

AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A. I. D. MISSION TO BRAZIL

ISO 21714

REPORT ON EXAMINATION
OF
ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST
STATE OF BAHIA
PROJECT AGREEMENT No. 512-21-640-037
FOR THE PERIOD
JULY 27, 1963 THROUGH DECEMBER 8, 1966



OFFICE OF THE CONTROLLER



REPORT No. 32/67

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

June 28, 1967

TO The Director of Mission
Minister Stuart H. Van Dyke

This report relates to an examination made by the USAID Controller's Office of Elementary and Basic Education in the Brazilian Northeast - State of Bahia - for the period July 27, 1963 through December 8, 1966.

This report represents the eighth and final report on education projects in the Brazilian Northeast.

A local currency loan of NCr\$10.8 million was entered into on May 3, 1963 and by subsequent amendments increased to NCr\$17.2 million. Additional financing has been provided by SUDENE.

The Bahia project agreement broadly provides for construction and training programs in order to improve the State's basic and elementary educational system.

Although more than two years have elapsed since construction began, only 11.5 per cent of the projected number of classrooms have been started and only 2 per cent have been completed. However, 55 per cent of the budgeted funds have been disbursed (p. 7).

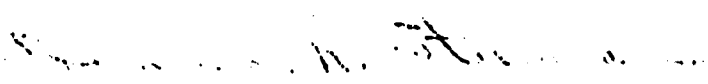
However, the quality of the work done to date appears good and as a result funds were released to the State for specific purposes in December 1966 (p. 5).

The State of Bahia, like all previous reports on the subject of northeast education projects, suffers from many of the same problems of the other states. Nevertheless, our impression is that the State of Bahia coped with its difficulties in a more effective manner than the other states. The following factors influenced this conclusion:

1. The State's decision, after its unsatisfactory initial experience with private contractors, to award the construction work to the mayors. The mayors appear to be doing a good job (pp.8-9)
2. The continually good supervision by the State (p. 10).
3. The construction quality appears to be good (p. 10).

The report contains three recommendations:

1. Request for detailed, definitive construction budgets (p. 12).
2. Request that the Consulting Engineering firm approve budgeted amounts prior to award of contracts and also approve readjustments to contract amounts. The resident engineer informed us that he is not being kept closely informed regarding construction budgets or readjustments to contracts (p. 14).
3. USAID/B determine what measures the State is taking concerning the use of kitchen equipment (p. 15).


Thomas R. Stuman
Acting 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 BAHIA
PROJECT AGREEMENT No. 512-21-64C-C37

SECTION I - GENERAL

A. SCOPE AND PURPOSE

We have examined the project "Elementary and Basic Education in the Brazilian Northeast - State of Bahia". This is the initial examination of the project and covered the period from July 27, 1963 through December 8, 1966.

The principal objectives of our examination were to review and evaluate the effectiveness of program implementation as compared with the 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 officials as we considered necessary under the circumstances. The audit was conducted jointly with SUDENE auditors who are issuing their own report.

Before finalization, this report was reviewed with 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\$10,800,000.00 local currency loan (512-G-012) to the Superintendência do Desenvolvimento

do Nordeste (SUDENE) for the improvement and expansion of basic education in the Northeast. The amount of this loan was increased later by two separate amendments to NCr\$17,280,592.00. The loan funds were generated from the Second Sales Agreement under Public Law 480, Title I.

On June 18, 1963, USAID/B, SUDENE, the Brazilian Ministry of Education (MEC), and the State of Bahia signed Project Agreement No. 512-21-640-139 under which SUDENE agreed to make available to the State, as a grant, the amount of NCr\$3,007,402.00, from USAID/B loan proceeds (a part of loan 512-G-012 noted above). Seven other Northeast Brazil States also entered into similar project agreements. The Bahia project agreement broadly provided for construction and training programs in order to improve the State's basic and elementary educational system. The program is administered by an organization specifically formed for this purpose, the Comissão Executiva do Convênio SUDENE/USAID/MEC/Estado da Bahia. A three year time period was originally established to accomplish the program's objectives. The terminal date for disbursements under the loan, originally set for December 31, 1966, was extended by 31 days to January 31, 1967. Final contribution date under the project agreement has been extended to April 30, 1967.

C. CURRENT SITUATION

Due to unsatisfactory implementation of the Northeast school construction program, the NEEAO formed a "Task Force" in March, 1966 to define problem areas and initiate corrective action. On December 9, 1966, a joint USAID-SUDENE "Task Force" negotiated guidelines for the amendment of the loan agreement. The guidelines require, as conditions precedent, a corrective action program including specific procedures for correction of performance deficiencies to date and a revised education program including specific implementation procedures for future activities under the loan. The states were notified of the required action in a meeting held on December 15, 1966. In addition, the re-

representatives of the State were notified not to spend any of the unused program funds in their possession except for existing obligations. NEAO releases of USAID/B funds were suspended.

In the case of the State of Bahia, an exception was made because it was the opinion of USAID/B/NEAO officials that project implementation generally was satisfactory. Therefore, in order not to penalize Bahia, funds for certain specific purposes were released to the State in December, 1966.

This is the eighth and final audit report on education projects in the Brazilian Northeast, and it contains recommendations applicable to the Bahia program, with particular emphasis on the procedures being used to implement that portion of the program financed with the December 1966 fund release.

SECTION II - FINDINGS AND RECOMMENDATIONS

A. FUNDING

1. General

A total of NCr\$3,949,867.00 was pledged by the signatories to accomplish the objectives of this program for the State of Bahia. Through December 8, 1966 the State recorded receipts and disbursements as follows:

	<u>PLEGGED</u>	<u>PROVIDED</u>	<u>BALANCE</u>
SUDENE - From USAID			
Loan	NCr\$3,007.40	NCr\$2,074.32	NCr\$ 933.08
State of Bahia	600.00	600.00	-
SUDENE - Other Sources	200.00	200.00	-
CONTAP	142.46	-	142.46
TOTAL	<u>NCr\$3,949.86</u>	<u>NCr\$2,874.32</u>	<u>NCr\$1,075.54</u>

The funds provided were deposited in separate accounts at the Banco do Estado da Bahia S.A. Cash balances as of December 8, 1966 were as follows:

	<u>PROJECT FUNDS</u>	<u>INTEREST EARNED</u>	<u>TOTAL</u>
SUDENE - From USAID			
Loan	NCr\$216,061.00	NCr\$5,378.00	Ncr\$221,439.00
State of Bahia	184,167.00	1,185.00	185,352.00
SUDENE - Other Sources	142,458.00	279.00	142,737.00
TOTAL	<u>Ncr\$542,686.00</u>	<u>NCr\$6,842.00</u>	<u>Ncr\$549,528.00</u>

Obligations for construction expenditures to be applied against the USAID/B and the State balances amount to NCr\$400,688.10.

2. Additional Fund Release

On December 19, 1966, an additional NCr\$706,260.11 was released under loan 512-G-012 by USAID/B. These funds were budgeted for the following specific purposes:

To complete certain schools under construction:

2nd Quarter Schools	NCr\$ 65,000.00
3rd Quarter Schools - 1st Phase	123,813.56

To inspect school construction 18,516.94

To purchase teaching materials 11,756.72

To construct 15 new schools
3rd Quarter Schools - 2nd Phase 487,172.79

TOTAL Ncr\$706,260.01

As a result only Ncr\$226,820.99 are presently available from USAID/B loan funds to finance project activities.

B. PROJECT PROGRESS

1. General

Through December 8, 1966, the State had expended NCr\$... 2,323,925.98 on the following activities:

	<u>SUDENE FROM</u> <u>USAID LOAN</u>	<u>STATE</u>	<u>SUDENE</u> <u>OTHER SOURCES</u>	<u>TOTAL</u>
	<u>Ncr\$</u>	<u>Ncr\$</u>	<u>Ncr\$</u>	<u>Ncr\$</u>
Construction	1,426,031.00	73,814.00	-	1,499,845.00
Reconstruction	87,370.00	807.00	-	88,257.00
Equipment	288,522.00	77,770.00	7,036.00	373,328.00
Training & Adult				
Literacy	4,478.00	8,118.00	50,106.00	62,702.00
Other	45,054.00	253,540.00	400.00	299,194.00
TOTAL	<u>1,852,255.00</u>	<u>414,129.00</u>	<u>57,542.00</u>	<u>2,323,926.00</u>

2. Construction and Reconstruction

a. Construction

The following summary compares the actual construction progress with the program objectives:

	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Classrooms:				
Completed			60	
Not completed			<u>262</u>	
Total Classrooms	2,800	NCr\$2,748,800.00	322	NCr\$1,487,067.00
Industrial Arts Work-				
shops	20	128,800.00	1	11,998.00
Regional Supervisory				
Centers	13	181,200.00	-	315.00
Teacher Training				
Centers	6	110,400.00	-	465.00
Curriculum and Superv.				
Center	1	<u>50,000.00</u>	-	<u>-</u>
TOTAL		<u>NCr\$3,219,200.00</u>		<u>NCr\$1,499,845.00</u>

Exhibit A presents a detailed breakdown showing construction and use of classrooms completed or under construction.

In the more than two years that have elapsed since construction began, only 11.5 per cent of the projected number of classrooms have been started and only 2 per cent have been completed. However, 55 per cent of the budgeted funds have been disbursed. Assuming that the schools underway and the 51 new classrooms planned are completed, as presently budgeted, the construction program will achieve only 13 per cent of its goal. Whether this goal will be accomplished is somewhat doubtful in view of the project history to date. Other construction goals also appear to be doubtful of accomplishment for the same reason. Only one of the twenty Industrial Arts Workshops will be built. None of the thirteen Regional Supervisory Centers or the six Teacher Training Centers will be built. A Curriculum and Supervision Center also will not be constructed.

Some of the reasons the project is not fulfilling its building goals are due to the following:

1. First and foremost is the inflation which has been harmful to Brazil during the last few years. This is reflected in the construction index for the State of Guanabara which increased nearly six-fold from 747 in 1962 to 4,249 in 1965. This increase is borne out by the Comissão's experience with its budgets. At the beginning of the program the construction cost per classroom was estimated at NCr\$2,020.00. The most recent budget estimates the cost per classroom at approximately NCr\$11.5 thousand. However, we understand that a current estimate would be even higher. From this we may gain an understanding of inflation's impact.

The reports of the Daly Co. gave early indication that the program would not achieve its goals. In its July, 1964 report the Daly Co. stated that only 35 per cent of the project's construction goals could be met under the funding plan. Subsequent events have shown even this estimate to be optimistic.

2. However, inflation alone is not the cause of not reaching the objectives of the program. In retrospect, it is apparent that the program's construction goals were beyond the capabilities of the Comissão and the contractors of the State. And as construction progress lagged the impact of inflation was accentuated.

The Comissão took a long time to become operational. Although the project agreement was signed in June, 1963 and the first request for funds was made in February, 1964, the Comissão was not ready to begin construction when the funds finally were released by the reviewing and approving agencies in July, 1964. The first construction contracts were signed in September, 1964.

Originally, the State intended to accomplish the work by awarding contracts to low-bidding contractors. Three bid openings were held. The first two were not satisfactory due to bid irregularities, apparent collusion, and lack of bidders. At the third bid opening, some contracts for new construction and repair work were awarded. In other

cases, the State refused to award contracts because the bid amounts were twice the amount of the estimates. Eventually, the State decided to negotiate contracts with the mayors of the cities in which the schools were to be located.

Once construction began other difficulties began to hinder progress. It became apparent that the Comissão's personnel were inexperienced and that the size of the program was beyond their capabilities. There was a lack of leadership in the architectural and engineering departments. Thus, construction plans suffered and proper operating procedures had not been instituted as stated in the consulting engineers reports. In addition there were shortages of material, particularly cement, which delayed construction by months and a lack of skilled craftsmen. It was obvious that the scheduled construction period of three months per school was unrealistic. In June, 1965, only one school had been completed within 5 months, and the majority required ten to eleven months to complete.

Throughout the project's existence there appears to have been difficulties in synchronizing the roles of USAID/B, SUDENE, the Comissão, and the Daly Co. This is evidenced by the delays that were encountered in resolving the problems which confronted the project.

The foregoing briefly summarizes the difficulties which have afflicted the construction portion of the project. To a certain extent they are the same as those which the other states have encountered. Nevertheless, our impression is that the State of Bahia coped with its difficulties in a more effective manner than the other states. The following factors influenced this conclusion:

1. The State's decision, after its unsatisfactory initial experience with private contractors, to award the construction work to the mayors. Based on the Daly Co. reports, the construction work performed by the mayors has been superior to that performed by contractors. Contracts for eight new schools were awarded to contractors. Three of these were cancelled for non-performance and the work was taken over by the mayors

of the localities. On the remaining five schools the quality of the work was not particularly satisfactory and their cost was more than those built by the mayors. Taking all factors into consideration, it appears that the mayors in the State of Bahia can administer the technical aspects of school construction. However, funding administration is a problem as stated on pages (pp.7-8). The municipalities have access to materials and, since even the smallest has a public works program, workmen and a foreman usually are available. Also, many of the mayors consider they have a political obligation to construct schools for their communities. Naturally, the quality of the construction work performed by the mayors varies as noted in item 3 below. The Daly Co. reports indicated that in communities which had a neat, well-cared for appearance the quality of the schools constructed was better than in communities which looked decrepit and run-down. In general, this impression was confirmed during our field trip.

2. A factor which reflects favorably on Bahia's program is the continuing supervision that is being given to construction in progress. We were able to observe that both the Comissão's engineering staff and the Daly Co. engineers are seeking and identifying problems and then taking the action to remedy them. It should be noted in this connection that, as in the past, the Comissão is short of field inspectors. Adequate inspection of the constructions is being accomplished, however, through the strenuous efforts of the Comissão and Daly Co. personnel.

3. Another factor which favorably impressed us was the construction quality of the new schools. During a field trip we visited eight schools that were either completed or under construction. Our observations indicated that those completed were being used. We did not notice any obvious construction defects. In several instances the municipalities had built stone walls around the schools and made other improvements, including additional classrooms, which were paid from their own funds. The schools were well-maintained and ranged from

three to eight classrooms in size. These schools are impressive buildings and are a definite asset to the communities in which they are located. Nevertheless, there were 12 cases of serious construction deficiencies. We were informed by the Daly Co. resident engineer that measures have been and are being taken to correct the defects.

The Daly Co. reported to us that the cost per classroom is less in Bahia than in the other states.

Included in the December 1966 fund release is NCr\$189 thousand to complete the 262 classrooms underway and NCr\$487 thousand to construct 51 classrooms in the second phase of the 3rd Quarter.

A total of 26 schools lack a water supply for drinking and sanitary purposes. A substantial portion of these funds will be used to solve this problem. This will require digging wells, extending pipe systems, or making other arrangements for sanitary facilities and drinking water. A comprehensive survey of the water situation for all the schools has been made by the Daly Co. and a program of action is being evolved by the State.

It is not likely that the 51 classrooms will be constructed at the budgeted cost of NCr\$487 thousand. Dr. Mansur, Coordinator of the Comissão, informed USAID that, due to a substantial reduction in the mayors' budgets the mayors would no longer be able to contribute funds, labor, nor material for construction of the school buildings. Because of this budget problem the financial aspects for completing this project are further magnified. At the end of January, 1967, Dr. Mansur, Coordinator of the Comissão, indicated that he would request USAID/B and SUD.212 to approve the reduction of the number of classrooms to 40 and to increase the funding by NCr\$25 thousand. Also, a detailed budget for the NCr\$189 thousand to complete 2nd and 3rd Quarter Schools had not been prepared at the time of our audit.

It is our opinion that definitive construction budgets for the funds released in December 1966 should be prepared. By setting construction goals now, a measure of control over construction progress can be obtained.

RECOMMENDATION No. 1

That USAID/B NEHEIN require the Comissão to prepare detailed, definitive construction budgets for (1) the NCr\$189 thousand for the completion of schools in progress, (2) the NCr\$487 thousand for construction of new schools.

During our examination we learned that work has been halted on seven 3rd Quarter schools in Ibirataia, Itabuna, Iteororó, Floresta Azul, and Santa Cruz da Vitória. We were not able to ascertain the reasons for the stoppages. Although the USAID/B/NEAO probably would learn of this situation in the course of events, we consider it worthwhile to mention.

b. Reconstruction

Actual reconstruction as compared to that programmed is presented below:

	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Classrooms:				
Completed			94	
Not completed			25	
Total	1,000	NCr\$63,650.00	119	NCr\$68,595.00
Normal Schools	2	20,000.00	1	19,662.00
TOTAL		NCr\$83,650.00		NCr\$88,257.00

The same factors that hindered new construction also caused this part of the program to fall short of its goals. Although the expenditures were classified as reconstruction, they were more in the nature of repairs to roofs, electrical and sanitary systems, etc. We were informed by the Daly Co. resident engineer that these expenditures made it possible to continue using schools which otherwise would have been unusable.

The State decided to discontinue school reconstruction because this method has shown itself to be an uneconomical way of providing additional classrooms.

During our field trip we visited some schools where reconstruction work had been performed. According to the Daly Co. field engineer the work at two locations in Feira de Santana, Escola Maria Quitéria and Escola João Florêncio, was not satisfactory. Both jobs had been done by contractors.

We concluded that the decision not to reconstruct any more schools appears sound.

c. Contracting Procedures

The State originally intended to perform all construction work by awarding contracts to low-bidders. Three bid openings were held. The first was cancelled because of bid irregularities and apparent collusion. The second was considered unsatisfactory because only one bidder responded. On the basis of the third bid opening some contracts for new schools were awarded. Contracts for reconstruction also were awarded, even though it was obvious that collusion was present since the bidders obtained the contracts apparently on a predetermined basis. In the case of new construction, however, it was noted that the low bid amounts were twice the amount of the estimates. Consequently, the State resolved to award the work to the mayors of the municipalities where the schools are located.

The Comissão entered into 90 construction and reconstruction contracts with mayors and 15 with contractors. The total amount of these contracts originally was NCr\$1,705,747.00 for construction and NCr\$81,797.61 for reconstruction. Subsequently, the contract amounts were readjusted, and an additional NCr\$133,302.00 was advanced for construction. From a practical standpoint the adjustments probably had to be made to avoid a complete halt in construction. However, there were no provisions in the contracts providing for these readjustments, nor were we able to determine the basis on which the readjustments were made. Based on our examination it appeared that the Daly Co. has not performed any functions in getting either the original contract amounts or the readjustments made subsequently. Furthermore,

the Daly Co. resident engineer informed us that he is not being kept closely informed regarding the construction budgets presently being prepared. It is our opinion that the Daly Co. resident engineer should be closely involved in budget preparation and should have the authority for approval of the contract amount. This also conforms to the requirements of the Daly Co. contract.

RECOMMENDATION No. 2

That USAID/B INEEIN require the Comissão to obtain the approval of the Lee A. Daly Co. resident engineer for the budgeted amount of each school before the contracts are signed with the municipalities and for any future readjustments of the contract amounts.

Recommendations No. 1 and No. 2 do not aim at preventing future readjustments, if warranted by conditions. However, they do aim at imposing budgetary control over construction to be undertaken in the future.

Our examination revealed that, in many instances, the entire contract amounts were paid to the mayors, although the schools had not been certified as complete by the Daly Co. In most cases these schools were 97 to 99 per cent complete. Generally, this means that the schools lacked either plaques, water, or electricity, or that minor construction defects needed correction.

One of the conditions precedent to the December, 1966 fund release is that the State agree to obtain approval of the Daly Co. before making final payments.

3. Maintenance of Schools

At present the State has neither a regular maintenance program nor the funds to institute one. The State has signed contracts with the municipalities to provide schools maintenance. The "Task Force" considers the lack of schools maintenance to be a serious problem in Bahia and is initiating corrective action.

4. Equipment

The State disbursed NCr\$376,029.04 of project funds on the following items:

	<u>SUDENE FROM USAID LOAN</u> NCr\$	<u>SUDENE OTHER SOURCES</u> NCr\$	<u>STATE</u> NCr\$	<u>TOTAL</u> NCr\$
Classroom Furniture	210,343.00	-	52,722.00	263,065.00
Kitchen Equipment	21,530.00	7,036.00	86.00	28,652.00
Training Center Equipment	-	-	2,208.00	2,208.00
Supervisory Center Equipment	4,916.00	-	3,302.00	8,218.00
Office Equipment	3,474.00	-	7,234.00	10,708.00
Vehicles	48,259.00	-	12,218.00	60,477.00
TOTAL	288,522.00	7,036.00	77,770.00	373,328.00

Except for part of the classroom furniture, competitive bidding was not adopted for the purchase of furniture, equipment, and vehicles. However, we found no indications that excessive prices were paid. Most of the purchases were made directly from manufacturers. Except for two that were in major accidents, all vehicles were well-maintained and operating. Minor repairs and maintenance are performed promptly.

The equipment purchased for school kitchens, most of which has been distributed, is not being utilized to its full extent because the State has not instituted a school lunch program. The State apparently does not have a well-defined plan in this area.

RECOMMENDATION No. 3

That the USAID/NEHR determine what measures the State intends to take regarding the use of school kitchen equipment.

Adequate inventory records were kept for equipment, vehicles, and furniture purchased with project funds. No instances of unauthorized use were noted. All equipment and furniture which we inspected during our field trip was well-maintained.

5. Training

As of December 31, 1966, the State had spent NCr\$62,701.89 of program funds on training activities. This is compared below with program objectives:

	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Lay Teacher Training	3,000	NCr\$55,950.00	248	NCr\$21,696.00
Technical Personnel Training	130	24,495.00	19 ^{3/}	3,362.00
Training Center Teachers	-	6,000.00	-	-
Supervisory Training	100	29,900.00	57 ^{2/}	3,039.00 ^{1/}
Adult Literacy Training	-	165,227.00	3,496 ^{2/}	34,605.00
TOTAL		<u>NCr\$281,572.00</u>		<u>NCr\$62,702.00</u>

- 1/ Funds expended are for materials. Training of 57 supervisors was financed from other sources.
- 2/ Includes training of 142 instructors.
- 3/ Participant training financed through PIC/Ps.

The program also has lagged in achieving its training goals, the reason being that the State has refused to put a higher priority on training. This is borne out by the relatively small amount of budgeted funds spent on training. The problem in this area seems to be a lack of coordination between the Comissão and the State Education Department. According to the Secretary of Education adult literacy will be given low priority in the future. According to the "Task Force" teacher training has not been given high priority and there is no coordination between the construction and teacher training program. In addition, there is under-utilization of high-level personnel who have received training in the United States as participants. However, there is apparently no under-utilization of schools due to a lack of qualified teachers.

6. REPORTING, ACCOUNTING, AND STUDENT AUDITING PROCEDURES

1. Reporting

According to the project agreement the State was required to submit quarterly expenditure reports; this has not been done.

This accentuated the lack of financial control over the project.

The Leo Daly Co. rendered monthly reports until January 1966, when due to slow progress of construction they were changed to bi-monthly progress reports. We found all reports to be generally accurate and informative. As we have pointed out in our other audit reports, we feel that more effective use could have been made of the consultant's reports.

2. Accounting

Separate accounting records were kept for the project. We examined and evaluated the records and found them to be in accordance with generally acceptable accounting principles and practices. Instances of incorrect expense classification were noted and brought to the attention of the accountant for correction.

3. SUDENE Auditing Procedures

SUDENE performs mainly "desk audits" of the State's expenditure reports. In our opinion, SUDENE has not performed adequately in the audit nor technical inspections of school construction, both of which are important and the responsibility of SUDENE.

D. PUBLICITY AND MARKING

We found the project had received favorable press coverage and USAID/B contribution was recognized.

The schools which we visited all had permanent plaques, if complete, or signs, if under construction. Daly Co. does not certify a school as complete if it lacks plaques.

Neither plaques alone nor initial publication of a project really gives any lasting impact or wide coverage to the people of Brazil concerning the Alliance for Progress. It is suggested that methods be developed to continuously cover projects from inception to projects conclusion.

EXHIBIT ACONSTRUCTION - NEW SCHOOLS

	<u>IN USE</u>		<u>NOT IN USE</u>		<u>TOTALS</u>	
	<u>Build-ings</u>	<u>Class-rooms</u>	<u>Build-ings</u>	<u>Class-rooms</u>	<u>Build-ings</u>	<u>Class-rooms</u>
<u>2nd Quarter</u>						
Completed	12	60			12	60
Not Completed:						
No additional funding required	12 ^{1/}	53	1	3	13	56
Additional funding required	11	47	11	40	22 ^{2/}	87
Sub-Total	35	160	12	43	47	203
<u>3rd Quarter</u>						
Not Completed			32	119	32 ^{3/}	119
GRAND TOTAL	<u>35</u>	<u>160</u>	<u>44</u>	<u>162</u>	<u>79</u>	<u>322</u>

C O M M E N T S

By definition of the Daly Co., schools are considered not completed if they lack electricity, a water supply for sanitary and drinking purposes, plaques, or if they have minor construction defects which require correction. As shown above many of these schools are in use.

- 1/ The 12 second quarter schools not completed, but in use, which do not require additional financing are 97 to 99 per cent complete. These lack either water or electricity, both being readily available, or plaques.
- 2/ The total of 22 second quarter schools which require additional funding range in completion from 43 to 99 per cent. Eleven are over 98 per cent complete, three are over 90 per cent complete, five are over 80 per cent complete, and two are 43 per cent and 48 per cent complete. The majority of the schools in the higher ranges of completion lack a readily available water supply. Generally in these cases, either wells must be dug, extended pipe systems laid, or other arrangement for sanitary facilities made. The cost of completion these second quarter schools is budgeted at NCr\$65 thousand.
- 3/ Schools included in the third quarter range from 15 to 85 per cent complete and their cost of completion is budgeted at NCr\$124 thousand.

SUMMARY OF RECOMMENDATIONS

<u>Number</u>		<u>Page</u>
1	That USAID/B NEEIN require the Comissão to prepare detailed, definitive construction budgets for (1) the NCr\$189 thousand for the completion of schools in progress, (2) the NCr\$487 thousand for construction of new schools.	12
2	That USAID/B NEEIN require the Comissão to obtain the approval of the Leo A. Daly Co. resident engineer for the budgeted amount of each school before the contracts are signed with the municipalities and for any future readjustments of the contract amounts.	14
3	That USAID/B NEHR determine what measures the State intends to take regarding the use of school kitchen equipment.	15

EXHIBIT C

DISTRIBUTION OF
REPORT ON EXAMINATION
No. 32/67

	<u>COPY No.</u>
Minister Stuart H. Van Dyke, Director, United States Agency for International Development to Brazil	1
Mr. William A. Ellis, Deputy Director (DDOM) - USAID/B	2
Mr. Shepard J. Hollander, Associate Director (HEAD) - USAID/B/NEAO	3
State Department - The Honorable J.K. Mansfield, Inspector General of Foreign Assistance (IGA)	4
AID/W - Executive Director (ARA-LA/MGT/EX)	5 - 6
AID/W - Office of the Controller, Audit Division (C/AUD)	7
American Embassy, Rio de Janeiro - Mr. Frank J. Carlucci, Executive Officer (EMEG)	8
USAID/B - Office of Technical Cooperation (ADPS)	9
USAID/B - Office of Technical Cooperation (DDP)	10
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NOTE: All audit work papers are attached to Copy No. 26 which is on file in the Office of the Controller, Audit Division (COAD), USAID/B.