard to the proper utilization and marking of the equipment and parts procured under the Cruzeiro Loan No. 512-G-048.

E. MARKET STUDY

The loan and estimated costs of the COPEL expansion project were based on a general survey of the area which was considered as lacking almost any effective electrical power generating system. Population figures, generating capacity of other concessionaires and any other information available at the time was considered in planning the project. Evidently, however, certain other important factors such as electrical load growths, anticipated ecological changes, alternative electrical power generating sources, and surveys of municipality demands were not considered to the extent necessary. Though it is difficult to evaluate the quantitative and qualitative effects of this, it would appear that some of the causes in project delay, changing generating plants locations and the idle Figueira-Xavantes transmission line may have resulted from the lack of such information. This is merely an exemplification of the importance of thorough market research of supply and demand prior to the inception of any project. In fact, COPEL has since given considerable credence to such studies as evidenced by the intensive market review which they had made and provided to the International Development Bank (IDB) in planning for the construction and financing of the electrical expansion project for the Western part of Parana.

F. EXPANSION PROJECT COST - COPEL PARTICIPATION

Initial anticipated costs of the electrical expansion project and breakdown of participation is summarized below:

	US\$ (Millions)
U.S. Government Loan	11.4
Other Services - COPEL Participation	<u>13.8</u>
Total	<u><u>\$25.2</u></u>

Our review included a summarization of COPEL participating costs and commitments as of June 30, 1969. The results are as follows:

	US\$ in Millions Equivalent Ratio of <u>\$1.00 = NCr\$4.07</u>
Procurement Commitments and Actual Engineering Costs	4.3
Actual Construction Costs	<u>1.5</u>
Total COPEL Participation	<u><u>\$5.8</u></u>

While a first impression would indicate that the expansion project cost may have been overestimated, resulting in considerably less cost participation by COPEL than initially anticipated, particularly in view of the fact that the project to date was approximately 73 per cent complete, it should be noted that (a) the NCr\$ dollar equivalent at procurement inception was double its current rate, (b) the above costs represent only physical completion which does not include such costs as cruzeiro import expenses, inland transportation, land and right-of-way, and administration. Consequently, the Consultant Engineer is considering the inclusion of such amounts and assessed effects of the more tangible of the above as separate appendixes to the quarterly reports in order to more accurately measure participation for planning as well as reporting purposes.

G. 50/50 SHIPPING

Our examination disclosed that COPEL was complying with the 50/50 shipping requirement for U.S. procurement as shown below:

	Metric Gross Tonnage Shipped <u>As of June 30, 1969</u>	
U.S. Flagships	2,710.3	61.7%
Brazilian Flagships	1,680.5	38.3%

H. SMALL BUSINESS REQUIREMENT

Twenty-three procurement actions have been processed since the prior audit and all were in compliance with this loan provision.

I. PROCUREMENT

We reviewed and evaluated COPEL's and the Consultant's procurement procedures and found them to be in accordance with the provisions of the loan agreement. In principal, all procurement was performed by the Consultants as outlined in their agreement with COPEL.

Since the last audit in July 1967, 23 procurement actions (through purchase order No. CUR P. 53) have been processed and are in compliance with the loan provisions. All U.S. procurement is being effected under the blanket Letter of Commitment (No. 2) established in favor of the Consultants subcontractor, Morrison-Knudsen Company of New York.

J. IMPORT LICENSES AND CUSTOMS CLEARANCES

Import licenses are processed within a reasonable period of time for all imports except annunciator panels and capacitors. The Consultant and COPEL, however, do not consider this a significant obstacle.

COPEL, working through its Commercial Department, handled customs clearances on all U.S. procurement. Our examination indicated that it was usually able to facilitate the prompt dispatch of all eligible items through the port of Paranagua, which is located in the State of Parana.

K. REPORTING PRACTICES

We found that the reporting coverage in this project has been very good. Through its consultant, COPEL is submitting quarterly progress reports on loan objectives and accomplishments. Such reports contain information pertaining to construction schedules, itemization of procurement, and dollar and cruzeiro cash and cruzeiro cash flow statements. A shipping report is being submitted separately. Complementing the quarterly report, we noted that a monthly report was being prepared on project activities. An annual Financial Report prepared by the independent public accounting firm of Arthur Andersen and Co. is also regularly transmitted to the USAID. These reports are being utilized by the USAID/B to monitor the project.

L. SHIPPING AND COMMODITY ELIGIBILITY

All commodities described in the purchase orders selected for review are on the list of eligible import items for the COPEL expansion project.

M. CLAIMS PROCEDURES

Our review disclosed that COPEL receives indirect refund for damage and/or shortages from its insurance company (Standard Marine Insurance Co.) through deduction in Morrison-Knudsen's invoices submitted to IECO for payment. Thus, in effect, such amounts remain intact in the loan account and

are not used until advice of refund is received by COPEL and replacement of the item is required.

We noted that COPEL is not advised of the amount refunded until they receive a copy of the Morrison-Knudsen's invoices showing the credit received. It was, therefore, suggested that COPEL be advised of the refund by the insurance company so that they may compare the credit received against their records and expedite replacement.

EXHIBIT A

FINANCIAL STATUS OF AID LOAN No. 512-L-041
AS OF JUNE 30, 1969

=====

<u>Letter of Commitment No.</u>	<u>Account Charge</u>	<u>F I N A N C I A L S T A T U S</u>		
		<u>Disbursed</u>	<u>Committed</u>	<u>Letters of Commitment</u>
2	[Imports and Purchase Services	\$6,383,913.19		
	[Shipping Charges	189,844.25		
	[Insurance Charges	53,368.62		
	[8,475,694.04	10,436,000
	[Consulate Charges	34,689.93		
	[Miscellaneous Direct Payments	11,318.43		
	[Bank Charges	10,924.09		
1	[Consultant Services	659,210.00		
	[Bank Charges	1,444.19		
3	Training Assistance	1,655.50	702,451.23 ^{1/}	922,000
	Credit for Insurance Claims	(9,209.26)	2,935.80 ^{1/}	42,000
			(9,209.26)	
	TOTAL	\$7,337,158.94	\$9,171,871.81	11,400,000

=====

^{1/} Represents accrued charges rather than commitments.

SUMMARY OF RECOMMENDATIONS

EXHIBIT B

NUMBER

PAGE

1 The USAID/B Engineering and Natural Resources Office (ENRO) should review the planned training program and make a determination as to the acceptability of curriculum, personnel and number of personnel selected for training.

11

2 The USAID/B Engineering and Natural Resources Office (ENRO) should notify COPEL and request periodic status reports in regard to the proper utilization and marking of the equipment and parts procured under the Cruzeiro Loan No. 512-G-048.

12

EXHIBIT C

**DISTRIBUTION OF
REPORT ON EXAMINATION
No. 27/70**

	<u>COPY No.</u>
Minister William A. Ellis, Director, United States Agency for International Development Mission to Brazil	1
State Department - The Honorable Scott Heuer, Jr., Inspector General of Foreign Assistance (IGA)	2
State Department - Mr. Robert W. Dean, Country Director - Office of Brazil Affairs (ARA/BR)	3
AID/W - Executive Director (ARA-LA/MGT/EX)	4 - 5
AID/W - Office of the Controller (C/AUD)	6 - 7
AID/W - Special Assistant for Program Management (PMCA)	8 - 9
USAID/Panama - Inspector in Charge, Inspections and Investi- gations Staff, A.I.D. (IIS)	10
USAID/B - Office of Assistant Director for Evaluation (ADEV)	11
USAID/B - Office of Assistant Director for Program (ADPR)	12
USAID/B - Office of Management (ADMG/MGEX/MGMA)	13
USAID/B - Office of Capital Development and Industry (ADCD)	14
USAID/B - Engineering and Natural Resources Office (ENRO)	15 - 16
USAID/B - Legal Staff (LGS)	17
USAID/B - Office of the Controller (CONT)	18
USAID/B - Controller's Official File Copy	19
USAID/B - Audit Division (C/AUD)	20 - 24

NOTE: All audit work papers are attached to Copy No. 20 which is on file
in the Office of the Controller, Audit Division (C/AUD), USAID/B.

- - -



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
AGÊNCIA NORTE-AMERICANA PARA O DESENVOLVIMENTO INTERNACIONAL

USAID/BRASIL



RUA MELVIN JONES N.º 5 - RIO DE JANEIRO - TEL: 31-5823

UNCLASSIFIED

November 24, 1969

Agency for International Development
Special Assistant for Program Management (PMCA)
Washington, D.C. 20523

Gentlemen:

Mission-Issued Audit & Survey Report Containing
Findings and Recommendations

In compliance with M.O. 798.2, attached are Copies No. 8 and No. 9
of the following audit report:

<u>Report No.</u>	<u>Dated</u>	<u>Findings</u>
* 27/70	11/20/69	The report contains two recommendations.

* Report on Examination of Companhia Paranaense de Energia Eletrica
(COPEL) - Brazil - Loan Agreement Nos. 512-L-041 and 512G-048 -
for the period July 1, 1967 through September 30, 1969.

Sincerely yours,

Robert B. Curtis
Robert B. Curtis,
Controller

Enclo.: Audit Rep. No. 27/70
(Copies No. 8 & No. 9)

UNCLASSIFIED

AIRGRAM

DEPARTMENT OF STATE

UNCLASSIFIED

CLASSIFICATION

For each address check one ACTION | INFO
X

Director	
Dpty. D.	
Asst. D.D.	
Asst. D.	
Rec'd. Off.	
Eco. Off.	
Asst. P.E.	
Res. Off.	
Dvlp. Offs	
DATE SENT	12/17/69
Destroy	
Cys Rec'd	
Action	

3

DISTRIBUTION

ACTION

AID
INFO.
AC
LA
CIT
OC

TO - AID/W TOAID A- 1250
Office of the Controller (C/AUD)

FROM - RIO DE JANEIRO

SUBJECT - USAID/Brazil Audit of Borrower/Grantee Contracts

REFERENCE - (a) USAID/B Audit Rep. No. 27/70 of 11/20/69 -
COPEL Project.

1. Reference (a) beginning on page 8 has highlighted the difficulties with which the USAID/B is confronted in implementing the AID policy as presented in AID M.O. 794.2, Audit of Borrower/Grantee (B/G) Contracts. For the most part, it is believed that any further attempts to perform a complete audit of B/G Contracts (involving U.S. contractors) at the Mission level will suffer the same difficulties. The result therefore will be either (1) the borrower will be required to engage an I.P.A. firm or dispatch its own auditors to the U.S. for home office review, or (2) the USAID/B will request AID/W to perform an assist audit of the home office. The disadvantages and undesirability of such courses of action are:

A. In the event of (1):

1. The USAID/B would be reluctant to make such unreasonably costly demands on a borrower especially in those instances where the borrower is completely satisfied with contract performance and billings.
2. Borrower may be discouraged from entering into such contracts which would then tend to jeopardize effective financing and the technical quality of crucial projects.
3. USAID Management may not be assured until after the borrower financed audit was completed that the audit was conducted in an acceptable manner.
4. Consultant contractors who have many B/G contracts could conceivably be deluged with borrowers or their representatives. This could discourage consultants from entering into such contracts.

PAGE 1 OF 2 PAGES

DRAFTED BY FCShaver/ DKollodge:pw	OFFICE CONT	PHONE NO. 303	DATE 12/16/69	APPROVED BY: Robert B. Curtis, Controller
---	----------------	------------------	------------------	--

AID AND OTHER CLEARANCES

UNCLASSIFIED
CLASSIFICATION

B. In the event of (2): ✓

1. Voluminous and many individual requests for assist audits would converge on AID/W, resulting in problems in coordinating audit activity and a considerable increase in two-way correspondence.

2. The USAID/B Controller therefore recommends the consideration of the merits of one of the following proposed alternative changes to the policy.

1. That AID/W assume the audit cognizant role for D/C contracts. Centralized cognizance will result in better planning, coordination and scheduling of audits, eliminate unnecessary correspondence, and result in long-run economies.

2. Require contractors (consultants) to employ the services of an independent accounting firm which would perform audits acceptable to AID and furnish each borrower with the audit report. The cost of such services would be borne by the contractor but recoverable from borrowers by the application of overhead rates.

