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

project not on  
master list

REPORT ON EXAMINATION  
OF  
HOUSING -- PERNAMBUCO  
UNDER  
PROJECT AGREEMENT No. 512-11-830-134  
(FORMERLY 512-11-83-AP-5)  
FOR THE PERIOD  
OCTOBER 5, 1962 THROUGH DECEMBER 31, 1965

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REPORT No. 13/66  
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OFFICE OF THE CONTROLLER  
USAID/BRAZIL  
MAY 16, 1966

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

May 18, 1966

TO Minister Stuart H. Van Dyke, Director of Mission, and  
Mr. Donor M. Lion, Associate Director, Northeast Area Office

The Office of the USAID Controller has completed an examination of the "Pernambuco Housing" project, under Project Agreement No. 512-11-830-134, for the period October 5, 1962 through December 31, 1965.

In October 1962, with the concurrence of the Coordinating Commission for the Alliance for Progress (COCAP), USAID/B agreed to contribute Cr\$200 million to the State of Pernambuco, represented by the State Housing Agency (SSCM) for the construction of 700 housing units in the Alto do Jordão and Iburá districts near Recife. Under the terms of the agreement these houses were to be sold to skilled labor and low salaried office workers and the proceeds of the sales used for additional housing construction. This project was supplementary to other larger-scale housing and rehabilitation projects financed by the State and by the Inter-American Development Bank. USAID's contribution was from P.L. 480, Title I, Cruzeiro Grant Funds. We were not able to establish the exact amount disbursed of an additional Cr\$358.6 millions pledged to the project by various Brazilian executing agencies; however, we concluded from our examination that on the whole, local support obligations were fulfilled.

In most essential respects the project has been satisfactorily carried out. Actual construction totaled 690 houses, 10 less than the 700 the project contemplated; however, an additional 44 units were subsequently constructed with proceeds obtained from the sales

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of the original houses. The principal factors leading to the satisfactory accomplishment of project objectives were, (1) the exercise of good local management control on the part of SSCM, (2) realistic planning, and (3) effective coordination in the employment of USAID funds.

The report contains recommendations for corrective action which principally concern accounting and other administrative type problems; we are recommending that interest earned on the USAID contribution be returned to the U.S. Treasury as required, that a small balance of unused USAID funds likewise be returned and that final accounting information be obtained. Another recommendation calls attention to the lack of proper signs identifying the project with the Alliance for Progress.

*N.O. Olinick*  
Norman Olinick  
Controller

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AUDIT REPORT  
No. 13/66

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Mr. William R. Trig, Program Staff - USAID/B/NE	16
Marked for the Attention of Program Operations-USAID/B/NE	17
Mr. Reynaldo Santos, Chief, Executive Services - USAID/B/NE	18
Mr. Norman Olnick, Controller (CONT) - USAID/B	19
Mr. Samuel Kraichman, Deputy Controller (CODC) - USAID/B	20
Mr. Robert C. Moore, Assistant Controller (NECO) - USAID/B/NE	21
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Official File Copy	22
Audit Division (COAD) - USAID/B	23 - 27

NOTE: All audit work papers are attached to Copy No. 23 which is on  
file in the Office of the Assistant Controller (NECO), Audit Section,  
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TABLE OF CONTENTS

	<u>PAGE</u>
SECTION I - INTRODUCTION	1 - 2
A. Purpose	1
B. Scope	1 - 2
SECTION II - GENERAL	2 - 3
SECTION III - FINDINGS AND RECOMMENDATIONS	3 - 10
A. Project Progress	3 - 4
1. General	3 - 4
2. Construction	4 - 5
3. Selection of Home Owners	5
B. Funding	5 - 8
1. General	5 - 6
2. USAID/B	6 - 7
RECOMMENDATION No. 1	7
3. State of Pernambuco	7
4. SSCM	7 - 8
5. Social Promotion Foundation	8
C. Revolving Funds	8
D. Accounting and Reporting Procedures	8 - 9
1. Accounting	8
RECOMMENDATION No. 2	9
2. Reporting	9
RECOMMENDATION No. 3	9
E. Publicity and Marking	9 - 10
1. Publicity	9
2. Marking	9 - 10
RECOMMENDATION No. 4	10

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EXHIBIT I - Application of USAID/B/NE Funds  
(In Crusoires).

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SECTION I - INTRODUCTION

A. PURPOSE

The purpose of this audit was to review and evaluate the results achieved under this project as compared to the objectives set forth in the project agreement; to determine the extent of compliance with AID regulations; and to determine that the various signatories to the agreement had fulfilled their obligations for contributions as agreed.

B. SCOPE

This is the initial audit of Pernambuco Housing and covers the period from its inception on October 5, 1962 through December 31, 1965.

We examined the accounting records and related files in the USAID/B/HE Offices of the Assistant Controller and the Human Resources Division, Urban Development Branch; meetings and discussions were held with the directors and officials of Serviço Social Contra o Kocambo (SSCK) and their pertinent records reviewed.

A field trip was made to the housing area on January 13, 1965, where physical observations of the houses and communities were made and interviews held with forty (40) home owners.

The audit was made in accordance with applicable Manual Orders,

other directives and generally accepted auditing procedures which we considered appropriate in the circumstances.

The report was reviewed by the Chief of the USAID/B/NE Human Resources Division and Urban Development Branch who are in accord with its contents.

## SECTION II - GENERAL

The 1960 census revealed that Recife, the capital of Pernambuco, had approximately 800,000 inhabitants. It was indicated that two thirds of this urban population were living in 120,00 sub-standard housing units. The situation was described as growing more acute with the converging shift of population from the rural areas to the urban center and the rising demographic trend. The statistics further reflected that Recife had one of the highest population densities in Latin America with 5,411.7 inhabitants per square kilometer.

In the period 1944-48 each inhabitant of Recife occupied an average housing space of 3.80 m<sup>2</sup> while in the period 1954-58 this space had declined to 1.23 m<sup>2</sup> per person.

The figures cited below show that as the population had increased, new housing construction had diminished drastically.

<u>YEAR</u>	<u>HOUSES CONSTRUCTED</u>	<u>POPULATION INCREASE</u>	<u>AVERAGE HOUSING SPACE (m<sup>2</sup>) PER PERSON</u>
1944-1948	23,296	88,130	3.80
1954-1958	11,552	142,559	1.23

In 1945 the State of Pernambuco created the State Housing Agency (SSCH) to meet this challenging problem. Lack of funds, however, limited the ability of SSCH to slacken the rapid growth of Recife's slum areas. In 1960 SSCH prepared general plans for the construction of 8,500 houses on State lands. This program was to be financed by the State, SSCH and the Inter-American Development Bank. The plans called for three projects: 1) Alto de Jordão, Recife - 2,000 houses; 2) 2,500 houses for seven interior cities; and 3) slum clearance in

Rocife - 4,000 semi-finished houses.

On October 5, 1962, Project Agreement 512-AA-83-AE-5 was entered into between the State of Pernambuco, Brazil, represented by SSCM, the Coordinating Commission for the Alliance for Progress (COCAP), and the Agency for International Development Brazil (USAID/B). This project agreement was to supplement the general program developed by SSCM. The agreement called for the construction of 700 additional housing units within the Alto do Jordão project with USAID/B funds and the urbanization of the community with the installation of streets, electricity, water system, storm sewers, septic tanks, two schools, a church, and a commercial center. The urbanization was to be effected through State agencies under the coordination of SSCM.

USAID/B agreed to contribute Cr\$200,000,000 to the project from funds generated under the Second Sales Agreement - P.L. 480, Title I, Section 104 (c) Cruzeiro Grant Funds.

### SECTION III - FINDINGS AND RECOMMENDATIONS

#### A. PROJECT PROGRESS

##### 1. General

We observed during our field trip to the communities that SSCM sub-divided the project into two communities, Alto do Jordão (Vila Kennedy) and Ibura (Vila Aliança). We were informed that this was necessitated by the discovery of a granite mine in Alto do Jordão which had considerable economic value. Consequently 450 houses were constructed in Alto do Jordão and 240 houses in the neighboring area of Ibura, a total of 690 houses. An additional 44 houses were subsequently built in Ibura with the proceeds obtained through the sale of the original houses.

Disparate progress was observed in the urbanization of the communities. The deficiencies notably deserving comment were the following:

1. A water system was not installed in the Ibura community. Although SSCM had provided the necessary piping, the installation was held

up due to a misunderstanding with the Pernambuco Department of Water & Sewage regarding the payment of Cr\$18 million in labor costs;

2. Dirt streets, which are normal for the communities, were particularly eroded in Alto do Jordão. This hindered movement by vehicle and detracted from the appearance of the community;
3. Inadequate efforts were made to provide community facilities and a commercial center. The State organization responsible for these activities was declared illegal and discontinued its operations before any significant progress was accomplished. No organization has since been created to fulfill these obligations.

## 2. Construction

Our examination revealed that no construction contracts were awarded. SSCM architects and engineers planned and supervised the entire construction activity. All materials were purchased by SSCM at prices which were established and considered fair by the State and building associations. Construction labor was hired by SSCM and paid in accordance with the rates established by the Syndicate of Contractors for Pernambuco.

We found that 540 houses were built by SSCM at a cost of Cr\$160,946,411. This represented a per unit cost of Cr\$298,049. The remaining 150 houses were constructed at a cost of Cr\$36,918,613 by the State Military Police. The per unit cost of these latter houses was Cr\$246,125; however, we have been unable to obtain any information from this agency regarding the expenditure of these funds. For this reason we have not included a distribution of expense for these 150 houses in Exhibit I.

The houses designed and constructed for this program are small attractive brick bungalows. The total living area in each unit is about 47 m<sup>2</sup>. This is partitioned into a living room, three bedrooms, a kitchen, and a bath. Each unit is located on a lot approximately 10 x 20 meters.

9

It was our impression that the houses were well constructed. However, in the Alto do Jordão area we received a few complaints about cracks in walls which appeared to be attributable to the frequent mud slides during the rainy season. Three years after construction and use, we found the houses to be generally attractive and withstanding the elements reasonably well.

### 3. Selection of Home Owners

The project agreement stated that people with family incomes between two and four times the local minimum wage and who are in the class of skilled labor and low salaried office workers were to benefit under this program.

Our examination revealed that objective selection procedures were originally established. In practice, however, these procedures were not followed until recently. We were informed by the Directors of SSCM that during the period from January 1963 to March 1964, applications were processed on the basis of political affiliations. Selective interviews with home owners in the community indicated, however, that the average status of the present occupants was within the guidelines established by the project agreement.

Our discussions with home owners indicated that several houses had been purchased by individuals for investment purposes. We made a selective sampling of forty houses and found that eight were rented. Subsequent examination indicated that the owners of these houses were either skilled or lower paid salaried workers. We discussed this situation with the Directors of SSCM who informed us that they were aware that some houses had been rented but there was nothing they could do about it.

## B. FUNDING

### 1. General

A total of Cr\$558,612,300 was pledged by the signatories to accomplish the objectives of this project. Our examination revealed that as of December 31, 1965 Cr\$352,612,300 were disbursed to SSCM as presented below.

10

	<u>OBLIGATED</u>	<u>DISBURSED</u>
USAID/B	Cr\$200,000,000	Cr\$200,000,000
State of Pernambuco	102,912,300	102,912,300
Social Promotion Foundation	206,000,000	-
SSCM	<u>49,700,000</u>	<u>49,700,000</u>
TOTALS	Cr\$558,612,300	Cr\$352,612,300

2. USAID/B

By agreement, USAID/B contributed Cr\$200,000,000 to this project.

Our examination revealed the following releases of funds had been effected to SSCM prior to the final contribution date of December 31, 1963:

October 18, 1962	Cr\$140,000,000
May 7, 1963	<u>60,000,000</u>
	Cr\$200,000,000

The project agreement stated that all interest earned on USAID/B funds deposited in the Banco do Nordeste do Brasil should be utilized for the purpose of the project. However, a subsequent U.S. Controller General decision stated that all interest earned by the grantees on Title I, Section 104 (e) Grants between the time of transfer and utilization of the grant for project purposes, should be returned to the Treasury Miscellaneous Receipts Account. The decision outlined in AIDTO 28 dated July 1965 (Airgram Rio de Janeiro) requested refund of the interest from the grantee if practical; if not, USAID/B should request AID/W for waiver of refund stating justification. This matter was discussed with the Chief, USAID/B/NE Human Resources Division, for appropriate action in accordance with AID/W's airgram AIDTO 28. On the basis of this discussion it was decided that all earned interest should be returned to USAID/B.

Our examination revealed that the following interest was earned on USAID/B funds as of January 7, 1966:

2nd half 1962	Cr\$247,796
1st " 1963	329,243
2nd " 1963	168,574
1st " 1964	3,570
2nd " 1964	14,338
1st " 1965	82,581
2nd " 1965	<u>37,310</u>
TOTAL	Cr\$883,412

RECOMMENDATION No. 1

That the USAID/B/NE Human Resources Division, Urban Development Branch, with the cooperation of the Controller's Office, request SSCM to return all earned interest.

3. State of Pernambuco

The State of Pernambuco pledged funds estimated at Cr\$.... 102,912,300 to this project.

We were unable to make a specific accounting of the State's disbursement to this project since no separate accounting records were maintained for its contributions. However, we were informed by SSCM Directors that the State had fulfilled its obligation. On further examination we found that the State was strongly supporting SSCM projects with its financial resources. Our attention was directed to a 1964 State constitutional amendment which increased the share of SSCM's State tax revenues from 1.5 per cent to 2 per cent. We were informed that SSCM's share of tax revenues in 1965 was Cr\$645,000,000 and Cr\$1,085,000,000 for FY 1966.

4. SSCM

SSCM pledged the equivalent of at least Cr\$49,700,000 in urbanization facilities.

Our examination revealed that SSCM had directly expended Cr\$13,453,240 for urbanization facilities. In addition state and municipal agencies supplied on behalf of SSCM nonidentifiable amounts in kind such as personnel, equipment, and supplies. It is our opinion, however, that SSCM fulfilled its obligation to the project agreement.

5. Social Promotion Foundation

The Social Promotion Foundation agreed to contribute the equivalent of Cr3206,000,000 in personnel, equipment, services, and supplies in continuous support of the public community facilities.

We were not able to ascertain the contribution effected by this state agency. For a short time it operated one school and a health center but subsequently was absorbed into the "Movimento de Cultura Popular" which collapsed after the April 1964 Revolution.

C. REVOLVING FUNDS

The agreement stated that all funds received from the sale of properties, rentals, repayments, and other income sources created by the development of this project would be used for additional housing construction purposes.

Our examination disclosed that a separate account was established for the money received from houses built with USAID/B funds. However, these funds were not deposited in a separate bank account. During 1964 these funds amounted to Cr854,405,651; in 1965 these funds amounted to Cr882,701,492. The account reflects that Cr854,405,651 was expended in 1965 for the construction of 44 houses.

D. ACCOUNTING AND REPORTING PROCEDURES

1. Accounting

Our examination revealed that SSCM had opened a separate account for USAID/B funds at the Banco do Nordeste do Brasil; however, we found no separate accounting for USAID/B funds. The funds disbursed from the USAID/B account, however, were documented and this documentation was cross-checked for verification. We found the disbursements were in order.

Our comparison of the January 7, 1966, bank balance with the disbursements of USAID/B funds revealed unexpended funds of Cr2,134,904 pertaining to the USAID/B contribution. We were informed that there are no commitments against these funds.

RECOMMENDATION No. 2

That the USAID/B/NE Human Resources Division, Urban Development Branch in cooperation with the USAID/B Controller's Office instruct SSCM to return the Cr\$2,134,904 to USAID/B as this project agreement terminated on December 31, 1964.

2. Reporting

Our examination disclosed that COCAP did not designate a Brazilian representative to supervise the fiscal matters of the project; approve requests for funds made by SSCM; and approve the reports which were to be submitted to COCAP and USAID/B.

Our review of the Assistant Controller's files, Recife, revealed that SSCM did not provide complete disbursement details on USAID/B funds and that additional reporting relating to its expenditure of Cr\$78,618,946 is still required, as indicated below:

Contribution	Cr\$200,000,000
Loss disbursements reported	<u>121,381,054</u>
Disbursements not reported	Cr\$78,618,946
	*****

RECOMMENDATION No. 3

That the USAID/B/NE Human Resources Division, Urban Development Branch, obtain necessary disbursement details from SSCM in order that USAID/B/NE accounting records may be completed.

E. PUBLICITY AND MARKING

1. Publicity

We contacted the United States Information Service (USIS), Recife, who provided us with information that this project had been extensively publicised in the press and the radio. A review of SSCM files indicated that they had also made considerable efforts to publicise the project. Our examination revealed no unfavorable publicity.

2. Marking

Our field trip to the communities revealed no markers or signs to indicate this was an activity of the Alliance for Progress. We were

informed that two signs had been erected during the construction period but were subsequently ripped down and the lumber used by impoverished people living in the neighboring areas.

RECOMMENDATION No. 4

That the USAID/B/NE Human Resources Division, Urban Development Branch determine the feasibility of erecting new sign at the project site in light of previous experience and that the proper course of action be taken based on these findings.

## EXHIBIT I

PERNAMBUCO HOUSING  
APPLICATION OF USAID/B/NE FUNDS  
(In Cruzeiros)

<u>Materials</u>	<u>Cruzeiros</u>	<u>Per Cent</u>
Tiles & bricks	46,106,662	28.6
Cement	14,542,640	9.0
Hydraulics, sanitation & sewerage	11,802,697	7.3
Electrical	3,797,338	2.4
Ironware	1,625,400	1.0
Lumber	10,737,525	6.7
Doors & windows	2,857,680	1.8
Gravel	946,148	0.6
Sundry	8,754,373	5.4
TOTAL MATERIALS	<u>101,170,463</u>	<u>62.8</u>
<u>Labour</u>		
Masonry	36,413,588	22.6
Electrical	4,502,547	2.8
Hydraulics, sanitation & sewerage	8,144,828	5.1
Carpontry	3,561,022	2.2
Painting	6,414,560	4.0
Signs	110,000	0.1
TOTAL LABOR	<u>59,146,545</u>	<u>36.8</u>
<u>Sundry Expenditures</u>		
Travelling	100,000	0.1
Publications	229,403	0.1
Accounting	300,000	0.2
TOTAL SUNDRY EXPENDITURES	<u>629,403</u>	<u>0.4</u>
Grand Sub-Total	<u>160,946,411</u>	<u>100.0</u>
Policia Militar PE.	<u>36,918,685</u>	
Grand Total Expend.	<u>197,865,096</u>	
Total USAID/B/NE con- tribution	<u>200,000,000</u>	
Unexpended Balance	<u>2,134,904</u>	