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# AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A. I. D. MISSION TO BRAZIL

REPORT ON EXAMINATION

OF

PROJECT AGREEMENT No. 512-11-110-094.1

AGRICULTURAL EDUCATION - CONTRACT No. AID-W-639

PURDUE UNIVERSITY

FOR THE PERIOD

JULY 1, 1963 THROUGH DECEMBER 31, 1968



OFFICE OF THE CONTROLLER



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

April 30, 1969

TO The Director of Mission  
Minister William A. Ellis

The Office of the Controller, Audit Division, has completed an examination of Project No. 512-11-110-094.1, Agricultural Education - Rural University of Minas Gerais (UREMG), including Contract No. AID-W-639 with Purdue University. This is the third audit of the project and covered the period from July 1, 1963 through December 31, 1968. The activity was initiated in 1958 and has been extended through June 30, 1970, with total grant dollar funding aggregating \$7.1 million.

Progress towards achieving the major objectives of the project has been delayed by inadequate fiscal support from the State of Minas Gerais.

The audit disclosed deficiencies in project administration and management, especially in the recording of cash transactions. These findings essentially reflect a lack of judgment by the contractor in applying standard accounting principles at the project site.

End-use observations revealed non-compliance with A.I.D. marking requirements, and corrective action is now being taken.

The review of vehicle usage disclosed that two vehicles were not being utilized on the project.

Finally, in our opinion, Mission Project Agreements are not adequately identified by means of a numbering system.

The audit report contains six recommendations, which are set forth as Exhibit E.

  
Robert B. Curtis  
Controller

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

REPORT ON EXAMINATION

OF

PROJECT AGREEMENT No. 512-11-110-094.1

AGRICULTURAL EDUCATION - CONTRACT No. AID/W-639

PURDUE UNIVERSITY

SECTION I - GENERAL

A. INTRODUCTION AND SCOPE

An audit of Project No. 512-11-110-094.1, Agricultural Education - Rural University of Minas Gerais (UREMG) including Contract No. AID/W-639 between the Agency for International Development and Purdue University was made in accordance with the Mission Controller's Audit Workload and Annual Plan for Fiscal Year 1969 (See Exhibit G).

This is the third audit of the project, and the examination was performed during the period October 28, 1968, through December 31, 1968.

The primary purpose of the audit was to provide a review and evaluation of project implementation by reviewing the contractor's performance and compliance with the provisions of the contract and amendments, and to determine the propriety and applicability of certain dollar and local currency payments and reimbursements made under the contract and the project agreements.

The examination was also directed toward determining the extent of

compliance with the provisions of the project agreements by the Government of Brazil and USAID/Brazil, and to ascertain the propriety of project records.

Our examination included the inspection and review of records and official data from July 1, 1963, through December 31, 1968. Appropriate officials and contract personnel were interviewed, and field inspections and end-use observations were made at UREMG, and at the Instituto de Laticínios Candido Tostes (ILCT), located respectively in Viçosa and Juiz de Fora, in the State of Minas Gerais.

The examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures and techniques as we considered necessary.

#### B. BACKGROUND

The Government of Brazil and the Government of the United States entered into agreement on December 19, 1950, for the development of a technical cooperation program in projects considered essential to the overall development of Brazil. Accordingly, during the seven year period beginning June 27, 1951, through June 30, 1958, Purdue University provided technical advisory services in home economics and agricultural extension at the Rural University of Minas Gerais (UREMG), Viçosa, Minas Gerais.

Contract No. ICA/W-639 was made effective July 1, 1958 between Purdue University and the International Cooperation Administration

(predecessor to AID) to provide broader institutional development within UREMG, and to promote agricultural education throughout Brazil. For the five year period ending June 30, 1963, Purdue technicians furnished technical advisory services at UREMG, and also to agricultural agencies within several Brazilian states. Primary efforts were directed towards establishing specialized courses in agriculture and a graduate school at UREMG. Contract obligations totalled \$2,002,560 at the end of this period.

A project agreement was executed on April 30, 1963 by the State of Minas Gerais, UREMG, and AID, which expanded the Purdue project to a full-scale institutional development contract, with responsibility extended to include the dairy technology school, Instituto de Laticinios Tostes (ILCT), in the city of Juiz de Fora. The contract was amended, effective July 1, 1963 to incorporate these changes, and to limit the scope of work within the State of Minas Gerais. At this time, AID executed contracts with three other American universities to carry out similar projects in the agricultural colleges of Rio Grande do Sul, Ceara, and Sao Paulo. All of these contracts were designed to foster agricultural development at the Brazilian university level with the support of state governments.

Subsequent agreements and revisions have provided additional contributions to the project. See Exhibit A. A summary of obligations and expenditures from project inception on July 1, 1958, through September 30, 1968, is presented as Exhibit B. The estimated final contribution date for the current project agreement was December 31, 1968. The latest project agreement, dated February 28, 1969, extended the estimated final contribution date to June 30, 1970.

C. SUMMARY OF MAJOR FINDINGS

Progress towards achieving the major objectives of the project has been delayed by inadequate fiscal support from the State of Minas Gerais. Project objectives and the lack of State support are reported under Project Progress, page 6.

Our audit disclosed deficiencies in project administration and management, especially in the recording of cash transactions. These findings essentially reflect a lack of judgment by the contractor in applying standard accounting principles at the project site (See Recommendations Nos. 1, 2, and 3).

End-use observations revealed non-compliance with AID marking requirements. Corrective action is now being taken, as noted on page 16).

The review of vehicle usage disclosed that two vehicles were not being utilized on the project (Recommendations Nos. 4 and 5).

Mission Project Agreements are not adequately identified by means of a numbering system (Recommendation No. 6).

The audit findings and recommendations were discussed with responsible contractor personnel either during or at the close of the audit, and general concurrence was received. The report was also reviewed in draft form by appropriate USAID/Brazil officials and their comments considered prior to the issuance of this report.

This report contains six recommendations, which are set forth as Exhibit E.

D. FOLLOW-UP ON PRIOR AUDITS

Two prior audits of Contract No. AID/W-639 have been made. The first covered the period from inception on July 1, 1958, through June 30, 1963. The latest audit was limited to cash transactions and internal controls for the period December 1964 through January 25, 1966.

The last audit report, Special Audit Report No. 11/66 dated March 10, 1966, recommended that internal controls be strengthened in the handling of cash and related records at the project site. While corrective action had been taken on several of these recommendations, we found deficiencies in the assignment of administrative duties at the project site, specifically in the maintenance of the cash receipts and disbursement ledger. This situation is discussed under Section II - Findings and Recommendations, D. 3, Accounting Records and Internal Control.

SECTION II - FINDINGS AND RECOMMENDATIONS

A. PROJECT PROGRESS

The objectives of the project are to improve and strengthen the educational program in teaching, research, and extension at UREMG and ILCT; to increase student enrollment; and to expand graduate courses leading to advanced degrees in the agricultural sciences.

The USAID/Brazil Agricultural and Rural Development Office (ARDO) has responsibility for the coordination and appraisal of the project. In evaluating the overall project progress, we considered ARDO Project Appraisal Reports and our audit observations made during the field inspections at Viçosa and Juiz de Fora.

## 1. UREMG

The UREMG is a Brazilian state university, and as such, dependent upon the State of Minas Gerais for operational budget support. Since early 1966, project objectives have been delayed by too little financial support from the state government, since funds advanced to the University have been inadequate to permit a well balanced program of teaching and research (see Section V.B.2, State of Minas Gerais Contribution). Faculty salaries have been in arrears, resulting in staff resignations and a reduced curriculum. In addition, research and extension programs have been cut back because of insufficient funds. In July 1967, an emergency one year NCr\$2.5 million loan from counterpart trust funds of AID Loan No. 512-L-055 enabled UREMG to pay salary arrears. The loan repayment date has since been extended to July 1969. At the present time, the Brazilian Government has under consideration a plan to integrate UREMG into the Federal system of higher education. This expected action should ease the current financial problems of UREMG through fiscal support provided from the Federal budget.

## 2. ILCT

The ILCT is a secondary level trade school specializing in training dairy technologists for milk processing plants. The Institute is administered by the Secretary of Agriculture of the State of Minas Gerais. Project assistance was provided over a four year period ending in September 1968. Emphasis was directed to institutional development through technical advisory services, faculty training, and modernization of plant and laboratory equipment.

There is ample evidence that the efficiency and competence of ILCT have been upgraded and that the project has had a genuine effect on this institution. Project Appraisal Reports and our audit field inspection made on December 12, 1968 support this view. We were able to observe the Institute in full operation and also the effective utilization of project equipment. Alliance for Progress signs and emblems were displayed throughout the school. While all sections of the school gave the appearance of efficient organization and management, the conspicuous air of vigor and enthusiasm on the part of faculty members, students and staff workers was particularly impressive.

In the opinion of ARDO, the overall progress of the project is satisfactory. From our review of reports and observations made, we could see evidence of attaining basic project goals.

B. FUNDING

AID financing of this project began in 1950 and has since been continued by annual project agreements through fiscal year 1969 covering contract services and local currency contributions. Of the cumulative total of \$6,950,000 expended by AID through September 30, 1968, a total of \$4,645,560 is allocable to Contract No. AID/W-539.

1. USAID/Brazil Contribution

a. Dollar Funds

We examined the USAID/Brazil accounting records and found that they record a total contract dollar obligation of \$4,860,560, with total expenditures of \$4,645,560, leaving a balance of \$215,000 as of September 30, 1968. See Schedule I.

Several differences were noted between cumulative totals as reported on the Quarterly Project Report U-203 and the project accounting records. For example, AID direct obligations are apparently understated or the expenditures overstated by \$10,000 on the U-203. Also, contract expenditures are overstated by \$6,000 on this same report. These differences have been called to the attention of the USAID Accounts Division for appropriate adjustment (See Exhibit B and Schedule I).

For the most part, dollar expenditures are posted to the USAID project ledger from AID/W advices of charge. We selectively examined advices of charge, and Mission disbursement vouchers aggregating \$44,751.46, representing port charges, inland freight, and miscellaneous contract costs. There were no audit exceptions taken.

b. Local Currency Funds

In accordance with the provisions of the project agreement, USAID/Brazil was to make available NCr\$290,000 of Public Law 480, Title I, Section 104 (e) grant wheat funds for project logistical support and UREMG research and extension programs (See Exhibit A).

The grant funds released for logistical support were deposited in Banco de Credito Real de Minas Gerais, S.A., Viçosa, under the account name of Projeto Purdue B.T.A.P. During January 1966, several irregularities were noted in this account. A detailed USAID/B Audit Report No. 11/66 disclosed unrecorded checks and unjustified fund withdrawals aggregating Cr\$18,349,925 (approximately \$8,340.37 at the prevailing exchange rate). The fund loss has since been recovered through insurance as noted in Section D.2, Accounting Records and Internal Control.

The funds released for UREMG research and extension were deposited in the Banco Mineiro da Producao, S.A., Viçosa, under the account name of Projeto de Desenvolvimento Purdue - UREMG. The prior AID audit determined that no irregularities had occurred in this account.

Both accounts were closed out on May 15, 1968, and accumulated interest of NCr\$1,008.68 remitted to the Mission. The following presents a summary of the source and application of funds for the period January 7, 1965 through May 15, 1968:

Source and Application of Funds

<u>Source:</u>	Project Logistical Support	UREMG Research & Extension	TOTAL
	(New Cruzeiro)		
Releases	149,150	140,550	*289,700
Transfers	(9,000)	9,000	-
Interest Earned	855	442	1,297
	<u>141,005</u>	<u>149,992</u>	<u>290,997</u>
<u>Application:</u>			
Salaries	25,897	-	25,897
Portuguese Training	6,708	-	6,708
Vehicle Purchase	31,530	-	31,530
Travel	50,032	-	50,032
Equipment & Materials	26,218	-	26,218
Advances to UREMG	-	149,603	149,603
	<u>140,385</u>	<u>149,603</u>	<u>289,988</u>
Balance refunded USAID/Brazil	620 ==	389 ==	1,009 =====

\* Interest earned on funds advanced by USAID/Brazil must be transferred to the Miscellaneous Receipts Account, U.S. Treasury. Accordingly, estimated interest of NCr\$300 was withheld from the initial advance by USAID/Brazil.

Based on the prior audit coverage, we selectively examined disbursements in each account for the period January 26, 1966 through May 15, 1968. The examination of voucher payments revealed adequate documentation to support disbursements.

## 2. State of Minas Gerais Contribution

In the project agreement dated December 30, 1965, the State of Minas Gerais agreed to provide NCr\$5.2 million to UREMG in 1966, and to assure the timely availability of these funds to the University for the carrying out of the program objectives. In April 1967, UREMG had received NCr\$4.4 million, only 84 per cent of its 1966 approved budget. The lag experienced in getting these funds threatened to close teaching and research programs in progress. The situation prevailed until July 1967 when an emergency one-year loan of NCr\$2.5 million from counterpart funds from A.I.D. Program Loan No. 512-L-055 enabled the University to meet faculty salary obligations (See Section II, A. Project Progress). The failure of the State to fulfill its obligation under the agreement has created a necessity for additional funds to be provided from CONTAP.

## 3. CONTAP Funds

The Brazilian Council for the Coordination of Technical Assistance under the Alliance for Progress (CONTAP) has provided NCr\$870,000 in supplementary cruzeiro support of the project under three separate agreements as of September 30, 1968.

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CONTAP Contribution

<u>PROAg Dated</u>	<u>Project</u>		<u>TOTAL</u>
	<u>Logistical Support</u>	<u>UREMG &amp; ILCT</u>	
	(New Cruzeiros)		
4/29/66	113.200	256.800	370.000
5/31/67	35.000	65.000	100.000
11/30/67	<u>135.000</u>	<u>245.000</u>	<u>400.000</u>
Total	<u>303.200</u>	<u>566.800</u>	<u>870.000</u>

The UREMG Accounting Office has coordinated CONTAP fund releases and accountability since January 13, 1967 (see page 23). Under authority granted by the AID Mission Director in April 1967, the Chief of Party converted \$12,600 in contract dollars into cruzeiros in order to maintain field operations during 1967. We verified this amount, less a \$718.75 exchange loss, as having been repaid to the contract dollar account upon the subsequent release of CONTAP funds and reconversion of these borrowed amounts from cruzeiros to dollars.

The following table presents CONTAP fund releases for logistical support, and the dates of project receipt and completed expenditures:

<u>CONTAP FUND RELEASES</u>					
<u>Project Logistical Support</u>					
<u>ProAg Dated</u>	<u>Parcel No.</u>	<u>Date Received</u>	<u>Amount</u>	<u>Date Expended</u>	
4/29/66	1	5/24/66	NCr\$ 45.891	11/18/66	
	2	12/6/66	15.300	1/4/67	
	3	1/13/67	21.420	3/17/67	
	4	4/5/67	15.300	4/29/67	
	5	6/15/67	15.300	7/6/67	
5/31/67	1	7/25/67	17.500	9/15/67	
	2	11/8/67	17.500	1/22/68	
11/30/67	1	2/19/68	115.300	8/5/68	
	2	9/2/68	<u>9.700</u>	12/10/68	
TOTAL			<u>NCr\$ 303.211</u>		

We found that documentation supporting these expenditures had been audited and certified by the Central Bank of Brazil prior to the release of each parcel. The transmission of expenditure statements and documentation between the project, the UREMG Accounting Office, the Central Bank of Brazil, and CONTAP has resulted in a time lag in receiving subsequent advances. The project maintains a dollar revolving fund of \$8,000 of which \$700 has been used to establish a cruzeiro revolving fund in Banco Credito Real, S.A., at Viçosa. In addition, a local currency petty cash fund is established at NCr\$3,000 or approximately \$800. These funds have been used to pay the daily operating costs of gasoline, per diem, and driver's salaries pending the receipt of CONTAP fund releases.

The USAID/Brazil Office of the Controller, Audit Division is currently performing a procedural review and evaluation of CONTAP funding operations, and detailed findings regarding that activity will be presented in a separate report.

### C. PROJECT IMPLEMENTATION

Project implementation included technical advisory services, commodities, and participant training. Each of these interrelated elements was reviewed to the extent possible during the course of our examination.

#### 1. Technical Advisory Services

Technical advice has been furnished by Purdue University technicians, recognized specialists in agricultural economics and agricultural engineering, animal and plant sciences, forestry, and home economics. The contract provides for a regular staff to be stationed at the project

site, and for supplemental advisory services from special consultants on short-term visits to Brazil.

a. Contract Staff Technicians

Contract Amendment No. 5, effective July 1, 1963, provided for not more than 19 regular staff technicians, of which 17 were to be stationed at UREMG, and 2 at ILCT. Amendment No. 13, effective July 1, 1967, reduced the regular staff at UREMG by one technician, or to a total of 18 regular staff technicians.

At the present time, eleven (11) regular staff technicians are on duty in Brazil (See Exhibit C). The two dairy technicians assigned to ILCT have departed post, following completion of the project at that school in September 1968. While two positions in plant pathology and pasture management are open, USAID/Brazil project management reports indicate that the staff complement is adequate to carry out current project objectives.

We selectively tested voucher payments, and reviewed the technicians' leave records and end-of-tour reports, both at the project site and at USAID/Brazil. In addition, discussions were held with the eleven technicians remaining at post. There were no audit exceptions taken.

b. Short-Term Consultants

The contract specifies that no more than six (6) special consultants will be employed in any one year in rendering assistance on short-term visits of approximately three months at the project site. Our review of project records disclosed six such visits in 1965, five in 1966, six in 1967, and four during 1968, all for periods no longer than 3 months.

## 2. Commodities

Project accounting records disclosed total contract expenditures of \$397,000 for commodities as of September 30, 1968, while direct AID commodity payments amounted to \$6,000 (see Exhibit B). Accordingly, our examination was directed to the contractor's method of procurement, and to audit end-use observations of commodities at the project site.

The contract budget projects estimated commodity costs for different time periods. The agreement allows Purdue University to follow its normal procurement practices, but requires that each single item of equipment costing in excess of \$1,000 have the prior written approval of AID. Schedules of needed equipment and materials are prepared by project staff technicians and UREMIG counterparts. Subject to the approval of a special committee appointed by the Rector of UREMIG, a listing of accepted items is given to the Chief of Party for review, necessary AID approval, and processing through International Programs in Agriculture at Purdue University, where the purchase action is completed. Commodity arrivals are cleared through customs by the American Embassy General Services Office, and shipped overland to the project site.

Project site records disclosed equipment valued at \$345,108 (exclusive of vehicles) having been transferred to UREMIG and ILCT from inception, with title vested in the cooperating agency. The Chief of Party has responsibility to assure proper distribution and effective utilization of project equipment. The audit end-use observations confirmed that this responsibility has been effectively carried out through the use of an efficient system of arrival and distribution,

We were able to identify and inspect a major portion of the equipment transferred to various institutes within UREMG and ILCT. For the most part, the project equipment was found to be in use and in good condition. However, we observed 26 major items of equipment unmarked with Alliance for Progress or AID emblems. We have furnished the ARDO Contract Representative an audit listing of the unmarked equipment, and since corrective action is being taken, no formal recommendation is made.

### 3. Participants

The contract provides that Purdue University will be reimbursed for all participant training costs, exclusive of the candidates' insurance and international travel expenses. Since complete participant cost data is not maintained by the Mission, our examination of the participant training program was limited to a review of available official records at the USAID/Brazil Training Office, ARDO, and project site.

Under authorized non-obligating PIO/P's, a total of 36 participants were sent for training in the agricultural sciences and home economics at Purdue University between July 1, 1963 and September 30, 1968. The periods of training ranged from 3 months to four year university courses, leading to advanced degrees. Twenty six participants have successfully completed their courses, and ten are currently in training.

Project plans included sending sixteen participants to Purdue in 1967, and ten in 1968. Our review disclosed that only five participants were sent for training during 1967, and six during 1968. The latest project appraisal report confirms this activity is behind schedule due to increased UREMG undergraduate enrollment, additional courses, and

curriculum improvements, coupled with UREM's inability to expand its present faculty to permit qualified staff members to leave for advanced training in the United States.

D. PROJECT ADMINISTRATION AND MANAGEMENT

The Contractor's Chief of Party has responsibility for maintaining adequate administrative controls at the project site, and to assure compliance with the reporting and accounting requirements of the contract. The USAID/Brazil ARDO is responsible for evaluating the technical and managerial aspects of the contractor's performance. Accordingly, our examination was directed to review the general performance of each.

1. Reports

The contractor is required to submit quarterly and annual progress reports to AID (Contract Appendix B.IV). Our review of Mission files disclosed that 37 consecutive quarterly progress reports and successive annual reports had been received through March 31, 1968. These reports were complete and comprehensive in all aspects. We also reviewed the ARDO Project Appraisal Report dated September 12, 1968, and the ARDO Report No. U-307, Evaluation of Contract Performance dated July 29, 1968. These two reports were particularly comprehensive and effective as management controls, and also noted that the contractor was approximately six months behind schedule in submitting quarterly progress reports. At the time of our site inspection, the Chief of Party was drafting progress reports for the quarters ending June and September, 1968.

2. Administrative Organization

Contract Amendment No. 5, effective July 1, 1963, provides for the employment of not more than nine (9) Brazilian local hire field staff to furnish logistical support in accounting, clerical, and maintenance necessary to carry out project activities. There is no provision in the contract for a U.S. secretarial field staff beyond January 1, 1965.

On December 12, 1968, the local staff consisted of seven full-time employees and three part-time employees as follows:

<u>Local Field Staff</u>	<u>Full Time</u>	<u>Part Time</u>
Administrative Assistant (bi-lingual)	1	
Secretary (bi-lingual) *	1	
Accounting Clerk	1	
Typists		2
Office Boy	1	
Drivers	1	1
Mechanics	1	
Mechanic Assistant	<u>1</u>	<u>      </u>
Totals	<u>==== 7</u>	<u>==== 3</u>

\* Began duties on December 5, 1968.

We observed that the Chief of Party's wife was serving in a secretarial/administrative capacity at the project site, and that her duties had included the posting of entries to the cash receipts and disbursements ledger. Our review of the records showed that postings made by her were dated from March 1967 to July 1968 although her husband did not become Chief of Party until November 1, 1967. (See 3. Accounting Records and Internal Control). On September 12, 1968, the then Chief of Party

requested a temporary waiver to the contract restriction on U.S. secretarial help. The Mission suggested that the project should make request through the Purdue campus coordinator to AID/W. The following quotation is from a letter from the Director, International Programs in Agriculture, Purdue University to the Contracting Officer for Latin America, AID/W, dated October 21, 1968:

"In order to conduct project business effectively and efficiently, it has been necessary for our Chief of Party to employ the wife of one of our staff members on a temporary basis. This has been the only way to keep activities of the project from being seriously interrupted. We are obligated to remunerate this staff wife for services rendered until a qualified bi-lingual secretary may be employed. It is our intent to reimburse the staff wife involved at a rate consistent with Purdue University salary scales for similar secretarial positions. Please provide a written waiver of the above contractual stipulation and authorization to pay for services rendered so that we might meet this obligation in the near future".

The Contracting Officer, AID/W through AIDTO A-217 dated October 29, 1968 replied that approval would be required from the USAID Director. The project employed a bi-lingual secretary on December 5, 1968, and the Mission approved a waiver (TOAID A-2513 dated December 8, 1968) approving reimbursement for the dependent's services beginning September 1 through December, 1968, at the rate of \$2.00 per hour, estimated at 45 hours per week, or an estimated total payment of \$1,500.00.

### 3. Accounting Records and Internal Control

Our prior USAID/B special audit report (No. 11/66) determined that local currency funds for logistical support costs approximating \$8,340.87 were misappropriated during 1965 and in January 1966 (See Section II B. Funding). The defalcation was charged to the former local administrative secretary, and apparently resulted from a total lack of internal accounting controls at the project site. The total amount of the loss has since been recovered through the fidelity bond covering the employee.

We observed that corrective action had been taken on several important prior audit recommendations pertaining to the issuance of checks, elimination of the rubber stamp facsimile signature, and the implementation of a simplified purchase order and payment voucher system. Notwithstanding, we found a major weakness in the posting of cash transactions to the project receipts and disbursements ledger. This recording function had been done by the Chief of Party's wife as referred to above, instead of the local administrative assistant for the period beginning March 1967 through July 1968. As of December 12, 1968, we noted that nineteen (19) checks totalling NCr\$21,323.00 (\$5,516.00) had been issued by the Chief of Party for project rent and miscellaneous expenses between July 19, 1968 and December 5, 1968, but had not been posted to the books of account.

While the Chief of Party has sole responsibility for issuing checks on the cruzeiro revolving fund maintained to pay local project expenditures, cancelled checks under the Brazilian banking system are not returned with the bank statements but remain at the bank available for

inspection. Therefore, internal control is weakened to the extent that cancelled checks are not being examined. We also found no evidence of reconciliations between the receipts and disbursements ledger and the various bank statements.

RECOMMENDATION No. 1

The USAID/B Agriculture and Rural Development Office (ARDO) should require the Contractor to strengthen internal control over cash. The Contractor should arrange to examine paid checks on local currency accounts at least on a test basis. At the very minimum, a formal reconciliation of the bank statements and receipts and disbursements ledger should be made periodically and retained in the project files.

According to the Chief of Party, the local administrative assistant has numerous duties which preclude his posting the cash accountability records. Further, he stated that his wife was the only person having the accounting experience and knowledge necessary to adequately maintain the ledger. The dependent departed post during December 1968, and the Chief of Party was expected to depart post shortly. As of our review, the Chief of Party has taken on positive action to assign definite responsibility for posting the accounting records.

In our opinion, it was imprudent to assign an unauthorized dependent responsibility for maintaining the financial records of the project. This comment is not intended in any way as a reflection on the character or

conscientiousness of the dependent. Nevertheless, a recommendation developed in the prior audit report stated that an "employee" other than one who prepares vouchers should post the cash accountability records, issue checks, or make bank reconciliations. The former Chief of Party assigned this responsibility to the present administrative assistant who is also bonded against the loss of cash assets. We believe that this previous assignment of duties to have been a logical and reasonable course of action, and still practical, based on present project staff limitations. In this respect, although we requested written description of duties for the local administrative assistant, bi-lingual secretary, or accounting clerk, none were provided to us.

RECOMMENDATION No. 2

The USAID/B Agriculture and Rural Development Office (ARDO) should assure that (a) the Contractor take appropriate measures to segregate the duties now concentrated with the administrative assistant and provide job descriptions for each clerical field staff member in order to provide an equitable division of responsibilities consistent with basic internal accounting controls, and (b) as soon as possible, assigns to the administrative assistant permanent responsibility for posting cash transactions to the project receipts and disbursements ledger.

At present the project receipts and disbursements ledger is not being used to record and reflect logistical support costs of operation. Logistical support provides for the direct costs of maintenance and support of the Purdue staff technicians, which includes local staff salaries, vehicle maintenance and operating costs, travel, language training, and sundry miscellaneous expenses.

CONTAP funds have paid for logistical support since June 13, 1966 (see Funding). The project ledger provided adequate details on these expenditures through January 13, 1967, whereupon CONTAP fund control and accounting was assumed by the UREMG Accounting Office. Because of this, the project accounting records do not provide meaningful data to make a realistic appraisal of logistical support costs. The UREMG financial reports, certified correct by the Bank of Brazil, reflect broad cost groupings, that is to say - salaries, operating costs, and miscellaneous expenses. While the project office has duplicate copies of paid documentation on file, in order to obtain a clear analysis of operating expenses, it would have been necessary to review virtually every voucher processed since January 13, 1967. The project maintains a general journal book to record all checks issued by UREMG for logistical support, but for fund availability purposes only, and not to reflect detailed operating costs.

RECOMMENDATION No. 3

The USAID/B Agriculture and Rural Development Office (ARDO) should request the Contractor to take the following actions: (a) the general journal book now being used should be eliminated.

RECOMMENDATION No. 3 (Cont'd)

All checks issued by UREMG for project logistical support should be recorded in the project receipts and disbursements ledger designed for this purpose, and (b) after such steps are instituted, monthly operating statements should be prepared through which project management can more effectively exercise control over logistical operations.

Further comments on the project accounting records, including audit tests of cash transactions, are covered under Section II - B. Funding.

4. Non-Expendable Property

a. Household Furniture and Equipment

The property records maintained by the USAID/Brazil General Services Office disclose AID household furnishing and equipment having an estimated value of \$49,914.55 in the custody of the project. A physical inventory certified to be correct by the project Chief of Party dated March 31, 1968, was in general agreement with the Mission property records. We found that adequate property controls were in effect at the project site, and there were no audit exceptions taken.

b. Vehicles

A fleet of 16 vehicles was assigned to the project as of September 30, 1968. Twelve (12) vehicles were AID property, and four (4) UREMG vehicles had been purchased locally with CONTAP funds, and were on loan for project logistical support. (See Exhibit D).

The audit field inspection revealed that the AID-financed 1964 Willys 3/4 Ton Truck assigned to the Horticulture sector has been inoperative for over a year, since spare parts cannot be obtained locally. All other vehicles were found to be in generally good condition.

RECOMMENDATION No. 4

The USAID/B General Services Office (MGGS) should assure that a Property Disposal Authorization and Survey Report (Form FS-451) should be prepared in accordance with the provisions contained in M.O. 541.1.1 to determine the proper disposition of the inoperative Willys 3/4 Ton Truck, Motor No.930924096 at Viçosa.

We were informed by the Chief of Party that one of the project's vehicles, a 1965 Willys Station Wagon, Motor No. B-5213751 has been assigned to Contract AID/1a-449 under Project No. 512-15-110-247.3 (Development of High Quality Protein in Corn). Further, we were informed that a written request dated May 3, 1968, to the Mission for the transfer of this vehicle to the Corn Project has received no response. In view of this, and the size of the project vehicle fleet, we believe that a Mission management evaluation of the need and utilization of project vehicles at Viçosa is now appropriate. In this respect, Exhibit D in this Audit Report should be of assistance in making the evaluation.

RECOMMENDATION No. 5

The USAID/B Agriculture and Rural Development Office (ARDO), in cooperation with the General

RECOMMENDATION No. 5 (Cont'd)

Services Office (MGGS), should make a management evaluation of the need and utilization of Purdue University project vehicles. Vehicles excess to the needs of Contract No. AID/W-639 should be relinquished, or transferred to meet the operational requirements of other appropriate activities.

E. GENERAL OBSERVATIONS

1. Project Agreements

USAID/Brazil in the preparation of project agreements does not, in our opinion, adequately identify each specific project agreement. Consequently, the eleven (11) agreements and revisions, known to have been executed under the project, had no specific identity reference in ProAg, Block 2, to provide a reference point to the specific commitments of the United States and the cooperating country. (See Exhibit A).

Project agreements are interdepartmental in character, that is to say - the working documents of several administrative and management offices within the Mission, as well as AID/Washington and the cooperating country. Questions invariably come up between correspondents as to funding, terms, and conditions as summarized in the various and separate agreements. In our opinion, the numbering of project agreements to clearly identify the fiscal year and sequence of issue would provide a good point of reference and better internal control of the subject agreements. The ProAg Block 2 is provided for a simple coded identification for each

agreement, for example: BR 69-1, BR 69-2, BR 69-2 Rev. No. 1, etc., signifying Mission, fiscal year of issue, and sequence.

RECOMMENDATION No. 6

The USAID/B Program Office (ADPR) should consider establishing a system of numbering project agreements to adequately identify each specific project agreement and to facilitate the identification of separate project agreements terms and conditions.

2. Central Files - ARDO

In making the preliminary survey necessary to the performance of the audit, we reviewed project reports and other related correspondence contained in the Central Files of ARDO. The files representing the history of the project were exceptionally well maintained, which enabled us to quickly locate reports, documents, and correspondence pertaining to the various segments of the project under audit.

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EXHIBIT A

AUDIT OF AGRICULTURAL EDUCATION - UREM  
SUMMARY OF PROJECT AGREEMENTS AND REVISIONS  
AS OF SEPTEMBER 30, 1968

Date	ProAg No.	Rev. No.	Final Contrib.	U.S. CONTRIBUTION		GOB CONTRIBUTION	
				Contract Dollars	Local Currency **	State of Min.Ger.	CONTAP
			Prior Audit	<u>\$2,002,560</u>			
4/30/63	v		5/31/65	520,000		NCr\$44,000	
5/15/64	v		1/15/66	550,000			
12/22/64	v		1/15/66		NCr\$220,000		
3/30/65		v	1/15/67	195,000			
11/ 3/65	v		1/15/67		20,000		
12/15/65		v	1/15/67		30,000		
12/30/65	v		12/30/67	613,000		*	
4/ 6/66		v	12/30/67		20,000		
4/29/66		v	12/30/67				NCr\$370,000
5/31/67	v		12/31/68	980,000			100,000
11/30/67		v	12/31/68				400,000
<b>TOTAL PER CURRENT AUDIT</b>				<b>\$2,858,000</b>	<b>NCr\$290,000</b>	<b>NCr\$44,000</b>	<b>NCr\$870,000</b>

Notes:

- v = See Audit Report Section: General Observations for Project Agreement numbering system.
- \* = State of Minas Gerais agreed to provide NCr\$5 million to UREM in 1966.
- \*\* = P.L. 480, Title I, Section 104 (e) Grant Wheat Funds.

AUDIT OF AGRICULTURAL EDUCATION - UREM  
 CONTRACT AID-W-639 WITH PURDUE UNIVERSITY  
 SUMMARY OF OBLIGATIONS AND EXPENDITURES  
 AS OF SEPTEMBER 30, 1968

	Direct A.I.D.	Contract AID-W-639	Total
<u>Obligations</u>	\$2,289,000	\$4,860,000	\$7,149,000
<u>Expenditures</u>			
Personnel Services	\$1,519,000	\$3,038,000	\$4,557,000
Participants	454,000	474,000	928,000
Commodities	6,000	397,000	403,000
Other Costs	320,000	742,000	1,062,000
TOTAL	\$2,299,000	\$4,651,000	\$6,950,000
BALANCE	(\$10,000)	\$209,000 <sup>1/</sup>	\$199,000

Notes:

- 1/ See Schedule I for contract obligations and expenditures as recorded on Miscellaneous Obligating Documents.
- Dollar amounts are cumulative from July 1, 1958, as recorded on Quarterly Project Report U-203 for the period ending September 30, 1968.
  - Contract reimbursements are entered on USAID/Brazil accounts through advice of charge from AID/W and from direct payments made by the Mission.

Source: Quarterly Project Report U-203 dated September 30, 1968.

T T

SCHEDULE I

AUDIT OF AGRICULTURAL EDUCATION - UREMG  
 CONTRACT AID-W-639 WITH PURDUE UNIVERSITY  
 CONTRACT OBLIGATIONS AND EXPENDITURES  
 AS OF SEPTEMBER 30, 1968

Pio/T No.	Obligations	Expenditures		Balance
		Actual	Accrued	
59002	\$218,660	\$218,660		-
80054	298,900	298,900		-
90138	250,000	250,000		-
90181	275,000	275,000		-
00321	960,000	960,000		-
30208	520,000	520,000		-
40298	550,000	550,000		-
50276	195,000	195,000		-
60098	613,000	490,955	\$122,045	-
70522	980,000	-	765,000	\$215,000
<b>TOTALS</b>	<b>\$4,860,560</b>	<b>\$3,758,515</b>	<b>\$887,045</b>	<b>\$215,000</b>

R E C A P I T U L A T I O N

Obligations	\$4,860,560
Expenditures	<u>4,645,560</u>
Balance	<u><u>\$215,000</u></u>

Source: Miscellaneous Obligor Documents.

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EXHIBIT C

AUDIT OF AGRICULTURAL EDUCATION - UREM  
 CONTRACT AID-W-639 WITH PURDUE UNIVERSITY  
 TECHNICAL ADVISORY SERVICES - CONTRACT STAFF

	<u>Position</u>	<u>Arrival</u>	<u>Departure</u>
<u>Project Management</u>			
J.K. McDermott	Chief of Party	10/ 5/63	7/ 7/65
R.D. Bronson	"	1/10/64	2/28/66
C.D. Spies	"	4/21/65	*
T.E. Croope	Business Manager	6/17/67	*
V.L. Clark	Secretary	9/26/62	4/30/64
A.L. Ritchey	Secretary	2/ 6/63	12/ 1/64
<u>Agricultural Economics</u>			
G.E. Schuh	Agricultural Economist	2/ 6/63	6/ 3/65
J.E. Yahmer	" "	2/27/63	12/31/66
R.C. Yoomans	" "	9/16/63	11/26/65
J.H. Atkinson	" "	1/ 5/64	6/30/67
E.W. Kehrberg	" "	7/ 7/66	7/ 5/68
G. Patrick	" "	3/10/67	*
R.F. Jones	" "	9/13/67	*
<u>Agricultural Engineering</u>			
J.R. Foley	Agricultural Engineer	9/ 1/63	7/21/65
W.R. Detar	" "	8/ 5/68	*
<u>Animal Sciences</u>			
V.A. Garwood	Animal Scientist	8/29/62	7/31/64
J.H. Conrad	" "	9/ 6/63	8/30/65
F.A. Rose	" "	8/ 4/67	*
J. Foster	Animal Nutritionist	7/ 6/65	8/ 4/67
V. Mayrose	" "	7/11/67	*
D.J. Sykes	Range Specialist	1/31/64	1967
<u>Plant Sciences</u>			
J. Janick	Horticulturist	7/ 7/63	7/ 1/65
E.S. Tigchelaar	" "	7/ 6/67	*
C.M. Jones	Agronomist	5/23/65	6/24/67
H.L. Shands	" "	11/ 2/63	11/30/65
K.Z. Athow	" "	11/ 1/65	6/ 1/68
M.L. Swearingin	" "	4/ 7/67	*
H.M. Galloway	Soils Specialist	5/27/68	*
<u>Forestry</u>			
D.M. Knudson	Forester	8/15/65	8/ 1/67
C.C. Myers	" "	6/27/67	*
<u>Home Economics</u>			
M.L. Foster	Home Economist	8/ 7/63	10/17/65
V.B. White	" "	11/ 9/63	6/19/65
A. Dickson	" "	3/ 1/64	9/12/65
<u>Dairy School - Juiz de Fora</u>			
R.W. Stein	Dairy Technician	4/ 1/64	6/ 5/68
R.R. Day	" "	4/ 1/64	9/21/68

Note: \* There were eleven (11) contract technicians assigned to the project as of September 30, 1968.

EXHIBIT D

AUDIT OF AGRICULTURAL EDUCATION -UREMG  
 CONTRACT AID-W-639 WITH PURDUE UNIVERSITY  
 PROJECT VEHICLE FLEET  
 AS OF SEPTEMBER 30, 1968

Purchase Date	Description	Year	Engine Number	Value		Vehicle Assignment	
				A.I.D.	UREMG	Sector	Other
	Willys Wagoneer	1964	TD60C55962	\$2,644.60		Agric. Engineering	
	" "	1964	TD60C55971	2,644.60		Forestry	
	Willys Station Wagon	1965	B 5213525	2,640.41		Agronomy	
	Willys 3/4 Ton Truck (2)	1964	930924032	3,299.38		Horticulture	
	Willys 3/4 Ton Truck	1964	930924096	3,299.38		Zootechnica	
	Chev. 1/2 Ton Truck	1965	4J 1215H	3,411.22		Soils	
	Willys Station Wagon	1964	TW60C24314	2,425.12		Perimeter Sites	
	Willys Station Wagon (3)	1965	B 5213751	2,640.41			Contr.AID/1a-449
	Willys Wagoneer	1964	TD60C55930	2,644.60			Project Staff
	Chev. Carryall	1965	4J 112811	4,459.52			Standby: Belo/Rio
	Chev. 1 1/2 Ton Truck	1964	F C19CNT	3,163.12			Rio PX
	Willys 3/4 Ton Truck	1964	930924C03	3,299.38			Mainland Supplies
8/12/68	Chev. Carryall	1968	8J0304G		NCr\$18,800.00		Chief of Party
2/19/68	Chev. Carryall	1968	8J08226H		16,400.00		Proj. Staff
3/7/67	Chev. Carryall	1967	7J C306H		13,750.00		Proj. Staff
6/13/66	Willys Station Wagon	1966	B-6265173		6,741.00		Admin. Asst.
	Totals			\$36,571.74	NCr\$55,691.00 (1)		

Rate of Exchange: NCr\$3,675 = \$1.00

- Notes: (1) UREMG vehicles were purchased with CONTAP funds, and on loan to project for logistical support.  
 (2) USAID vehicle has been inoperative for over one year for lack of repair parts at project site.  
 (3) On loan to Contract AID/1a-449 Purdue University High Lysine Corn Project.

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SUMMARY OF RECOMMENDATIONS

EXHIBIT E

<u>Number</u>		<u>Page</u>
1	The USAID/B Agriculture and Rural Development Office (ARDO) should require the Contractor to strengthen internal control over cash. The Contractor should arrange to examine paid checks on local currency accounts at least on a test basis. At the very minimum, a formal reconciliation of the bank statements and receipts and disbursements ledger should be made periodically and retained in the project files.	21
2	The USAID/B Agriculture and Rural Development Office (ARDO) should assure that (a) the Contractor take appropriate measures to segregate the duties now concentrated with the administrative assistant and provide job descriptions for each clerical field staff member in order to provide an equitable division of responsibilities consistent with basic internal accounting controls, and (b) as soon as possible, assign to the administrative assistant permanent responsibility for posting cash transactions to the project receipts and disbursements ledger.	22
3	The USAID/B Agriculture and Rural Development Office (ARDO) should request the Contractor to take the following actions: (a) the general journal book now being used should be eliminated. All checks issued by URMAG for project logistical support should be recorded in the project receipts and disbursements ledger designed for this purpose, and (b) after such steps are instituted, monthly operating statements should be prepared through which project management can more effectively exercise control over logistical operations.	23
4	The USAID/B General Services Office (IGGS) should assure that Property Disposal Authorization and Survey Report (Form FS-451) should be prepared in accordance with the provisions contained in M.O. 541.1.1 to determine the proper disposition of the inoperative Willys 3/4 Ton Truck, Motor No. 930924096 at Viçosa.	25
5	The USAID/B Agriculture and Rural Development Office (ARDO), in cooperation with the General Services Office (IGGS) should make a management evaluation of the need and utilization of Purdue University project vehicles. Vehicles excess to the needs of Contract No. AID-W-639 should be relinquished, or transferred to meet the operational requirements of other appropriate activities.	25
6	The USAID/B Program Office (ADPR) should consider establishing a system of numbering project agreements to adequately identify each specific project agreement and to facilitate the identification of separate project agreements terms and conditions.	27

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EXHIBIT FDISTRIBUTION OF  
REPORT ON EXAMINATION  
No. 36/69

	<u>COPY NO</u>
Minister William A. Ellis, Director, United States Agency for International Development Mission to Brazil	1
Dr. Herman Kleine, Deputy Director (DDOM) - USAID/B	2
State Department - The Honorable J.K. Mansfield, Inspector General of Foreign Assistance (IGA)	3
State Department - Mr. Jack B. Kubish, Country Director - Office of Brazil Affairs (ARA/BR)	4
AID/W - Executive Director (ARA-LA/MGT/EX)	5 - 6
AID/W - Office of the Controller, Audit Division (C/AUD)	7 - 11
AID/W - Special Assistant for Program Management (FMCA)	12 - 13
USAID/Panama - Inspector in Charge, Inspections and Investi- gations Staff (IIS)	14
USAID/B - Evaluations Officer (OPEV)	15
USAID/B - Office of Assistant Director for Program (ADFR)	16 - 17
USAID/B - Office of Management (ADMG/MGEX/MGMA)	18
USAID/B - General Services Office (MGGS)	19 - 20
USAID/B - Agriculture and Rural Development Office (ARDO)	21 - 22
USAID/B - Legal Staff (IGS)	23
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USAID/B - Office of the Controller (CONT)	25
USAID/B - Controller's Official File Copy	26
USAID/B - Audit Division (C/AUD)	27 - 31

NOTE: All audit work papers are attached to Copy No. 27 which is on file  
in the Office of the Controller, Audit Division (C/AUD), USAID/B.

ACTIVITY IDENTIFICATION IN U-425 REPORT

1) Page 5 of U-425 Report:

TECHNICAL ASSISTANCE

Agric. Ed. Univ. of Minas Gerais

512-11-110-094.1

2) Dollar Value Audited (in thousands):

Grant Funds      \$6,629

3) Man-Months Expended:

U.S.            2.5

Local          1.6

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