

AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A. I. D. MISSION TO BRAZIL

532 24718

AUDIT REPORT

OF

ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST

STATE OF PARAIBA

PROJECT AGREEMENT No. 512-N-64-AE

FOR THE PERIOD

JULY 27, 1963 THROUGH MAY 31, 1966

REPORT NO. 9/67

COPY NO. 5

OFFICE OF THE CONTROLLER

USAID/BRAZIL

DATE: OCTOBER 20, 1966

PARAIBA

PD AAR 665

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

October 20, 1966

TO The Director of Mission
Minister Stuart H. Van Dyke

The Office of the Controller has completed an examination of the Parafba Elementary and Basic Education project covering operations during the period from July 27, 1963 through May 31, 1966.

Under a loan agreement with SUDENE, USAID obligated Cr\$17.2 billion of Public Law 480 Title I funds for a program of school construction in 8 states of the Northeast. SUDENE in turn grants the funds to individual states pursuant to separate project agreements with each state. The Parafba agreement provided for a grant of Cr\$2,343 million of AID funds over a three year period ending in July 1966. Additional contributions totaling Cr\$150 million were made by SUDENE. The State had pledged Cr\$350 million but through May 31, 1966 had paid only Cr\$117 million (p. 3).

The Parafba program provided for the construction of 1250 classrooms, reconstruction and amplification of 900 classrooms, construction of 8 industrial workshops, 4 teacher training centers, procurement of school equipment, and teacher training programs. The program is administered by the State organization, "Setor do Convênio Interamericano (SECI)".

As of May 31, 1966, the three signatories to the project agreement (USAID/B, SUDENE, and the State) had released a total of Cr\$2.1 billion out of the Cr\$2.8 billion pledged. Of the funds released, the State had expended Cr\$945 million.

Implementation of this program in Parafba has been unsatisfactory, and in December 1965 SUDENE blocked the use of all unexpended funds due to questionable SECI financial practices (pp. 12-14). Significant deficiencies found in the program include the following:

1. Although 1250 classrooms were programmed to be constructed and 34 months had elapsed, no construction had even been started. In June 1965, the first contracts were awarded for the construction of 23 classrooms, but serious difficulties with SECI had already occurred in early stages of implementation (p. 5).

2. In addition to the construction of new schools, the project agreement provided for the reconstruction and amplification of 900 classrooms. A total of 236 classrooms have been reconstructed and amplified. Three teacher training centers have been completed at a cost of Cr\$210 million versus a budgeted cost of Cr\$60 million (p. 5).

3. The SECI engineering staff lacks the capabilities to administer a program of this magnitude; reconstruction and amplification were usually performed without engineering specifications and details (p. 6).

4. Program planning was unsatisfactory. We found no evidence to indicate that the State had followed a predetermined plan recognizing priorities for schools to be reconstructed, nor were reconstruction and amplification subject to budgetary controls (p. 6).

5. There was no evidence to indicate that reconstruction and/or amplification was subject to competitive bidding practices. The SECI engineering staff usually negotiated on a direct basis for work to be performed (p. 7).

6. Funds for reconstruction and amplification were advanced to contractors or SECI personnel. Documentation submitted subsequently by SECI personnel as proof of payment was often incomplete and questionable. Costs on 21 schools appeared excessive. The Governor of Paraíba suspended SECI officials involved in contracting, and a joint SUDENE/State Commission has been established to determine the extent of any misappropriations (p. 8).

7. Reconstruction and amplification work performed with substandard materials were observed. Clay was substituted for cement in the construction of walls with the result that several roofs collapsed. Approximately Cr\$100 million will be required to correct construction

deficiencies in the 5 reconstructed schools the auditors selected for inspection (p. 9).

8. The State does not provide for the maintenance of its schools due to lack of funds and competent engineering staff. Local communities likewise are unable to finance such maintenance, and deterioration is inevitable (pp. 9-10).

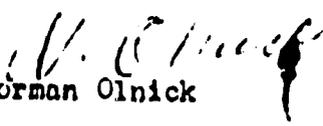
9. Local equipment purchases were susceptible to irregularities since they were normally settled by immediate cash payments and before delivery of such equipment (pp. 10-11).

10. Some progress had been made in the area of teacher training. With its own funds, the State had financed the training of 645 lay teachers during the 19-month period ended in August 1966. The auditors were in no position to evaluate the quality of such training (p. 12).

11. SECI accounting weaknesses were revealed in its failures (1) to support the disbursement of USAID/B funds with proper documentation and (2) to periodically reconcile its cash account with statements received from its Bank (p. 13).

12. SUDENE had the responsibility to inspect, audit, check execution of plans, and evaluate results, but SUDENE did not adequately discharge this responsibility (pp. 13-14).

NEAO is aware of many of the difficulties cited above, and its "Task Force" is working to define problem areas and initiate corrective actions.


Norman Olnick

Controller

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SECTION I - INTRODUCTION

A. PURPOSE

The purpose of this examination was to review and evaluate the progress achieved as related to the project agreement, to determine the extent of compliance with its terms, and to verify that funds were properly utilized.

B. SCOPE

This is the initial audit of this project agreement in the State of Paraiba, covering the period from inception on July 27, 1963 through May 31, 1966. During the course of our audit, we examined records and related files in the USAID/B/NEAO offices of the Assistant Controller, the Education Branch, and the Engineering Branch. Meetings and discussions were held with officials of Setor do Convênio Interamericano (SECI) and their pertinent records were reviewed. Meetings were held with the Secretary of Education. Field trips were made to 5 schools and one training center for purposes of physical observation and evaluation. Related discussions were held with teachers at the schools visited.

Our examination was made in accordance with applicable manual orders, other directives, and generally accepted auditing standards

considered appropriate in the circumstances. The audit was conducted jointly with SUDENE auditors who are issuing their own, separate report.

We reviewed and discussed the findings of this report with the officials from NEAO Education Branch and Engineering, Industry and Natural Resources Division, who indicated general agreement with findings and recommendations.

SECTION II - GENERAL

A. LOAN AGREEMENT

On May 3, 1963, USAID/B extended a Cr\$10,800,000,000 local currency loan (512-G-012) to the Superintendência do Desenvolvimento do Nordeste (SUDENE) for the improvement and expansion of basic education in the Northeast. The amount of this loan was later increased by two separate amendments to Cr\$17,280,592,000.

On July 27, 1963, SUDENE, USAID/B, and the State of Paraíba entered into Project Agreement No. 512-N-64-B under which SUDENE agreed to make available to the State of Paraíba, as a grant from the Federal Government, the amount of Cr\$2,343,846,000 from the USAID/B loan proceeds. The scope of this project agreement provided broadly for the construction of 1,250 classrooms, the reconstruction and amplification of 900 classrooms, construction of 8 industrial workshops, construction of 4 teacher training centers, equipment, and teacher training programs.

USAID/B loan funds were generated from the Second Sales Agreement under Public Law 480 Title I, Section 104 (g).

SECTION III - FINDINGS AND RECOMMENDATIONS

A. FUNDING

1. General

A total of Cr\$2,843,846,000 was pledged by the signatories to accomplish the objectives of this project. As of May 31, 1966, SECI, the State organization responsible for coordinating the project, recorded the receipt of Cr\$2,07,635,014, as shown herewith.

	<u>OBLIGATION</u>	<u>FUNDS PROVIDED</u>
USAID/B	Cr\$2,343,846,000	Cr\$1,830,968,348
SUDENE	150,000,000	150,000,000
State of Parafba	<u>350,000,000</u>	<u>116,666,666</u>
TOTAL	<u>Cr\$2,843,846,000</u>	<u>Cr\$2,097,635,014</u>

The final contribution date under the project agreement was July 26, 1966. An amendment to the project agreement is in process which will extend that date. The USAID/B released the above funds in 3 tranches which were properly deposited to a separate account opened in the name of the project at the Banco do Nordeste do Brasil, hereinafter referred to as the USAID/B account.

In December 1965, SUDENE blocked the use of all unexpended project funds due to questionable SECI financial practices (see also pp. 12-14). The balance in the USAID/B account at the time of blockage was Cr\$.... 916,989,002. However, on May 20, 1966, SUDENE authorized SECI to expend Cr\$200 million from the USAID/B account for the construction of 7 schools. A total of Cr\$716,989,002 is currently frozen in the USAID/B account until the financial irregularities uncovered in this project are fully clarified.

SECI opened a special account at the Banco do Nordeste do Brasil for the deposit of earned interest. As of May 31, 1966, there was a balance of Cr\$8,832,450 in the account. We discussed the eventual disposition of these funds with the NEMO Chief, Education Branch, who informed us they would be used for project purposes.

Under the project agreement, the State of Parafba pledged Cr\$350 million toward implementation of the program. The State was to deposit its funds at a minimum rate of Cr\$9,722,222 per month for the 36 month period of the agreement. As of May 31, 1966, the State had released only Cr\$116,666,666, representing 12 monthly payments.

No State releases have been made since March 1965. As of May 31, 1966, the State should have released Cr\$330,555,548, or the equivalent of 34 months' contributions. The State of Parafba is therefore Cr\$... 213,888,884 in arrears, or 22 months behind in its agreed payments.

In our opinion, NEAO should consider withholding further releases of funds until the State fulfills its financial commitments.

Recommendation No. 1

That the NEAO Education Branch initiate appropriate action requiring the State to respect its financial obligations.

B. PROJECT PROGRESS

1. General

Through May 31, 1966, SECI had expended Cr\$945,665,166 from the USAID/B account on the following activities:

Construction	Cr\$ -
Reconstruction	414,438,200
Equipment	378,050,941
Training	25,315,595
Other	<u>127,860,430</u>
TOTAL	<u>Cr\$945,665,166</u>

A comparison of the funds expended and the bank balance as of May 31, 1966, disclosed that the above expenditures were overstated by Cr\$31,685,820. This difference pertains to funds advanced by the State to SECI and which are to be reimbursed from USAID/B funds when the latter are released.

2. Construction and Reconstruction

a. Construction

We found that no new construction had been started under this project as of May 31, 1966, although the following physical objectives were outlined in the project agreement.

<u>Type of Construction</u>	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Cost</u>	<u>Number</u>	<u>Cost</u>
Classrooms	1250	Cr\$1,305,760,000	-	-
Industrial Arts Workshops	8	59,800,000	-	-
Teacher Training Centers	4	180,000,000	-	-
Institute of Education	1	<u>78,000,000</u>	-	-
TOTAL		<u>Cr\$1,623,560,000</u>	-	-

In June 1965, the first construction contracts were awarded by SECI for the construction of 7 schools with a total of 23 classrooms. Awarded contracts totaled Cr\$168,526,360.

Specific NEAO procedural instructions issued to the SECI Engineering Staff for bidding, site selection, acquisition of deeds and advance of funds were not heeded. For example, one contract was awarded without bidding to an individual who is not an experienced contractor. This same individual received an initial advance of 40 per cent although NEAO authorized only a maximum of 13 per cent. We noted that 3 contracts were signed before deeds to land were obtained. It is our opinion that even at this early stage of construction SECI is demonstrating an attitude which could lead to serious abuses if corrective action is not immediately taken.

b. Reconstruction and Amplification

Our examination revealed that Cr\$414,438,200 of USAID/B funds were expended on reconstruction and amplification as reflected below:

	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Classrooms	900	Cr\$435,938,000	236	Cr\$174,753,037
Kitchens	1000	81,960,000	-	-
Completion of construction (Institute of Education)	1	15,000,000	1	29,571,650
Completion of construction (Teacher Training Centers)	2	<u>60,000,000</u>	3	<u>210,113,513</u>
TOTAL		<u>Cr\$592,898,000</u>		<u>Cr\$414,438,200</u>

Additionally we found that Cr\$56,655,068 in SUDENE and State funds were disbursed on the reconstruction and amplification of classrooms.

The progress achieved in reconstruction was unsatisfactory. In the climate of rapidly rising inflation, we found many of the same deficiencies affected the progress of this program which were cited in our audit reports on the educational projects in the States of Maranhão and Ceará, namely:

1. The SECI Engineering Staff demonstrated that it could not administer a program of this magnitude. Reconstruction and amplification work was usually performed without engineering specifications and details. This was, in part, due to a limited and inexperienced staff. The Leo A. Daly Co., engineering consultant engaged by AID/W, informed us that: (a) the SECI Engineering Staff is not very interested in making field trips; (b) it is not pressing the contractors to make the necessary corrections; and (c) the Staff is not taking the initiative to see that contracts are being enforced. Evidence indicates that this situation contributed to many of the abuses uncovered.
2. The planning for this program was unsatisfactory. We found no evidence to indicate that the State followed a predetermined plan to rate priorities for schools to be reconstructed. Neither did we find that the school reconstructions and amplifications were subject to budgetary control. On the contrary, our examination revealed that schools were reconstructed seemingly at random without reference to any overall planning or financial control. In addition to poor planning and financial control, we frequently found incomplete accounting records. In May 1965, the Leo A. Daly Co. reported the following:

"The problem of incomplete records of the reconstruction and amplification work handled by direct administration has still not been solved. The responsible people from the Secretary of Education's office say it is impossible to complete these records in greater detail."

This lack of management control characterizes the unsatisfactory manner in which this program was being implemented. Emphasis has now shifted from the reconstruction and amplification program to the construction of new schools. Consequently the deficiencies noted above are pertinent to construction and should be corrected by action suggested in Recommendation No. 2 (2) below.

c. Contracting Procedures

There was no evidence to indicate that reconstruction or amplification contracts were subject to competitive bidding practices prescribed by Brazilian law for all public agencies. Instead, we found that the SECI engineering staff usually negotiated on a direct basis with individuals and firms for the work to be performed. In all cases examined, the amount awarded was determined by the SECI Engineering Staff. The records disclosed that 101 schools and training centers were reconstructed or amplified. Of these, 42 were awarded by contract, 38 were awarded on a lump sum basis without contracts, and 21 were either reconstructed or amplified by direct SECI supervision. We found that this method of awarding contracts usually resulted in higher than competitive costs and enhanced the possibility of fraudulent practices.

Recommendation No. 2

That the NEMO Engineering, Industry and Natural Resources Division, (1) take steps to strengthen the SECI Engineering Staff with competent personnel, and (2) request SECI to follow applicable bidding practices proscribed for public agencies.

In four instances, where contracts applied, we found that SECI retained funds as a guarantee for satisfactory performance. Fees were subsequently returned to 3 contractors. However, there was one un-refunded fee of Cr\$935,566. Discussions with the contractor and SECI personnel indicated that the outstanding fee deposit originally collected amounted to Cr\$4,000,000. Evidence revealed that the difference between the Cr\$4,000,000 fee received and the amount of Cr\$935,566 returned, or Cr\$3,064,434, was diverted from the project by the former chief, Building and Equipment Department.

No controls had been established to safeguard against the fraudulent use of these funds. For example, the responsible individual collected the fees, personally controlled the bank account and subno-

quently made the refunds. Such lax procedures were characteristic of many aspects of the SECI administrative organization.

Recommendation No. 3

That the NEAO Education Branch initiate action to ensure that proper accounting procedures and controls are established for the collection and refund of performance fees.

The usual procedure for financing reconstruction and amplification work was to advance funds to contractors or SECI personnel. Where controls were in effect, advances were determined as a percentage of completion. In those instances where construction was sub-let by SECI on a fixed cost basis without contracts, the entire amount was advanced. In the case of advances to SECI personnel, the latter were expected to submit supporting documentation to substantiate expenses incurred which subsequently served as proof of payment. Documentation submitted by SECI personnel was often incomplete and questionable and did not include invoices. Payments were usually supported by receipts prepared by SECI officials and either signed by suppliers or workers; in several cases these were acknowledged by fingerprints or not at all. An additional difficulty was our inability to identify these expenses with specific schools reconstructed and/or amplified.

SECI personnel were advanced at least \$47,623,273 for the reconstruction and amplification of 21 schools. Based on field inspections, the Loo A. Daly Co. estimated that costs could not have exceeded 75 per cent of this amount. Incomplete SECI records and documentation, inadequate SECI administrative controls and Daly's cost estimator indicate that diversion of USAID/B funds may have occurred.

SUDENE officials subsequently discussed the above audit findings with the Governor of Paraíba who (1) suspended the SECI officials involved, and (2) requested a commission composed of SUDENE and State officials to determine the extent of any misappropriation. In view of the SUDENE action, we are making no recommendation at this time with respect to misappropriation, but procedural recommendations (Nos. 3,

6, and 8) to improve financial controls are included elsewhere in this report.

d. End-Use Observation

We performed end-use observations of 5 reconstructed schools and one training center and found the facilities to be operative. The buildings generally were attractive; however, on closer examination we found that sub-standard materials were always used, resulting in an inferior and dangerous construction. For example, sun-dried clay bricks were used and bound together by clay. The NEMO engineering consultant indicated that this type of wall could not withstand the pressure of heavy tile roofs. Several roofs had already collapsed. Floor tiles were laid on compact clay whereas plans called for the tiles to be laid on cement slabs. In all cases sanitation systems were installed which did not function. We found 3 schools where sanitation systems were installed but were without water sources.

The Loo A. Daly Co. has disapproved practically all reconstructions and amplifications. We were informed by Daly that the required corrections would cost in excess of Cr\$100,000,000. It is our feeling that the NEMO should reappraise the whole construction and reconstruction program in view of the deficiencies presented in this report. A policy of reimbursing the State for construction which meets the NEMO standards instead of the current advance system could obviate many of the current problems.

Recommendation No. 4

That the NEMO, (1) determine and execute a policy to resolve the problem of disapproved schools, and (2) study the feasibility of employing the reimbursement system and adopt it, if consistent with the interests of NEMO.

e. Maintenance

The State has not established a program for the maintenance of schools. We found this attributable to (1) a lack of State funds to

support a program of the magnitude necessary, and (2) an inadequate engineering staff not organizationally prepared to carry out such a program. Consequently, the State has looked to local communities for needed maintenance. Inasmuch as the local communities are usually poor and unable to finance the necessary upkeep, results have been unsatisfactory. It appears inevitable that the schools either constructed or reconstructed and amplified under this program will receive inadequate care. We feel that the State itself must focus more attention on maintenance rather than shifting the responsibility to the local communities.

Recommendation No. 5

That the NEAO Engineering, Industry and Natural Resources Division make reasonable efforts to initiate a maintenance system for all schools financed with USAID/B funds.

3. Equipment

As of May 31, 1966, SECI had expended Cr\$378,050,941 of USAID/B funds on equipment as shown below:

	<u>PROGRAM #</u>	<u>ACTUAL</u>
Classroom furniture	Cr\$311,166,000	Cr\$209,263,190
Office equipment	15,000,000	33,103,470
Kitchen equipment	43,860,000	53,227,240
Dormitory equipment	15,400,000	30,041,866
Radio equipment	17,800,000	18,035,875
Medical equipment	20,000,000	-
Vehicles	<u>20,700,000</u>	<u>34,379,300</u>
TOTAL	<u>Cr\$443,926,000</u>	<u>Cr\$378,050,941</u>

■ Based on requests for funds.

a. Procurement

Our review of SECI's procurement procedures disclosed that usual Brazilian bidding regulations were not adhered to. On the contrary, we found that SECI officials usually negotiated directly with one or two local merchants. Evidence indicated that local equipment purchases were susceptible to irregularities. For example, local purchases were normally settled by immediate cash payments and before

delivery of equipment. In all cases the transactions were negotiated by the former Chief, Building and Equipment Department to the Secretary of Education. In November 1965, SUDENE found that this individual fraudulently submitted false documents in excess of Cr\$10,000,000 for "Repairs to Equipment".

The records revealed that one purchase in the amount of Cr\$9,168,134 made outside the local area had not been paid since November 1964. We subsequently talked to the creditor in question who informed us that he had refused to pay a "kick-back" to the SECI official. Consequently, he was informed that SECI did not have adequate funds to pay his invoices. No NEAO action is being recommended pending the result of the committee which is being formed to ascertain the extent of diversion in this project.

b. Receiving and Distribution Records

SECI did not maintain receiving and distribution records. Receiving reports were not prepared for equipment purchased, and no stock records were kept for equipment received and/or distributed. We were only able to satisfy ourselves reasonably that such items as vehicles and office equipment were received and distributed; however, we were unable to ascertain the receipt or distribution of the items which accounted for the bulk of the purchases.

We discussed this problem with the Secretary of Education who informed us that he would immediately have the necessary records prepared.

Recommendation No. 6

That the NEAO Education Branch request SECI to (1) establish and maintain book inventory records for all classroom equipment purchased with USAID/B funds, (2) reconcile such book inventory with a physical count of equipment, and (3) render a report to NEAC with respect to any missing equipment.

4. Training

As of May 31, 1966, SECI had expended Cr\$25,315,595 of USAID/B funds on the following training activities:

	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Lay Teacher Training	2000	Cr\$314,710,000	-	Cr\$ -
Training materials	-	69,800,000	-	18,403,710
Scholarships	23	39,900,000	-	-
Supervisory training	-	-	74	3,663,970
Other	-	-	-	2,630,475
Adult Literacy	-	-	-	617,440
TOTAL		<u>Cr\$424,410,000</u>		<u>Cr\$25,315,595</u>

As shown above, the State made only limited use of USAID/B funds for training activities. However, progress achieved in training was considerably greater than the above figures would suggest. Such progress has been due to the fact that the State has taken the initiative to carry out the Lay Teacher Training Program with its own funds. Between February 1965 and August 1966 about 645 lay teachers have been trained. Training thus appears to be one of the positive aspects of the educational project in Parafba.

C. REPORTING, ACCOUNTING, AND SUDENE AUDITING PROCEDURES

1. Reporting Procedures

Reporting on the financial progress of this project was generally inadequate. Our examination revealed that SECI only accounted for the expenditure of USAID/B funds at the time when requests for additional funds were submitted. We found that reports were prepared for two periods; in each case, the period was longer than one year. The result was a lack of budgetary control both by SUDENE and NEAO.

Recommendation No. 7

That the NEAO Education Branch request SECI to report on a quarterly basis for the expenditure of USAID/B funds.

The Leo A. Daly Co. submitted school inspection reports as well as monthly progress reports to NEAO. We reviewed the monthly progress reports and generally found that they contained complete and accurate narrative information. Many of the findings presented in our report were cited repeatedly in Daly's reports.

No recommendation regarding this deficiency is being directed to NEAO inasmuch as corrective action in 4 states was initiated in accordance with Recommendation No. 12 cited in our Report No. 3/67, on Elementary and Basic Education in the State of Maranhao.

2. Accounting Procedures

We reviewed SECI accounting procedures insofar as they were related to our examination of the project, and it is our opinion that the books and records were not maintained in accordance with good accounting practices. The following accounting weaknesses require immediate remedial action.

a. The expenditure of USAID/B funds was often not supported by official or proper documentation. SECI recognized many questionable receipts prepared by members of its own staff as proof of payment to suppliers and contractors. In some cases, receipts were not even signed. It is our opinion that payment should be made only against official invoices.

b. We found that officials of SECI were advanced funds from the USAID/B account for the purchase of equipment, etc. Such advances were held for several months before being returned; in some cases, they appeared to constitute interest free loans. We feel that advances to SECI officials should be discontinued.

c. SECI is not performing a monthly comparison of the USAID/B bank balances with the disbursements. This should be performed monthly since it is a necessary control over USAID/B funds.

Recommendation No. 8

That the NEAO Education Branch through SUDENE request that SECI: (1) make payment against official documentation only, (2) discontinue advances to SECI officials, and (3) perform a monthly bank reconciliation.

3. SUDENE Auditing Procedures

According to the project agreement SUDENE was assigned the

responsibility for exercising the following controls: "auditing; ensuring the proper use of funds; checking the execution of plans; and inspecting and evaluating results to ensure compliance with proper technical standards."

Our examination revealed that SUDENE performed a limited scope field examination in November 1965 of SECI's records and procedures. Based on its audit findings, SUDENE subsequently "froze" the use of all project funds until the accounting procedures were corrected and certain irregularities clarified.

Evidence indicated that SUDENE seldom physically inspected schools and training centers constructed or amplified. On the contrary, we found that SUDENE's lack of supervision encouraged and permitted many of the abuses that occurred. It is our opinion that the poor progress achieved is in part related to SUDENE's failure fully to execute its responsibilities. This deficiency was similarly pointed out in our Maranhão audit report (No. 3/67, Recommendation No. 15). Since corrective action is being taken by NEMO for 4 states, the recommendation is not being repeated here.

D. PUBLICITY AND MARKING

We contacted the United States Information Service (USIS), Recife, for information on publicity given to this project. We found that the project received considerable press coverage throughout the State after the announcement of the project agreement and the subsequent releases of funds. Publicity was generally favorable.

Our end-use observation of 5 schools and one training center revealed that 4 schools were not identified with signs or other markings reflecting the participation of the Alliance for Progress.

Recommendation No. 9

That the NEMO Education Branch initiate action to identify properly all buildings constructed or reconstructed with USAID/B funds.

LIST OF RECOMMENDATIONS

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3	That the NEAO Education Branch initiate action to ensure that proper accounting procedures and controls are established for the collection and refund of performance fees.	8
4	That the NEAO, (1) determine and execute a policy to resolve the problem of disapproved schools, and (2) study the feasibility of employing the reimbursement system and adopt it, if consistent with the interests of NEAO.	9
5	That the NEAO Engineering, Industry and Natural Resources Division make reasonable efforts to initiate a maintenance system for all schools financed with USAID/B funds.	10
6	That the NEAO Education Branch request SECI to (1) establish and maintain book inventory records for all classroom equipment purchased with USAID/B funds, (2) reconcile such book inventory with a physical count of equipment, and (3) render a report to NEAO with respect to any missing equipment.	11
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NOTE: All audit work papers are attached to Copy No. 26 which is on file in the Office of the Controller (NECO), USAID/B/NEAO.