

# AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A. I. D. MISSION TO BRAZIL

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AUDIT REPORT

OF

ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST

STATE OF CEARA

PROJECT AGREEMENT No. 512-N-64-AE

FOR THE PERIOD

JUNE 5, 1963 THROUGH APRIL 30, 1966

REPORT NO. 8/67

COPY NO. 5

OFFICE OF THE CONTROLLER  
USAID/BRAZIL

DATE: OCTOBER 13, 1966

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

October 20, 1966

TO The Director of Mission  
Minister Stuart H. Van Dyke

The Office of the Controller has completed an examination of the Ceará Elementary and Basic Education Project covering the period from June 5, 1963 through April 30, 1966. This is the second audit report issued dealing with this Northeast education program. A report on Maranhão (No. 3/67) was published August 12, 1966. Two other audit reports relating to similar programs in the States of Paraíba and Sergipe will be completed shortly.

Pursuant to USAID's PL 480 Section 104 (g) umbrella loan agreement with SUDENE, a project agreement was signed with Ceará providing for a grant of Cr\$3.3 billions to implement the State's education program. Cr\$1.9 billions of the Cr\$3.3 billions were transferred to the project, of which the project has expended Cr\$1.3 billions.

The Ceará project agreement provided for the construction of 2,200 classrooms, the renovation and reconstruction of 200 classrooms, construction of 5 industrial arts schools, construction of 7 supervisory centers, plus the procurement of equipment and educational materials, and teacher training. The program is administered by the State organization "Comissão Executiva de Programas Especiais" (CEPE). The Leo A. Daly Co. was the U.S. architectural-engineering consultant under the project.

Project objectives were not achieved. To date, more than three years after the project's inception, only 14 classrooms out of the planned 2,200 have actually been constructed, 80 more are in progress. Numerous program deficiencies are cited on pages 5-9.

Although only 200 classrooms were scheduled to be reconstructed, the State of Ceará reported that 1,951 were either renovated or reconstructed. However, insufficient evidence is available to confirm

that the reported reconstruction work was actually performed. Furthermore, of the estimated 163 schools abandoned in Ceará, it is reported that 100 were "reconstructed" under the program (pages 5 - 13).

Teacher training and adult education elements of the project also failed to reach programmed goals. Out of approximately Cr\$300 millions earmarked for training, only Cr\$72 millions was actually expended; as a consequence, only a fraction of the training contemplated was performed (pages 15 -- 16).

A continuous and planned maintenance program for State schools does not exist, with a consequent deterioration of facilities (pages 9 and 13).

The CEPE system of making cash advances to its Chief Engineer for reconstruction work, and the basis for documenting and supporting these expenditures is highly irregular, and renders the funds susceptible to possible misappropriation (page 11).

It was noted also that the USAID/NEAO did not make adequate use of reports and other information provided by the Consulting Engineering firm used on this project (page 17).

In general, the attached report is almost a recounting of similar deficiencies cited in our audit report on Elementary and Basic Education in the State of Maranhão (No. 3/67 dated August 13, 1966). While inflation, which affected adversely the procurement of planned facilities, was a major and persistent problem, it is doubtful if objectives would have been reached even had prices remained stable. CEPE, the State Agency, is not equipped to carry out its pledged responsibilities. The State's plan was overly ambitious and entailed complexities far beyond the technical and managerial capabilities of CEPE. We felt that all of the cited deficiencies might have been identified much earlier in the program, and necessary corrective steps taken to prevent subsequent deterioration.

Our report contains 13 recommendations for remedial action. For

convenience, a list of these is included in Exhibit A, pages 20 - 21 of this report. In accordance with established procedures the USAID Controller's Office will monitor the implementation of these recommendations.

As previously reported, the NEAO is aware of problems with the Elementary and Basic Education Program, and established in March 1966 a NEAO "Task Force" to define the problem areas and initiate corrective action.

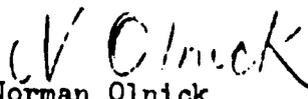
  
Norman Olnick  
Controller

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FOR THE PERIOD  
JUNE 5, 1963 THROUGH APRIL 30, 1966

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 Ceara, covering the period from inception on June 5, 1963 through April 30, 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, Industry, and Natural Resources Division. Meetings and discussions were held with the Directors of Comissão Executiva de Programas Especiais (CEPE). Field trips were made to 60 schools during May and June, 1966 for purposes of physical observation and evaluation. Related discussions were held with State and city officials and teachers in the communities 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 performed jointly with SUDENE auditors who prepared a separate report. USAID auditors found this joint working relationship satisfactory and mutually constructive.

## SECTION II - GENERAL

### A. BACKGROUND

The GOB 1960 census revealed that the school age population in the State of Ceará was approximately 725,000, but only 34 per cent of this population was served by schools. The illiteracy rate in Ceará was reported as being in excess of 66 per cent. With the rapid increase in population and increasing shortages of school rooms, teachers, equipment, and educational materials, illiteracy was described as growing. This project was therefore thought desirable as a partial alleviation of the conditions described.

### B. LOAN AGREEMENT

On May 3, 1963, USAID/B granted a local currency loan (512-G-012) in the amount of Cr\$10,800 million 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\$17,281 million.

On June 5, 1963, SUDENE, USAID/B, and the State of Ceará entered into Project Agreement No. 512-M-64-AE under which SUDENE agreed to make available to the State of Ceará, as a grant from the Federal Government, the amount of Cr\$3,316,542,000 from the proceeds of Loan G-012. The scope of this project agreement provided broadly for the construction of 2,200 school rooms, the renovation and reconstruction of 200 school rooms, construction of 5 industrial art schools, construction of 7 supervisory centers, construction of one audio visual center, equipment, teacher training programs, and educational materials in the State of Ceará.

USAID/B loan funds were generated from the Second Sales Agreement under Public Law 480 Title I, Section 104 (g). There is still an unreleased balance of Cr\$1,393,815 of USAID/B funds for which CEPE has not submitted requests for release.

SECTION III - FINDINGS AND RECOMMENDATIONS

A. FUNDING

1. General

A total of Cr\$4,216,542,000 was pledged by the signatories to accomplish the objectives of this project. As of April 30, 1966, CEPE, the State organization responsible for coordinating the project, recorded the receipt of Cr\$2,190,250,262 as follows:

	<u>OBLIGATION</u>	<u>PROVIDED</u>
USAID/B	Cr\$3,316,542,000	Cr\$1,922,726,841
SUDENE	200,000,000	91,000,000
State of Ceará	<u>700,000,000</u>	<u>176,523,421</u>
	<u>Cr\$4,216,542,000</u>	<u>Cr\$2,190,250,262</u>

2. USAID/B

Final contribution date under the project agreement was July 26, 1966. As shown above, USAID/B had released Cr\$1,922,726,841 to the project. Funds were deposited in a separate account in the Banco do Nordeste, hereinafter referred to as the USAID/B account. As of April 30, 1966, the USAID/B account showed a balance of Cr\$565,106,995.

CEPE also opened a special account at the Banco do Nordeste for the deposit of earned interest as specified in the project agreement. As of April 30, 1966, there was a balance of Cr\$17,537,130 in this account. The eventual disposition of these interest funds was discussed with officials of the NEAO Program Office and Education Branch who stated the funds would be used for project purposes.

3. SUDENE

The project agreement stated that SUDENE pledged to contribute an additional Cr\$200 millions to the project as a grant.

As of April 30, 1966, SUDENE had released only Cr\$91 million to the State.

4. State of Ceará

Under the project agreement, the State of Ceará pledged Cr\$700 million, with deposits to be made at a minimum rate of Cr\$19,444,444 per month over a 36-month period. CEPE's records revealed that as of April 30, 1966, the State had released Cr\$176,523,421 to the project, representing approximately 9 monthly payments. No payments had been made since September 1964. As of April 30, 1966, the State should have released about Cr\$642 million, or the equivalent of 33 months' payments. The State of Ceará is therefore delinquent by approximately Cr\$465 million, representing arrearages of about 24 monthly payments.

Recommendation No. 1

That the NEAO Education Branch initiate action to require the State of Ceará to fulfill its financial obligations.

B. PROJECT PROGRESS

1. General

As of April 30, 1966, we found that CEPE recorded the expenditure of Cr\$1,255,094,000 in USAID/B funds as reflected below:

Construction	Cr\$ 270,470,000
Reconstruction	526,231,000
Equipment	341,628,000
Training	72,724,000
Other	<u>44,041,000</u>
TOTAL	<u>Cr\$1,255,094,000</u>

The expenditures indicated above do not include Cr\$102,525,846 in postings not recorded as of April 30, 1966. This problem is discussed in further detail on page 18 with NEAO action recommended.

2. Construction

Our examination revealed that the progress achieved in the construction of new classrooms, after 33 months, was highly unentia-

factory when compared to program objectives. The following figures, as of April 30, 1966, show that expenditures of Cr\$270,470,000 were made of USAID/B funds. Less than 5 per cent of the program objectives were realized:

	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Estimated Total Cost</u>	<u>Number</u>	<u>Total Cost</u>
Classrooms:				
Completed			14	Cr\$108,005,175
In progress	2,200	Cr\$2,901,000,000	80	162,464,825
Industrial Art Workshops	5	117,000,000	-	-
Audio-Visual Centers	1	91,000,000	-	-
Supervisory Centers	7	436,000,000	-	-
<b>TOTAL</b>		<u>Cr\$3,545,000,000</u>		<u>Cr\$270,470,000</u>

Includes undisclosed provision for equipment.  
Obligation of awarded contract value Cr\$879,565,920.

In connection with the above table, it should be noted that the awarded contract value is Cr\$879,565,920, against which only Cr\$270,470,000 have been expended. Additional funds, not yet released, will be required to complete construction now in progress.

This whole program was adversely affected by inflation. For example, the construction index for the State of Guanabara, which can be considered representative, rose from a 1962 figure of 747 to one of 4249 in 1965. Inflation thus increased costs to such an extent that original physical goals were unattainable. However, better progress might have been achieved had CEPE not required what in our opinion was excessive time in the preparation of engineering specifications. Ineffective CEPE planning and SUDENE administrative delays resulted in further project attenuation while the inflation mounted. Further details on the factors are given herewith:

- a. The CEPE Engineering Staff demonstrated a general inability to administer a program of this magnitude. As early as the beginning of 1964, the Engineering staff worked on designs

and specifications for various prototype schools; however, delays caused principally by inadequate architectural details, prolonged the start of construction. We were informed by the Leo A. Daly Co., architect/engineering firm selected by AID/W to approve and supervise construction, that this problem will no longer affect the progress of the program since all prototype school construction plans are now approved by SUDENE and NEAO.

- b. Construction planning was unsatisfactory. We found no evidence to indicate that there are logical steps being followed to control the implementation of the project.

Notable among the deficiencies were the following:

- (1) School sites were not selected or approved sufficiently in advance. Sites were selected only after funds were obtained for school construction plans. Subsequently, long delays were encountered until a site was approved, its deed legalized, and SUDENE and NEAO approval obtained. It is our opinion that CEPE should submit construction and site plans prior to requesting construction funds.
- (2) Cost estimates for schools were unrealistic. We found that the funds requested for classroom construction were inadequate to undertake the full scope of work planned for a given time period, i.e., not enough funds were budgeted to construct the school planned. As a consequence, there is a backlog of approved school construction which cannot be started due to lack of funds. We feel that NEAO should request CEPE to submit requests for funds to complete this existing backlog before requesting approval of additional funds.

- (3) We found that CEPE usually waited until all USAID/B funds had been expended before submitting an additional request. Failure to request funds in advance resulted in a temporary suspension of the program. It is our opinion that budgeted requests for funds should be submitted on a regular basis, e.g., every three months to enable a continuous flow of funds into the project.

Recommendation No. 2

That the NEAO Engineering, Industry, and Natural Resources Division, in cooperation with the Education Branch, initiate action to have CEPE: (1) submit construction and site plans prior to request for funds, (2) request funds to complete the existing backlog of approved construction before requesting approval of additional construction, and (3) submit budgeted requests for funds on a regular periodic basis.

a. Contract Procedures for Construction

All new school construction was subject to competitive bidding practices proscribed by the Brazilian federal regulations for public agencies. Thirty-four contracts were awarded whose total value amounted to Cr\$879,565,920. All bids examined by us revealed that the lowest bidder usually received the award. The Leo A. Daly Co. informed us that they reviewed the bids against their cost information and considered the awarded contracts reasonable.

The contracts awarded for new school construction revealed several inadequacies in CEPE's enforcement of contract clauses. The most salient deficiencies were the following:

- (1) We found that 27 of 34 schools were in excess of the time period allowed by the contracts; however, there was no evidence that construction schedules were officially extended and in several cases the schools will be at least 6 months behind schedule. According to the contract the

contractors are subject to a penalty of 0.1 per cent of the contract for each day exceeding the established construction period. These penalty clauses were not exercised. It is our opinion that more effective control must be exercised if abuses and delays are to be avoided.

Recommendation No. 3

That the NEAO Engineering, Industry and Natural Resources Division, request the State to enforce the contract clauses pertaining to construction time periods.

- (2) The contracts specified that the contractors will deposit 2 per cent of contract value with CEPE at the time the contract is awarded and that these funds would not be released until 90 days after final construction has been accepted by CEPE. Our examination revealed that the contractors were only depositing 2 per cent of the funds advanced rather than 2 per cent of the full contract value. According to our calculations Cr\$17,591,318 should have been deposited to the account in accordance with the contract value. We found that a bank account was opened for these advances and that Cr\$6,412,751 was supposedly on deposit; however, these funds were commingled with other State construction deposits. We were therefore unable to identify the amount applicable to this project. Additionally, we found that the official responsible for these funds kept in her possession Cr\$621,019 which should have been deposited to the account. No records were maintained for the deposit of these funds.

Recommendation No. 4

That the NEAO Engineering, Industry and Natural Resources Division initiate action requiring CEPE to: (1) request the deposit of 2 per cent of full contract value when a contract is awarded, (2) deposit funds to the bank account without delay, and (3) maintain proper records for all deposits.

b. End-Use Observations of Construction

We made end-use observations of 9 of the 34 schools programmed for construction and found only one operating. One school was vacant but scheduled to open while 7 schools were still under construction.

It was our observation that the construction reflected the use of quality materials and workmanship, an opinion concurred in by the Leo A. Daly Co.

c. Maintenance

A continuous and planned maintenance program for State schools does not exist. We found a lack of State funds to support a program of the size necessary and also that the State is not organizationally equipped to operate such a program. It appears inevitable that the schools constructed under this program will be exposed to a lack of adequate maintenance unless affirmative action is taken.

Recommendation No. 5

That the NEAO Engineering, Industry and Natural Resources Division initiate action which requires CEPE to effect a maintenance system for all schools either constructed or reconstructed under this program.

3. Reconstruction

As of April 30, 1966, Cr\$526,231,000 of USAID/B funds were expended on the reconstruction of 1951 classrooms. The progress

achieved varies considerably from program objectives as shown below:

	<u>PROGRAM #</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Total Cost</u>	<u>Number</u>	<u>Total Cost</u>
Classrooms	200	Cr\$ 80,000,000	1951	Cr\$521,231,000
Normal School (Juazeiro do Norte)	1	<u>33,000,000</u>	1	<u>5,000,000</u>
<b>TOTAL</b>		<u>Cr\$113,000,000</u>		<u>Cr\$526,231,000</u>

# Includes undisclosed provision for equipment.

Our examination revealed that an additional 132 classrooms were reconstructed at a cost of Cr\$174,000,000. These funds were originally expended from the USAID/B account; however, during 1964 these 132 classrooms were rejected by SUDENE technicians who requested that the State refund the entire Cr\$174,000,000 to the USAID/B account. The amount was refunded by the State in December, 1964, and therefore is not reflected in the actual expenditures shown above.

The Director of CEPE informed us that the Governor of Ceara ordered the reconstruction of existing schools which were deteriorated prior to constructing additional schools.

a. Contract Procedures for Reconstruction

There was no evidence that the reconstructed schools were subject to competitive bidding. We found that the CEPE Engineering Staff negotiated on a direct basis with local mayors, individuals and construction firms for the reconstruction of all schools. In all cases the amount awarded was determined by the CEPE Engineering Staff. There were 949 contracts awarded on this basis with USAID/B funds.

Recommendation No. 6

That the NEAO Engineering, Industry and Natural Resources Division initiate action which henceforth requires CEPE to follow prescribed bidding practices for reconstruction.

Our examination revealed that advances were made to the CEPE Chief Engineer for all reconstruction work performed. These advances were effected by checks drawn on the USAID/B account to the order of a CEPE "statistical clerk". (The statistical clerk was charged with the responsibility of accounting for reconstruction work). The "statistical clerk" endorsed the checks and gave them to the CEPE Chief Engineer, who deposited the funds in his personal bank account. Cash and check payments were subsequently made by the Chief Engineer from his personal account to contractors who performed the reconstruction work. We found that the contractors acknowledged payment for services rendered by signing receipts, prepared by the CEPE Engineering Staff. There was no evidence to indicate that payment was made against contractor invoices. The CEPE Chief Engineer subsequently presented those signed receipts to the CEPE Account Section which accepted them as proof of payment and thus cleared the advance. We viewed this procedure as highly irregular inasmuch as: (1) the system was susceptible to fraud because signatures could have been obtained in blank or forged, (2) receipts did not indicate the address of the persons who performed the work, (3) the system avoided contractor payment of the Ceará state sales tax of 5-1/2 per cent, and (4) the contractors were also aided in avoiding possible income tax liabilities.

We also found that interest earned in the amount of Cr\$309,809, on funds deposited in the Chief Engineer's account, had been used for personal purposes.

Recommendation No. 7

The NEAD Education Branch, (1) request SUDENE to verify and certify that all reconstruction invoices are factual, (2) request the State to deposit Cr\$309,809 to the USAID/B interest account in payment of funds diverted from the project, and (3) request CEPE to make payments only against properly prepared invoices.

**b. Utilisation of Reconstruction**

We performed an end-use observation of 51 schools reported to have been financed under this phase of the program. Our examination revealed that 8 schools were abandoned, 14 were vacant but scheduled to open, and the remaining 29 were fully utilized.

The Leo A. Daly Co. reported that approximately 100 schools had been abandoned out of the 941 rehabilitated under this program. Daly representatives stated that the list of schools reconstructed with USAID/B funds changed frequently and that they were unable to conclude which schools were included in the reconstruction program. We discussed this situation with CEPE officials who informed us that the State was preparing a list of schools to be presented to NEAO and SUDENE in support of the reconstruction expenditures.

Representatives of the Leo A. Daly Co. reported: (1) they were unable to identify the scope of work performed, (2) they did not approve work on most of the schools, and (3) the work was performed without engineering specifications.

The Director of the Elementary Education Division informed us that a recent study revealed that 163 out of 3,485 State schools had been abandoned. Principal reason for the abandonment was a lack of teachers. The Director indicated that 470 teachers were required in the 163 schools and that the State planned to recruit and train 1,000 lay teachers later this year for these and other schools.

**Recommendation No. 8**

That the NEAO, (1) determine and carry through a policy whereby the A.I.D. consultant, Leo A. Daly Co., approve the engineering specifications and reconstruction/rehabilitation of all schools under this program, and (2) obtain a list of all schools reconstructed with A.I.D. funds.

c. Maintenance of Reconstruction

Our physical examination of 51 schools revealed that maintenance was a serious problem. We found many of the reconstructed schools were either in a "run-down" condition or were deteriorating rapidly. We were informed by the principals of the schools that there was no general maintenance system to effect the necessary repairs. Additional comments on maintenance are presented on pages 9 - 10.

4. Equipment

Our examination revealed that CEPE expended Cr\$341,628,000 in USAID/B funds on the following equipment:

Classroom furniture	Cr\$176,486,000
Office equipment	54,174,000
Dental and medical units	32,260,000
Vehicles	<u>78,708,000</u>
TOTAL	<u>Cr\$341,628,000</u>

a. Procurement

We examined equipment purchases and found that generally they were subject to public bidding practices. When this was not the case the files were documented as to the reasons. Our examination revealed that in practically all cases the lowest bidder received the award.

Subsequent to awarding a purchase contract, CEPE officials were usually advanced funds for the payment of supplier invoices. Evidence indicated that in some instances these funds were advanced 6 months prior to the date of invoice. The advances were later cleared with the presentation of the paid invoices to the CEPE Accounting Section.

We discussed this payment procedure with the Director of CEPE who explained that the practice gave the responsible official direct control over the purchase. We were unable to verify if the officials themselves benefited from use or interest earned on these funds.

Recommendation No. 9

That the NEAO Education Branch request CEPE to discontinue the advance system for equipment purchases.

b. Receiving and Distribution Records

Our examination revealed that CEPE did not maintain effective receiving and distribution records. For example, we found that receiving reports were not prepared for equipment purchased and that no stock records were kept for the equipment received or distributed. We were only able to satisfy ourselves reasonably that such items as vehicles, dental and medical units, and office equipment were received and distributed. We were unable to ascertain the receipt and distribution of classroom furniture. According to our calculations, taken from supplier invoices, the classroom furniture shown below should have been received and distributed; however, our calculation varied considerably with the figures compiled by CEPE:

	<u>USAID/B Auditors</u>	<u>CEPE</u>	<u>INDICATED SHORTAGE</u>
Desks - pupils	20,016	10,804	9,212
Desk & chair - teachers	1,040	954	86
Book cabinets	854	424	430
Paper baskets	1,040	430	610

Our end-use observations revealed the unreliability of the figures compiled by CEPE. For example, CEPE reported classroom equipment distributed to the following two schools although we found the schools were abandoned and no one knew of any classroom furniture received:

	<u>ESCOLA RURAL DE ESPINHOS</u>	<u>GRUPO ESCOLAR DE MORRINHO</u>
Desk - students	48	120
Book cabinets	2	5
Desk & chairs - teachers	2	12
Paper baskets	2	5

We discussed this situation with the Chief, School Equipment and Materials Division. He was unable to offer any explanation for

the differences and stated he recognized the inadequacy of the records.

Recommendation No. 10

That the NEAO Education Branch request CEPE to perform an immediate accounting for all classroom purchases with USAID/B funds and that the State refund to the USAID/B account the cost of any furniture not accounted for by this inventory.

5. Training

As of April 30, 1966, CEPE expended Cr\$72,724,000 on training activities. We found that the progress achieved compared unfavorably with project goals as follows:

	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Total Cost</u>	<u>Number</u>	<u>Total Cost</u>
Supervisor Training	150	Cr\$ 23,832,000	78	Cr\$ 7,162,000
Teacher Training				
Program	"	15,440,000	38	3,625,000
Lay Teacher Training	2500	99,900,000	723	60,103,000
Adult Education				
Program	100,000	<u>160,000,000</u>	"	<u>1,834,000</u>
TOTAL		<u>Cr\$299,172,000</u>		<u>Cr\$72,724,000</u>

Not indicated.

Not determined.

As reflected in the figure above, approximately 54 per cent of training budget was allocated to an adult literacy program. This training program, as in other parts of Brazil, was cancelled by order of the Brazilian Ministry of Education subsequent to the March 1964 Revolution. We found no evidence to indicate that alternative programs were formulated or existing training programs expanded to replace the adult literacy program.

We discussed the programs of the training program with the Director, Elementary Education for the State of Ceará. She informed us that she was generally satisfied with results obtained and felt

it had some success and impact on the State Elementary Education System. However, she stated that much more remained to be done. She indicated that the elementary school system required more emphasis on the training of school principals.

6. Other

Our examination revealed that as of April 30, 1966, CEPE expended Cr\$44,041,000 in USAID/B funds on the following items:

	<u>PROGRAM</u>	<u>ACTUAL</u>
Salaries - CEPE Personnel	Cr\$24,000,000	Cr\$34,100,000
Travel Expenses	-	3,782,000
Miscellaneous	-	4,501,000
Publicity	-	1,658,000
TOTAL	<u>Cr\$24,000,000</u>	<u>Cr\$44,041,000</u>

In September, 1965, CEPE hired a replacement for the chief accountant who resigned. Our examination indicated that this chief accountant assumed responsibilities outside the objectives of this project. He informed us that he did not have any official responsibility in this project although his monthly salary of Cr\$250,000 was paid with USAID/B funds.

We found the expenditure of USAID/B funds on such expenses as travel, miscellaneous, and publicity was in accordance with revised budgets approved by SUDENE and NEAO.

C. REPORTING, ACCOUNTING, AND SUDENE AUDITING PROCEDURES

1. Reporting

Reporting on project progress was inadequate. CEPE only accounted for the utilization of USAID/B funds when requests for additional funds were submitted and in both instances the period reported was longer than one year. The result was lack of budgetary control.

Recommendation No. 11

That the NEAO Education Branch initiate action that will require reporting for the expenditures of USAID/B funds on a periodic basis.

The Leo A. Daly Co. submitted school inspection reports as well as monthly reports to NEAC. We feel that the monthly progress reports contained accurate narrative information. However, we felt that inadequate use of these reports was made by NEAC. As an example, the Leo A. Daly Co. Report No. 8, dated November 1964, stated the following:

"Coard's program to date has consisted nearly entirely of reconstruction work. The lack and confusion of records make it impossible to tell at this point exactly how many schools and rooms had been constructed. We would recommend that no new funds be released until a complete and satisfactory accounting of past funds have been made."

We found no evidence to indicate that corrective action was taken as suggested in the quoted report. On the contrary, additional USAID/B funds were subsequently released to the project. This release action underscores the need to include the Daly Co. in the approval stream to safeguard against releases of USAID/B funds made before all available facts have been reviewed.

Inasmuch as corrective action was initiated under an earlier recommendation made in the Maranhão Elementary Education audit report (No. 3/67 dated August 12, 1966), we are not making a recommendation here regarding this deficiency in Coard.

## 2. Accounting

We reviewed the CEPE accounting procedures insofar as they related to our examination of the project agreement, and it was our opinion that books and records were not maintained in accordance with sound accounting principles and practices. We found the following accounting weaknesses which require immediate remedial action:

- (a) USAID/B funds were improperly advanced to CEPE officials for equipment purchases, training program expenses and so on. In one case we found an advance of Cr\$94,000,000 to a CEPE official for training program expenses. As there

was no way of controlling these advances, the opportunity existed for personal gain.

- (b) The expenditure of USAID/B funds was not recorded within the month they were incurred. We found that CEPE is about 3 months behind in posting the disbursements of USAID/B funds. It is our opinion that if the situation is not corrected immediately, there will be no accounting control.
- (c) CEPE is not performing a monthly comparison of the USAID/B bank balance with disbursements. We were not able, for example, to relate the expenditures of USAID/B funds to the bank balance as of April 30, 1966. This was due, in part, to the delay in posting expenditures which should be done immediately as a control against misappropriation of USAID/B funds.
- (d) CEPE did not have a qualified person in charge of the accounting section. The CEPE chief accountant resigned about 6 months ago and his replacement was engaged in duties outside the scope of this project. It is our opinion that the chief accountant must give his full time attention to the accounting of this project.

Recommendation No. 12

That the NEAO Education Branch should require CEPE to: (1) make payment against invoices whenever practicable, (2) update the posting of accounting vouchers, (3) perform a monthly reconciliation of the bank account, and (4) employ a qualified full time chief accountant to make improvements to correct accounting deficiencies cited above.

3. SUDENE Auditing

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

Our examination revealed that SUDENE did not effectively execute the above responsibilities. Our present joint audit with SUDENE was the first field examination performed of CEPE's records and procedures. However, SUDENE certified expenditures of Cr\$... 888,209,044 in USAID/B funds on the basis of "desk audits". It is our opinion that the poor progress achieved on this program is in part related to SUDENE's failure fully to carry out its responsibilities. (This deficiency was pointed out in the Maranhão audit report (No. 3/67 dated August 12, 1966) and NEAO corrective action recommended. Since NEAO is acting upon this recommendation for all states involved in school construction programs, no recommendation is being made in this report).

D. PUBLICITY AND MARKING

We contacted the United States Information Service (USIS) - Recife - for information as to publicity given this project. We found the project had received considerable press coverage in Ceará and that the USAID/B participation was adequately identified. Coverage was generally favorable.

Our end-use observations of 60 schools financed with USAID/B funds revealed that 38 schools were not identified with signs or other markings reflecting participation of the Alliance for Progress.

Recommendation No. 13

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

LIST OF RECOMMENDATIONS

<u>Number</u>		<u>Page</u>
1	That the NEAO Education Branch initiate action to require the State of Ceará to fulfill its financial obligations.	4
2	That the NEAO Engineering, Industry and Natural Resources Division, in cooperation with the Education Branch, initiate action to have CEPE; (1) submit construction and site plans prior to request for funds, (2) request funds to complete the existing backlog of approved construction before requesting approval of additional construction, and (3) submit budgeted requests for funds on a regular periodic basis.	7
3	That the NEAO Engineering, Industry and Natural Resources Division request the State to enforce the contract clauses pertaining to construction time periods.	8
4	That the NEAO Engineering, Industry and Natural Resources Division initiate action requiring CEPE to: (1) request the deposit of 2 per cent of full contract value when a contract is awarded, (2) deposit funds to the bank account without delay, and (3) maintain proper records for all deposits.	9
5	That the NEAO Engineering, Industry and Natural Resources Division initiate action which requires CEPE to effect a maintenance system for all schools constructed or reconstructed under this program.	9
6	That the NEAO Engineering, Industry and Natural Resources Division initiate action which henceforth requires CEPE to follow proscribed bidding practices for reconstruction.	10
7	The NEAO Education Branch, (1) request SUDENE to verify and certify that all reconstruction invoices are factual, (2) request the State to deposit Cr\$309,809 to the USAID/B interest account in payment of funds diverted from the project, and (3) request CEPE to make payments only against properly prepared invoices.	11

LIST OF RECOMMENDATIONS (Cont'd)

<u>Number</u>		<u>Page</u>
8	That the NEAO, (1) determine and carry through a policy whereby the A.I.D. consultant, Leo A. Daly Co., approve the engineering specifications and reconstruction/rehabilitation of all schools under this program, and (2) obtain a list of all schools reconstructed with A.I.D. funds.	12
9	That the NEAO Education Branch request CEPE to discontinue the advance system for equipment purchases.	14
10	That the NEAO Education Branch request CEPE to perform an immediate accounting for all classroom purchases with USAID/B funds and that the State refund to the USAID/B account the cost of any furniture not accounted for by this inventory.	15
11	That the NEAO Education Branch initiate action that will require reporting for the expenditures of USAID/B funds on a periodic basis.	16
12	That the NEAO Education Branch take action to: (1) make payment against invoices whenever practicable, (2) update the posting of accounting vouchers, (3) perform a monthly reconciliation of the bank account, and (4) assign a qualified full time chief accountant to the project.	18
13	That the NEAO Education Branch initiate action properly to identify all buildings constructed or reconstructed with USAID/B funds.	19

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