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# Auditor General

AUDIT REPORT  
INSTITUTE CULTURAL DO TRABALHO  
USAID/BRAZIL

129

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Area Auditor General Latin American  
Agency for International Development

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## I INTRODUCTION

In accordance with an Auditor General request of December 1, 1978, we have made an audit of five sub-contracts with the Instituto Cultural do Trabalho (ICT) in Sao Paulo, Brazil. Our review was made to determine the validity and propriety of seminar costs and to evaluate ICT financial controls, procedures and effectiveness in carrying out the trade union education program.

## II BACKGROUND AND SCOPE

The Instituto Cultural do Trabalho (ICT) is an indigenous, private, non-profit organization founded in 1963 with the sponsorship of the American Institute for Free Labor Development (AIFLD). AIFLD is the institution through which the United States labor movement extends a fraternal helping hand to workers in Latin America and the Caribbean area.

ICT is a labor union education center located in Sao Paulo, Brazil. Its purpose is to train labor union leaders for the promotion and development of a free, independent and democratic labor movement in Brazil. To this end, residential and regional courses have been provided to Brazilian nationals.

AIFLD has been sub-contracting with ICT on a yearly and continuing basis since ICT was founded in 1963. These sub-contracts have been financed with funds provided under various AID prime contracts with AIFLD. The specific purposes of these sub-contracts have been to finance the costs of residential and regional courses as well as ICT's administrative expenses in carrying out such an educational program. During the years 1963 to 1978 ICT provided educational training to 47,948 participants through residential and regional courses. Of this total 46,516 attended regional courses and the remaining 1,432 participated in residential courses.

From April 1, 1973 to March 31, 1978 AIFLD signed five sub-contracts with ICT totalling \$771,790 to finance ICT's operations in conducting residential and regional courses:

<u>Sub-contract Period</u>	<u>Sub-contract Amount</u>
4/1/73 - 3/31/74	\$171,300
4/1/74 - 3/31/75	161,600
4/1/75 - 3/31/76	162,390
4/1/76 - 3/31/77	147,000
4/1/77 - 3/31/78	<u>129,500</u>
Total	<u>\$771,790</u>

The funding for these sub-contracts emanated from AID/AIFLD Prime Contract No. AID/CM/1a-C-73-10. Approximately 8,600 participants received labor union education through regional courses and 509 participants attended residential courses at the ICT center during these sub-contract periods.

The primary purpose of our examination was to determine the propriety and validity of seminar costs charged to the sub-contracts and to evaluate ICT financial controls, procedures and effectiveness in carrying out the labor education program. Our examination covered the period from April 1, 1973 to March 31, 1978, included visits to AIFLD's field office in Rio de Janeiro and ICT's headquarters in Sao Paulo to review the books and

records. Our review was complemented with conversations with U.S. Embassy and USAID officials and interviews with selected participants and courses coordinators.

### III FINDINGS AND RECOMMENDATIONS

#### A. Program Costs

The five sub-contracts with ICT call for the execution of a trade education program through the financing of three budget line items, i.e., administrative expenses, residential courses, and regional courses and establishing budget ceilings for each of these items. The total sub-contract amounts were advanced by AIFLD/Brazil to ICT as shown in Exhibit A. (AIFLD/Brazil informed us that AID reimbursements to AIFLD/Washington were based on cash advances to ICT in accordance with agreement reached between AID/Washington and AIFLD/Washington in 1972.)

ICT's accounting records indicate cash advances for administrative expenses and regional courses exceeded ICT's expenditures requirements in four sub-contract periods:

<u>Sub-Contract Period</u>	<u>Balance of Cash Advances Not Used</u>		<u>Total</u>
	<u>Administrative Expenses</u>	<u>Regional Expenses</u>	
4/1/74 - 3/31/75	\$ 7,808	\$ -0-	\$ 7,808
4/1/75 - 3/31/76	16,346	1,392	17,738 <sup>1/</sup>
4/1/76 - 3/31/77	10,220		10,220
4/1/77 - 3/31/78	<u>3,548</u>	<u>3,040</u>	<u>6,588</u>
Total	<u>\$37,922</u>	<u>\$4,432</u>	<u>\$42,354</u>

See Exhibit A for further details.

<sup>1/</sup> On March 30, 1976 ICT refunded \$6,327 to AIFLD/Brazil from this unused balance. AIFLD/Brazil did not know if the \$6,327 were returned to AID/Washington.

According to our interpretation of the ICT sub-contracts, AIFLD/Washington will have to refund AID/Washington \$42,354, representing cash advances that were not used for administrative expenses and conducting regional courses. The ICT sub-contracts provide an annual monetary limitation for each of the three budget line items. Consequently, our comparative analysis of cash advances with ICT's program costs was made by sub-contract period and by budget line item as shown in Exhibit A. Because of our interpretation of sub-contract provisions, some program costs, especially for residential courses, which exceeded budget amount in all sub-contract periods were not used to offset the unused cash advances for administrative expenses and regional courses.

ICT and AIFLD/Brazil did not agree with our position. AIFLD/Brazil's (current Country Program Director) understanding of the sub-contract was that the cumulative total program costs of \$762,362 for the five sub-contract periods be applied to cash advances of \$771,790 given to ICT

during the same period. This would result in ICT owing \$9,428 less \$6,327 that had been refunded to AIFLD/Brazil (see Exhibit A). ICT's interpretation of sub-contract provisions was that money received and not spent for administrative expenses did not have to be refunded to AIFLD/Brazil. A previous AIFLD/Brazil's Country Program Director had the same interpretation of sub-contract provisions. However, the present Country Program Director disagrees with ICT's position.

Some of the sub-contract clauses are not clear. For instance, clause 3 provides a flat rate per student for administrative expenses and residential courses. Clause 5 establishes that money received and not spent for residential courses should be refunded to AIFLD/Brazil. However, the sub-contract is silent on the administrative expense monies. Clause 6 provides costs reimbursement for up to a flat rate per seminar not exceeding an established amount. Again the contract is silent on the disposition of unused monies.

Because of the ambiguous sub-contract clauses (see clauses 3, 5, and 6 of sub-contract period 4/1/77 - 3/31/78) we requested General Counsel, Bureau for Latin America and the Caribbean (LAC/DP) and Bureau for Program and Management Services (SER/CM/ROD) to review and comment on our draft report's findings.

On June 23, 1979 General Counsel commented that some of the sub-contract clauses are not clear. However, it is apparent from the sub-contract, taken as a whole, that it was not the intention of AIFLD (or of AID) to permit the retention of funds in excess of costs, or to permit the transfer of funds among line items to cover shortfalls.

On July 9, 1979 a LAC/DP officer said their comments were being withheld pending the receipt of pertinent information from AIFLD/Brazil.

No comments were received from SER/CM/ROD on the draft report.

#### Recommendation No. 1

The Office of Development Programs  
(LAC/DP) request AIFLD to refund \$42,354.

#### B. Sub-contract Provisions

The five sub-contracts signed between AIFLD/Brazil and ICT contain clauses that seem ambiguous. Sub-contract provisions are too broad and are subject to interpretation. The sub-contracts call for the financing of ICT's administrative expenses, residential and regional courses costs and indicate a specific amount that was not to be exceeded for the administrative costs, residential courses costs and regional seminars costs. The documents did not give a detailed breakdown of the expenses that were to be included in the three cost categories. To cover administrative and residential courses' costs the sub-contracts established a flat rate per student with a

maximum budget limitation. For the regional courses' costs the sub-contracts provided costs reimbursement for up to a flat rate per seminar but not exceeding an established amount. For instance, the ICT sub-contract for the period April 1, 1977 - March 31, 1978 calls for the training of 100 participants in four residential courses and 10 regional seminars for 300 participants. This sub-contract established \$380 per resident student ( $\$380 \times 100 = \$38,000$ ) for administrative expenses; \$880 per resident student ( $\$880 \times 100 = \$88,000$ ) for residential courses; and \$350 per seminar ( $\$350 \times 10 = \$3,500$ ) for the regional seminar program. The sub-contract provides a total of \$129,500 to finance ICT's trade union education program.

Although sub-contract provisions provided maximum amounts to be reimbursed ICT for incurred expenses, the documents appear to serve as umbrella to finance items like representation activities (\$2,623), purchase of school equipment including a color television set (\$960), an electric hand saw (\$76), a washing machine (\$336) and an electronic game (\$108), etc. Although some or all of these items might be considered ordinary and necessary expenses to carry out ICT's trade union educational program, such items should have been negotiated before hand and specifically provided for in the sub-contract document.

#### C. Financial Management of ICT's Monthly Reports

AIFLD/Brazil's financial management of ICT's monthly financial reports was inadequate. As a result financial reporting to AIFLD/Washington was inaccurate. The reports prepared by ICT for AIFLD/Brazil review and evaluation were inaccurate. AIFLD/Brazil, instead of analyzing the reports, rubber stamped the information received thus submitting inaccurate data to AIFLD/Washington.

The monthly financial reports prepared by ICT represented a cash disbursement record showing income and disbursements from ICT bank accounts. Cash disbursement transactions were not purified to show program costs chargeable to the sub-contracts. Consequently, financial data submitted by AIFLD/Brazil to AIFLD/Washington was based on cash disbursements and not based on actual program costs. In some instances cash advances, cash refunds, etc. were reported to AIFLD/Washington as actual program expenditures.

In view of the inaccurate financial reporting, we requested ICT to prepare a listing of program costs chargeable to the sub-contracts for our review and evaluation. A comparative analysis of the newly developed cost data with previously reported program cost to AIFLD/Brazil and AIFLD/Washington showed reporting discrepancies in each sub-contract period. Program costs on each budget line item were either overstated or understated.

The ICT's inaccurate reporting and AIFLD/Brazil's lax monitoring resulted in a net overstatement of reported program costs to AIFLD/Washington of \$8,921.

When we discussed the inaccurate reporting with ICT's Secretary General, he told us monthly financial reports were prepared in accordance

with instructions from the AIFLD/Brazil Program Country Director. The recently assigned AIFLD/Brazil Country Program Director agreed with ICT to correct the reporting by including only program costs chargeable to the governing sub-contract.

D. Educational Goals

The educational and training goals established in the scope of work of the five sub-contracts with ICT were achieved. Program accomplishments exceeded planned educational and training objectives in the five sub-contract periods (see Exhibit B).

The five ICT sub-contracts provided that 20 residential labor education basic courses were to be conducted for 500 participants selected from the labor movement (directors, officers, or union members) during the period April 1, 1973 thru March 31, 1978. Also, a program of trade union seminars was to be carried out throughout Brazil during the same period. To this end, 287 regional courses for about 7,900 participants were to be conducted by ICT. The planned 20 residential courses were held and 509 participants trained in trade union education. The trade union seminar program conducted 309 regional courses for 8,679 participants. Therefore, the goal of the educational program was exceeded by 22 courses and 788 participants as shown in Exhibit B.

AIFLD/Brazil reports indicate 75 percent of the ICT graduates are actively participating in the trade union movement as union officers. Our selective interview of 27 participants from 10 different courses indicated the training courses were held and the participants were actively involved in the labor movement as officials or members of the various unions.

## EXHIBIT A

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT  
 EDUCATIONAL PROGRAM COSTS ON FIVE SUB-CONTRACTS WITH ICT  
 UNDER PRIME CONTRACT No. AID/CM/1a-C-73-10  
 For the Period April 1, 1973 through March 31, 1978  
 (In U.S. Dollars)

<u>Sub-contract Period/ Sub-contract Budget Line Item</u>	<u>Sub- Contract Budget Ceiling</u>	<u>Amount Advanced</u>	<u>Program Costs</u>	<u>Costs Exceeding Sub-contract Amount</u>	<u>Amount Due AID</u>
<u>4/1/73 - 3/31/74</u>					
Administrative expenses	51,200	51,200	52,094	894	
Residential course costs	79,800	79,800	80,819	1,019	
Regional course costs	<u>40,300</u>	<u>40,300</u>	<u>46,823</u>	<u>6,523</u>	
Total	<u>171,300</u>	<u>171,300</u>	<u>179,736</u>	<u>8,436</u>	<u>-0-</u>
<u>4/1/74 - 3/31/75</u>					
Administrative expenses	49,000	49,000	41,192	-0-	7,808
Residential course costs	87,000	87,000	90,525	3,525	
Regional course costs	<u>25,600</u>	<u>25,600</u>	<u>27,786</u>	<u>2,186</u>	
Total	<u>161,600</u>	<u>161,600</u>	<u>159,503</u>	<u>5,711</u>	<u>7,808</u>
<u>4/1/75 - 3/31/76</u>					
Administrative expenses	52,000	52,000	35,654		16,346(1)
Residential course costs	93,000	93,000	97,829	4,829	
Regional course costs	<u>17,390</u>	<u>17,390</u>	<u>15,998</u>		<u>1,392(2)</u>
Total	<u>162,390</u>	<u>162,390</u>	<u>149,481</u>	<u>4,829</u>	<u>17,738</u>
<u>4/1/76 - 3/31/77</u>					
Administrative expenses	45,000	45,000	34,780		10,220
Residential course costs	95,000	95,000	100,379	5,379	
Regional course costs	<u>7,000</u>	<u>7,000</u>	<u>7,039</u>	<u>39</u>	
Total	<u>147,000</u>	<u>147,000</u>	<u>142,198</u>	<u>5,418</u>	<u>10,220</u>
<u>4/1/77 - 3/31/78</u>					
Administrative expenses	38,000	38,000	34,452		3,548
Residential course costs	88,000	88,000	96,532	8,532	
Regional course costs	<u>3,500</u>	<u>3,500</u>	<u>460</u>		<u>3,040</u>
Total	<u>129,500</u>	<u>129,500</u>	<u>131,444</u>	<u>8,532</u>	<u>6,588</u>
<u>Five-Year Summary</u>					
Administrative expenses	235,200	235,200	198,172	894	37,922
Residential courses	442,800	442,800	466,084	23,284	-0-
Regional courses	<u>93,790</u>	<u>93,790</u>	<u>98,106</u>	<u>8,748</u>	<u>4,432</u>
Grand Total	<u>771,790</u>	<u>771,790</u>	<u>762,362</u>	<u>32,926</u>	<u>42,354</u>

Explanatory Note:

- (1) Includes \$5,500 refunded by ICT to AIFLD/Brazil on March 30, 1976. We could not verify in the field if such amount was ever returned to AID.
- (2) Includes \$827 refunded by ICT to AIFLD/Brazil on March 30, 1976. We could not verify in the field if such amount was ever returned to AID.

EXHIBIT B

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT  
 EDUCATIONAL GOALS AND ACHIEVEMENTS ON FIVE SUB-CONTRACTS WITH ICT  
 UNDER PRIME CONTRACT No. AID/CM/1a-C-73-10  
For the Period April 1, 1973 through March 31, 1978

Sub-contract Period From Through		Residential Courses				Regional Courses			
		Number Programmed		Number Achieved		Number Programmed		Number Achieved	
		Courses	Participants	Courses	Participants	Courses	Participants	Courses	Participants
4/1/73	3/31/74	4	100	4	100	130	4,000	140	4,208
4/1/74	3/31/75	4	100	4	100	80	1,800	80	2,198
4/1/75	3/31/76	4	100	4	108	47	1,200	50	1,262
4/1/76	3/31/77	4	100	4	100	20	600	27	710
4/1/77	3/31/78	<u>4</u>	<u>100</u>	<u>4</u>	<u>101</u>	<u>10</u>	<u>300</u>	<u>12</u>	<u>301</u>
	<b>Total</b>	<u>20</u>	<u>500</u>	<u>20</u>	<u>509</u>	<u>287</u>	<u>7,900</u>	<u>309</u>	<u>8,679</u>

REPORT RECIPIENTS

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