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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

**UNITED STATES A. I. D. MISSION TO BRAZIL**

**REPORT ON EXAMINATION**

**OF**

**ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST**

**STATE OF MINAS GERAIS**

**PROJECT AGREEMENT No. 512-11-640-037**

**FOR THE PERIOD**

**APRIL 20, 1964 THROUGH DECEMBER 31, 1966**



**OFFICE OF THE CONTROLLER**



**REPORT No. 28/67**

**COPY No. 6**

**DATE: MAY 26, 1967**

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

May 26, 1967

TO The Director of Mission  
Minister Stuart H. Van Dyke

This report of audit concerns the implementation of the program "Elementary and Basic Education in the Brazilian Northeast" as it relates to the State of Minas Gerais.

Pursuant to a loan agreement with SUDENE, USAID obligated NCr\$17.2 million (17.2 billion old cruzeiros) of Public Law 480, Title I funds for a program of school construction in 8 states of the Northeast. (NOTE: Although project agreements were all originally written in terms of old cruzeiros, for purposes of this report we are showing all sums in terms of new cruzeiros which are valued at 1,000 old to one new). Out of these loan funds, SUDENE made a grant to the State of Minas Gerais in the amount of NCr\$462,994 to assist in the State's education program. To date, NCr\$186,596 of USAID/B funds have been transferred to the project.

The Minas Gerais project agreement provided for the construction and renovation of 355 classrooms, the construction of a normal school and 6 supervisory centers as well as for the procurement of equipment and educational materials, plus teacher training. The program was administered by the State organization Comissão de Educação na Área Mineira do Polígono das Sêcas (CEPOL).

During the 32 months which have elapsed since the inception of the project, only 13 out of the planned 355 classrooms have been constructed. This represents less than 4 per cent of the physical objectives. Additionally the auditors found that construction of the normal school, which is only 30 per cent complete, has been stopped since June 1966 due to lack of funds. At present, CEPOL is insolvent and cannot meet its current bills, much less complete the normal school, and/or

other aspects of this program, unless further funds are forthcoming (page 5).

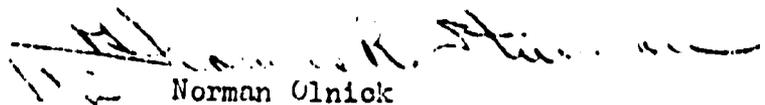
The teacher training and adult educational elements of the project also failed to reach its stated objectives. For example, only 342 non-certified teachers were trained out of 1,000 originally programmed. Furthermore, there was no training of illiterates although this had been expressed as a goal under the project agreement (page 9).

The examination further revealed that some classroom equipment purchased under this agreement had not been completely distributed (p.9).

CEPOL, which is responsible for administering the program, is geographically far removed from the location of its activities. This has resulted in a somewhat less than desirable level of contact and control of project activities (page 10).

In general the attached report is a recounting of similar deficiencies cited in our previous reports on Elementary and Basic Education projects in the Northeast. While inflation, which adversely affected 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.

As you know, the USAID formed a "Task Force" which on December 9, 1966 negotiated guidelines for an amendment to the loan agreement. These guidelines, which were incorporated into the amendment as "Conditions Precedent", require a corrective action program including certain steps for correction of performance deficiencies. Specific amendments to the eight project agreements further delineating corrective measures are now being finalized.



Norman Olnick

Controller

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

REPORT ON EXAMINATION  
OF  
ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST  
STATE OF MINAS GERAIS

SECTION I - GENERAL

A. SCOPE AND PURPOSE

We have examined the project "Elementary and Basic Education in the Brazilian Northeast - State of Minas Gerais". This was the initial examination of the project and covered the period from April 20, 1964 through December 31, 1966.

The principal objectives of our examination were to review and evaluate the effectiveness of program implementation as compared with objectives outlined in the project agreement and to determine the quality and effectiveness of financial and administrative management. Our examination was made in accordance with generally accepted auditing standards and included such tests of financial records, inspections, and discussions with USAID/B and State government officials as we considered necessary in the circumstances.

Before finalization, this report was reviewed with the appropriate USAID/B officials in the Northeast Area Office (NEAO) who expressed their general agreement with its contents.

B. BACKGROUND

On May 3, 1963, USAID/B extended a NCr\$10,800,000 (10.8 billion old cruzeiros) local currency loan (512-3-012) to the Superintendência de 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 NCr\$17,280,592; loan funds were generated from the Second Sales Agreement under Public Law 480, Title I. (NOTE: Although project agreements were all written in terms of old cruzeiros, for purposes of this report, we are showing all sums in terms of new cruzeiros, which were initiated in February 1967 and are valued at 1,000 old cruzeiros to one new cruzeiro).

On April 20, 1964, SUDENE, USAID/B, the Brazilian Ministry of Education and Culture (MEC), and the State of Minas Gerais entered into this project agreement whereby SUDENE agreed to make available to the State, as a grant, the sum of NCr\$462,944. Seven other states in Northeast Brazil entered into similar agreements. The Minas Gerais project agreement provided for construction and training programs to improve the basic elementary educational system in the north central section of the state. It was estimated (1960) that only 39.5 per cent of the school age population was served by schools and that illiteracy amounted to 78 per cent or greater. The program is administered by the State organization "Comissão de Educação na Área Mineira do Polígono das Sêcas" (CEPOL). A three year time period was originally established to accomplish the objectives of this project. The terminal date of the loan, originally December 31, 1966, has been extended on a month-to-month basis, and is currently set at March 31, 1967. Final contribution date under the project agreement is April 19, 1967.

#### C. CURRENT SITUATION

Because of the unsatisfactory implementation of the overall program in all 8 states covered under the umbrella loan agreement, USAID/B has initiated corrective measures. On December 9, 1966, a joint SUDENE/USAID "Task Force" negotiated guidelines for amendment of the loan agreement. The guidelines require, as loan conditions precedent, a corrective action program including specific procedures for correcting performance deficiencies to date and a revised education program, including future implementation activities under the loan. The states were notified of the required action in a meeting held on December 15, 1966. In addition, the states were notified not to spend any unused program funds in their

possession except to satisfy existing obligations. NEAO releases of USAID/B funds are also being withheld.

As in the other states, we found project implementation unsatisfactory, with accomplishments falling far short of highly overstated objectives. However, we found no evidence of questionable contracting or similar practices concerning this project. Our prior education audit reports contain recommendations which are generally applicable to all 8 educational projects, therefore there are only two recommendations contained in this report.

## SECTION II - FINDINGS AND RECOMMENDATIONS

### A. PROJECT PROGRESS

#### 1. Funding

A total of NCr\$642,994 was pledged by the signatories to accomplish project objectives. Through December 31, 1966, the State recorded receipts, disbursements, and bank balances as follows:

	<u>PLEGGED</u>	<u>PROVIDED</u>	<u>EXPENDED</u>	BALANCE (EXCLUDING INTEREST) <u>12/31/66</u>
USAID/B	NCr\$462,994	NCr\$186,596	NCr\$135,456	NCr\$ 1,140
State of M. Gerais	100,000	100,000	22,596	77,404
SUDENE	<u>30,000</u>	<u>80,000</u>	<u>79,346</u>	<u>654</u>
TOTAL	<u>NCr\$642,994</u>	<u>NCr\$366,596</u>	<u>NCr\$237,398</u>	<u>NCr\$79,198</u> *

\* Does not include interest earned of Cr\$767.

The funds provided were deposited in separate bank accounts. USAID/3 funds were deposited in the bank of Brazil, hereinafter referred to as the "USAID/3 account". Interest of NCr\$516 has been earned on USAID/B funds.

#### 2. Construction

The original project agreement provided for the construction, reconstruction, and repair of 355 school rooms, the equipping of 50 kitchens, establishment of 8 medical/dental health units in schools,

the construction of a normal school and 6 supervisory centers. In addition, the agreement provided for procuring audio-visual equipment, other basic instructional materials, and 9 vehicles. Another objective was training for 1,000 uncertified teachers, 40 supervisors, and 300 students, and literacy classes for 50,000 adolescents and adults (see also comments under Training, Section D). Of all the objectives set forth in this agreement only one has been attained. That attainment was the purchase of 9 vehicles, an objective fulfilled 100 per cent.

An original budget was prepared in April 1964, but it became evident by October 1965 that original goals and estimates were completely unrealistic. A revised monetary budget was prepared, and construction sites were narrowed down to 3 localities. The following table shows a comparison of actual program progress with objectives:

	<u>PROGRAMMED</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount Nov. 10/65</u>	<u>Number</u>	<u>Amount</u>
<b>Classrooms:</b>				
Construction			13	NCr\$422,163 <sup>1/</sup>
Reconstruction	355	NCr\$512,531	-	
Repair			-	
Normal school <sup>2/</sup>	1		1	
Supervisory centers	6		-	
<b>Equipment:</b>				
Kitchens	50		13	
Medical/Dental	8	15,763	-	50,528
Office equipment, desks	N.A.		N.A.	
Books	N.A.		-	
Audio-visual	N.A.		-	
Vehicles	9	59,312	9	54,388
Contingencies (administration)		424		690
<b>TOTAL</b>		<u>NCr\$588,030</u>		<u>NCr\$527,769</u>
Training (see Section D for details)		54,964		41,792
<b>GRAND TOTAL</b>		<u>NCr\$642,994</u>		<u>NCr\$569,561</u>

<sup>1/</sup> Includes NCr\$282,163 of accounts payable.

<sup>2/</sup> 30% completed.

As with all other education programs in the Northeast, inflation seriously affected the amount of construction work accomplished. It is nevertheless apparent that planned goals would not have been met even if prices had remained stable. Although construction goals were not attained, the quality of construction observed at 2 school sites was very good. Construction was performed by CARRPE, a state-owned company specializing in building, repair, and restoration of schools.

No maintenance program has been established as such under this program. However, we observed during our visit to Pirapora (4 completed classrooms) that adequate maintenance was evident. Since construction was not completed at the 2 other program sites, we were unable to determine the adequacy of maintenance, however, we were assured by responsible personnel that satisfactory maintenance will be provided as soon as construction is terminated.

The normal school shown in the above table, located in the city of Porteirinha, originally was to have been constructed with 3 buildings, the first of which was to provide living quarters for 120 teachers in training, including administrative offices, library, and a cafeteria. A second building was to contain 6 classrooms while the third was to have another 4 classrooms, complete with lavatory facilities. Plans to construct the third building have been abandoned. However, even under the reduced plan, construction is still only 30 per cent complete and has been stopped since June 1966, due to lack of funds.

At present, CEPOL is insolvent and will not be able to meet its current bills, much less complete the normal school, unless further funds are forthcoming. In order to meet current bills and complete the normal school, an estimated RCr\$78,567 are needed, as shown by the following summary of CEPOL's cash and estimated cash position.

Cash on hand, 12/31/66		Ncr\$ 79,198
USAID/B pledges	Ncr\$462,994	
Released	<u>186,596</u>	
Unreleased		<u>276,398</u>
Total funds available		Ncr\$355,596
Amount owed to CARRPE		<u>282,163</u>
Estimated cash on hand after paying CARRPE		73,433
Est. amount needed to complete normal school		<u>152,000</u>
Indicated cash shortage		<u>Ncr\$78,567</u>

The cash shortage is probably more serious than the above table indicates since 15 months time will be required to finish the normal school, and inflation will exact its inevitable toll so that a sum in excess of Ncr\$78,567 will be needed to complete the building.

Although we must necessarily deplore the inefficient planning and failure to achieve even minimal goals under this program, we nevertheless recognize that a normal school is vital to the conduct of any educational program. We therefore feel that every effort should be made to complete the normal school, with the State of Minas Gerais, SUDENE, the GOB Ministry of Education, or any combination thereof, to provide needed additional funds to be programmed in connection with USAID/B releases.

RECOMMENDATION No. 1

That the USAID/B/NEEO release the remaining USAID/B pledged funds only after CEPOL obtains the necessary financing to complete the construction of the normal school at Portoirinha.

B. CONTRACTING PROCEDURES

No bids were solicited for the school construction under this program since CEPOL had on September 8, 1964, entered into an agreement with CARRPE, a state owned company specializing in and responsible for the construction and reconstruction of school buildings and school rooms within the State of Minas Gerais.

The financing of construction costs is limited to direct reimbursement against vouchers of expenditures incurred. As of December 31, 1966, CEPOL had reimbursed CARRPE in the amount of Ncr\$140,000.

C. EQUIPMENT

We examined school equipment valued at NCr\$16,800 at the local supplier's warehouse in Bolo Horizonte, equipment purchased for the Montes Claros, Januária, and Mirabela schools originally planned. Due to inflationary conditions, the Montes Claros and Mirabela sites were cancelled. CEPOL has been maintaining the equipment in stock since May 1966.

We examined CEPOL's bidding system and found it adequate, including that for the purchase of vehicles, and also in accordance with generally accepted practices. CEPOL maintains a current log book for all equipment purchased under this program.

RECOMMENDATION No. 2

That the NEAO Education Branch request CEPOL to redistribute the school equipment originally purchased for the Montes Claros and Mirabela sites to other areas in the Polygon of Drought.

D. TRAINING

As of December 31, 1966, CEPOL had expended NCr\$41,792 of program funds for training activities. Programs compared to achievements are given below.

<u>Type of Training</u>	<u>PROGRAMMED</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Non-certified teacher	1,000	Ncr\$43,942	342	NCr\$32,648
Emergency teacher	300	9,450	28	7,497
Supervisors	40	1,572	12	1,647
Adult/adolescent literacy	50,000	-	-	-
TOTAL		<u>Ncr\$54,964</u>		<u>Ncr\$41,792</u>

Training activities were considerably reduced from the initial plan which was drawn up in April 1964. The original budget provided for the expenditures of NCr\$104,420 for training activities, an amount reduced to NCr\$54,964 as shown above. There was no budget for training of illiterates although this had been expressed as a goal under the project agreement.

It is significant that the sum of NCr\$17,900 was originally budgeted for vehicles. Eventual cost of such vehicles amounted to NCr\$54,388, much of which was at the expense of training funds. Since there will be no further funds available for training activities, we must question whether the State gained as much utility from the purchase of 9 vehicles as it would have from the training of additional teachers.

CEPOL's training program has fallen short of its goals, but fortunately other funds are available to upgrade the quality of teaching. During January and February 1967, the State Ministry of Education financed a special 7 weeks' course for 1,100 non-certified teachers. These courses were conducted in various localities in the Drought Polygon at a cost of NCr\$146,000. Also, SUDENE has agreed to contribute the sum of NCr\$48,000 to pay for the training of 180 non-certified teachers for a period of 8 months each.

Five members of the CEPOL organization had received training in the United States for periods ranging from 2 to 12 months. Three participants had gone to U.S. universities for 12 months for teacher training; one engineer had gone for 2 months under a program for school construction; the fifth trainee, coordinator for CEPOL, had gone for 11 weeks.

### E. CEPOL

This organization, charged with the administration of the program, consisted of 10 persons, including a director and 4 professional supervisory teachers. All of the employees were on the payrolls of other State government organizations and were serving CEPOL on a rotation basis. Normal office hours were from one to six o'clock daily.

We noted that the staff is located in Belo Horizonte rather than in the Drought Polygon where they are needed, some 300 miles to the north. This obviously reduces the effectiveness of control, etc., which is required for a project of this nature.

Of the 4 supervisory teachers, it was planned that one would be physically located in the Drought Polygon, with the other three remaining in Belo Horizonte but making frequent trips north. If the CEPOL

supervisory teachers were located in the city of Montos Claros, for example, which is at the center of the area being served, travel would be considerably reduced, and more frequent contacts with working elementary teachers would be possible. Living conditions in Belo Horizonte are superior to those encountered farther north, and it is our strong feeling that this factor may have influenced the choice of Belo Horizonte as the headquarters for CEPOL.

Inasmuch as there had been no construction activity since June 1966, we questioned why a large CEPOL organization was necessary when it was exercising only caretaking responsibilities. It is our opinion that the administrative activities of CEPOL could have been handled by one director and a part time typist. Other CEPOL employees could be returned to the organizations from whence they came. Inasmuch as CEPOL is a State-financed organization, we are making no recommendations concerning its operations.

F. SUDENE

SUDENE was assigned the responsibility of exercising controls on auditing, proper use of funds, checking plans, and inspecting and evaluating progress to ensure proper technical standards. Our review indicated that SUDENE had complied generally with its obligations. SUDENE auditors have made two trips to Belo Horizonte and field sites. We were informed that, due to SUDENE's laxity in approving plans, certain delays have been caused in the project construction schedule. In Januária, the construction work was delayed over 4 months, and in Porteirinha, it was stopped from March 3 to July 20, 1965 and again from June 1966 to February 28, 1967. At Porteirinha, as previously commented, there has also been a lack of funds to complete planned construction.

G. ACCOUNTING AND FINANCIAL REPORTING

We examined CEPOL's accounting and financial reporting insofar as they related to our audit and found them generally maintained in accordance with acceptable procedures. We found no significant accounting or reporting discrepancies.

LIST OF RECOMMENDATIONS

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1	That the USAID/B/NEAO release the remaining USAID/B pledged funds only after CEPOL obtains the necessary financing to complete the construction of the normal school at Porteirinha.	8
2	That the NEAO Education Branch request CEPOL to redistribute the school equipment originally purchased for the Montes Claros and Mirabela sites to other areas in the Polygon of Drought.	9

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EXHIBIT B

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No. 28/67

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file in the Office of the Controller, Audit Division (COAD), USAID/B.