

AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A. I. D. MISSION TO BRAZIL

ISN = 24721

BH

REPORT ON EXAMINATION
OF
ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST
STATE OF PIAUI
PROJECT AGREEMENT No. 512-22-640-037
FOR THE PERIOD
JULY 30, 1963 THROUGH NOVEMBER 30, 1966



OFFICE OF THE CONTROLLER



PiAUI

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

January 25, 1967

TO The Director of Mission
Minister Stuart H. Van Dyke

In response to your request to audit the "Elementary and Basic Education in the Brazilian Northeast" program as carried out in the four remaining Northeast states, we have completed an examination of the project in the State of Piauí. Our report covers the period July 30, 1963 through November 30, 1966.

Pursuant to a loan agreement with SUDENE, USAID obligated Cr\$17.2 billion of Public Law 480 Title I funds for a program of school construction in 8 states of the Northeast. Out of these loan funds, SUDENE made a grant to the State of Piauí in the amount of Cr\$2,254 million to assist in the State's education program. To date, Cr\$1,808 million of USAID/B funds have been transferred to this project.

The Piauí project agreement provided for the construction of 1,000 classrooms, 4 normal schools, 3 supervisory centers, 10 industrial workshops, and 10 medical-dental units. It provided also for the "reconstruction" of 230 classrooms and 1 normal school, as well as for the procurement of equipment and educational materials, plus teacher training. The program was administered by the State organization, "Serviço Cooperativo de Educação do Piauí" (SECEP).

As in the case of the other 5 state programs, implementation of this project has been unsatisfactory. Significant deficiencies found in the program are cited below.

1. During the more than 3 years that have elapsed since the inception of the project, only 121 out of the planned 1,000 class-

rooms have been completed while 64 are partially completed. One normal school has been completed while other goals have not been met at all. In percentage terms, only 18 per cent of the programmed classrooms have been started while 70 per cent of funds available from all sources have been expended (pp. 6-8).

2. Inflation seriously affected the success of the program, but it is doubtful if objectives would have been met even had prices remained stable. SECEP appeared unable to utilize the funds made available; further, SECEP was never staffed to carry out a program of the magnitude called for in the project agreement. A shortage of contractors and building materials in the State of Piauí was cited (pp. 8-9).

3. No bids were solicited for the school construction. Political motives appear to have governed contractor selection in that the former State Secretary of Education made all of the awards by direct selection. Twenty-six of the 48 contracts were awarded to town mayors. Twenty of the 48 contracts awarded were subsequently adjusted upward without the approval of SUDENE or USAID. Penalty clauses were not enforced (pp. 10-11).

4. No maintenance program has been formally established by the State although most of the completed schools are already in need of maintenance. The auditors noted leaking roofs, inoperative plumbing, broken floor tiles and blackboards, fading paint, cracked walls and foundations (p. 11).

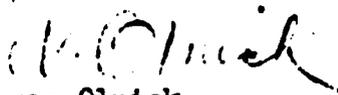
5. SECEP did not maintain adequate inventory procedures for classroom furniture procured. Broken furniture was usually not repaired, and there was no maintenance program for school furniture (pp. 12-13).

6. Eleven vehicles were purchased with program funds, the first of these having been an Aero-Willys passenger sedan which was bought for the exclusive use of the Secretary of Education (p. 12)

7. The system of supervisory control and training has not functioned properly; the system lacks well defined procedures and policies. Supervisors were not doing the jobs assigned to them in that they were working as teachers at specific schools or were working only in the central cities and not in the regions (pp.13-14).

8. Reporting by SECEP on financial and physical progress of the project was generally inadequate, and SUDENE had not effectively executed its responsibilities for providing technical assistance and exercising project control (p. 14).

As you know, because of the unsatisfactory implementation of this entire program, the USAID formed a "Task Force" which on December 9, 1966 negotiated guidelines for amendment of the loan agreement. The guidelines require a corrective action program including specific steps for correction of performance deficiencies and for revised and more effective procedures. All 8 States were notified of the actions required and were further notified not to spend any of the unused program funds except for existing obligations. NEAO releases of USAID/B funds are being withheld (pp.5-6). In view of the Task Force actions, we are making no specific recommendations in this report for corrective action.


Norman Olnick
Controller

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES - A. I. D. MISSION TO BRAZIL
c/o American Embassy - Rio de Janeiro, Brazil
OFFICIAL BUSINESS

UNCLASSIFIED

January 25, 1967

Agency for International Development
Executive Director (ARA-LA/MDT/IK)
Bureau for Latin America
Washington, D.C. 20523

Gentlemen:

Mission-Issued Audit & Survey Report Containing
Findings and Recommendations

In compliance with M.O. 798.2 dated August 2, 1965, attached are
Copies No. 4 and No. 5 of the following report:

<u>Report No.</u>	<u>Date</u>	<u>Findings</u>
n 17/67	1/20/67	The report contains no recommendation.
n Report on Examination of Elementary and Basic Education in the Brazilian Northeast - State of Piaui - Project Agreement No. 512-22-640-037 - for the period July 30, 1963 through November 30, 1966.		

Sincerely yours,

Original signed by:

H. Olnick

Norman Olnick
Controller

Encs: Report No. 17/67
(Copy No. 4 & No. 5)

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Piauí

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

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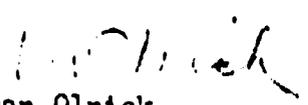
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AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A.I.D. MISSION TO BRAZIL

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

SECTION I - GENERAL

A. SCOPE AND PURPOSE

We have examined the project "Elementary and Basic Education in the Brazilian Northeast - State of Piaui". This was the initial examination of the project and covered the period from July 30, 1963 through November 30, 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 government officials as we considered necessary in the circumstances. The audit was conducted jointly with SUDENE auditors who are issuing their own separate report.

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 Cr\$10,800,000,000 local currency loan (512-G-012) to the Superintendência do Desenvolvimento do Nordeste (SUDENE) for the improvement and expansion of basic education in the Northeast. The amount of this loan was later increased by two separate amendments to Cr\$17,280,592,000. These loan funds were generated from the Second Sales Agreement under Public Law 480, Title I.

On July 30, 1963, SUDENE, USAID/B, the Brazilian Ministry of Education and Culture (MEC) and the State of Piauí entered into Project Agreement No. 512-22-640-037 under which SUDENE agreed to make available to the State, as a grant, the amount of Cr\$2,254,715,000 from USAID/B loan proceeds. Seven other Northeast Brazil States also entered into similar project agreements. The Piauí 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 the State organization "Serviço Cooperativo do Educação do Piauí" (SECEP). A three year time period was originally established to accomplish the objectives. The terminal disbursement date of the Loan, originally December 31, 1966, was extended 31 days to January 31, 1967. Final contribution date of the project agreement has been extended to April 30, 1967.

C. CURRENT SITUATION

Because of the unsatisfactory implementation of the program, the NEAO formed a "Task Force" in March, 1966 to define problem areas and initiate corrective actions. 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 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, they were notified not to spend any of the unused program funds in their possession except for existing obligations. NEAO releases of USAID/B funds are also being withheld.

This is the sixth audit report on educational projects in the Brazilian Northeast. Because the prior reports contained recommendations for corrective action which are generally applicable to all educational projects, including the State of Piauí, and in view of the above "Joint Task Force" efforts, no further recommendations are contained in this report. The status of the project as of November 30, 1966 is reported in the following section.

SECTION II - FINDINGS AND RECOMMENDATIONS

A. FUNDING

1. General

A total of Cr\$2,779,933,000 was pledged by the signatories to accomplish the objectives of this project. Through November 30, 1966 the State recorded receipts and disbursements as follows (000 omitted):

	<u>Pledged</u>	<u>Provided</u>	<u>Expended</u>
USAID/B	Cr\$2,254,715	Cr\$1,808,220	Cr\$1,353,015
State of Piauí	300,000	200,000	77,782
SUDENE	150,000	150,000	138,014
CONTAP	<u>75,218</u>	<u>-</u>	<u>-</u>
Total	Cr\$2,779,933 *****	Cr\$2,158,220 *****	Cr\$1,568,811 *****

The funds provided were deposited in separate accounts at the Banco do Estado do Piauí S.A, hereinafter referred to as the "USAID/B account". Cash balances as of November 30, 1966 were (000 omitted):

	<u>Project Funds</u>	<u>Interest</u>	<u>Total</u>
USAID/B	Cr\$455,205	Cr\$19,807	Cr\$475,012
State of Piauí	122,218	1,007	124,105
SUDENE	<u>11,986</u>	<u>1,386</u>	<u>13,372</u>
Total	Cr\$589,409 *****	Cr\$23,080 *****	Cr\$612,489 *****

Obligations against the USAID/B account total Cr\$18,000,000 and represent unpaid contract balances.

The State of Piauí is Cr\$100,000,000 in arrears in its contributions. The "Joint Task Force" guidelines provide that the State either pay its arrears in full before entering into a revised project agreement or, if the State cannot pay in full, the revised project agreement will limit USAID disbursements based on a State/USAID contribution schedule. The State contribution can be no less than its total arrears.

The Technical Cooperation Council of the Alliance for Progress (CONTAP) pledged Cr\$75,218,000 to the project on July 1, 1966. No disbursements have been made to the State.

2. Programming Funds

The State has not been able to fully utilize the monies contributed. During the three and one-half year project time period, the State submitted three requests for funds. At the time of the second request, 53 per cent of the funds received under the first request had not been obligated. At the time of the third request, 48 per cent of the funds previously received had not been obligated. Forty-two per cent of the one billion cruzeiros received from USAID/B in September, 1965 had not been obligated as of November 30, 1966. Of the 200 million cruzeiros contributed by the State, 122 million (61%) remains on deposit as of November 30, 1966. The last deposit made by the State was December 30, 1965. Inflation has, and is continuing to have its attenuating effect on the unutilized funds.

The "Joint Task Force" negotiated guidelines provide that the State must develop realistic, detailed plans for the use of all balances or the balances will be withdrawn. SUDENE and USAID must approve any plans.

B. PROJECT PROGRESS

1. General

Through November 30, 1966, the State had expended Cr\$.... . 1,568,811,000 on the following activities (000 omitted):

	<u>USAID</u>	<u>SUDENE</u>	<u>State</u>	<u>Total</u>
Construction	Cr\$1,143,452	Cr\$ -	Cr\$ -	Cr\$1,143,452
Reconstruction	32,009	-	21,150	53,159
Equipment	57,950	137,984	6,662	202,596
Training	89,982	-	10,663	100,645
Other	<u>29,622</u>	<u>30</u>	<u>39,307</u>	<u>68,959</u>
Total	Cr\$1,353,015 -----	Cr\$138,014 -----	Cr\$77,782 -----	Cr\$1,568,811 -----

2. Construction and Reconstruction

a. Construction

The following summary compares the actual construction progress with the programmed objectives (000 omitted):

	<u>PROGRAMMED</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Classrooms:				
Completed			121	Cr\$ 588,261
Not completed			64	554,291
Total Classrooms	1000	Cr\$1,612,800	185	Cr\$1,142,552
Normal Schools	4	126,800	1	-
Supervisory Centers	3	30,960	-	900
Industrial Workshops	10	197,100	-	-
Medical-Dental Units	10	<u>65,700</u>	-	-
Total		Cr\$2,033,360 -----		Cr\$1,143,452 -----

During the three and one-half year period since the inception of this project only 18 per cent of the programmed classrooms have been started and 70 per cent of the applicable funds have been spent. Except for Cr\$900,000 spent on supervisory center building designs, none of the other programmed construction funds was used. The State built one of the programmed normal schools (Parnaíba) with federal funds (MOC). The amount programmed for medical-dental units represents construction and equipment items. In our visit to schools, we saw two portable dental units installed in classrooms. The units and technicians were financed by the GOB Public Health Service.

Inflation seriously affected the success of this program. For example, the construction index for the State of Guanabara, which

can be used for illustrative purpose, increased nearly sixfold from 747 for 1962 to 4,249 for 1965. Original goals are, therefore, unattainable. While inflation adversely affected classroom construction, it is doubtful if objectives would have been reached had prices remained stable. As noted in the funding section of this report, SECEP, based on their own programmed goals, was unable to utilize the funds made available. SECEP was late in organizing an administrative vehicle to carry out the program and was never adequately staffed to carry out a program of the magnitude called for in the project agreement. Construction starts were slow and construction periods of over one year were not uncommon. Two years after the contract date, some schools are still not completed. SECEP stated that there is a great shortage of qualified contractors and building materials in the State of Piauí, a fact borne out by the deficiency reports of the Leo A. Daly Co., architect/engineering firm selected by AID/W to approve and supervise construction. In turn, the Daly Co. was not operational until the end of 1964 and was not able to provide technical assistance and supervision during the formative stage of the program. SUDENE provided little technical assistance or supervision due to a limited engineering staff.

Tentatively, future construction under this program will be limited to three supervisory centers and two normal schools. The locations selected include the capital city and three of the larger towns in the State. Hopefully, this will eliminate the contractor and building material shortages. However, because of SECEP and the States overall deficiencies in human and material resources, SUDENE and the NEAO are in agreement that procedures and controls must be strengthened for the successful completion of the proposed construction. This topic is discussed further in 2 o. "Contracting Procedures".

b. Reconstruction

Actual versus programmed reconstruction is compared below (000 omitted):

	<u>PROGRAMMED</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Classrooms	230	Cr\$134,500	67	Cr\$53,159
Normal Schools	1	10,000	-	-
Total		Cr\$144,500 -----		Cr\$53,159 -----

Sixty-two classrooms (14 schools) were rehabilitated using Cr\$.... 32,009,000 of USAID/B funds. Five classrooms (one school) were rehabilitated using Cr\$21,150,000 of State funds. All school rehabilitation financed from USAID/B funds was done simultaneously with the addition of new classrooms. We found that most of the work performed met the definition of rehabilitation, i.e., to improve the safety, sanitary or structural condition of the school. (But see paragraph three on Construction/Maintenance problems).

c. Contracting Procedures

No bids were solicited for the schools constructed under this program. Political motives appear to have governed contractor selection. The former State Secretary of Education, who is now a federal deputy, made all of the awards by direct selection. Twenty-six of the 48 contracts were awarded to town mayors. SECEP's reason for using the direct selection basis was that previous bid proposals, submitted through public bidding, were usually much higher than SECEP's own basic estimates. SECEP was unable to furnish us with documentary evidence in support of this claim.

Of the 48 contracts awarded based on direct contractor selection, 20 were subsequently adjusted upward without the approval of SUDENE or USAID. In November 1966, SECEP requested permission to adjust upward 17 additional contracts. Again SECEP was unable to furnish supporting documentary evidence and permission was denied as original contract prices were determined to be reasonable for the applicable contract periods.

SECEP did not observe the payment clause and did not enforce the penalty clause of the construction contracts. Most of the

construction time was in excess of that allowed by the contracts. The penalty clause was not exercised. The payment clause, except for the initial advance, was based on various stages of physical completion. A review of progress payments for the uncompleted classrooms disclosed that all but three of the 16 contractors have already received full payment. Construction on the uncompleted schools is either stopped or greatly reduced.

The "Joint Task Force" guidelines provide that the project agreement amendment will require SUDENE and USAID approval of all future contracts. The financing of construction costs will be limited to direct reimbursement for work completed and accepted. In addition, the amendment will require the acceptable completion of the uncompleted schools and correction of all existing construction deficiencies prior to the release of further USAID/B funds.

3. Maintenance

No maintenance program has been formally established by the State. In our end-use observation of school construction (we visited 15 of the 48 schools) we found that most of the completed schools were already in need of maintenance. We found leaking roofs, inoperative plumbing, broken floor tiles, broken blackboards, fading paint, cracked walls and foundations, and a great abundance of chipped plaster. The latter gives the effect of general deterioration. In January 1965, the Leo A. Daly Co. reported: "Many existing structures require rehabilitation because of eroded foundations, water damaged and cracked walls, interior and exterior plaster which has sloughed off, and floors which have deteriorated beyond use. All of these are attributable in one way or another to the use of clay rather than cement. Schools which have now been built with clay and lime mortars will in a very few years require rehabilitation as the existing schools are now being rehabilitated throwing unnecessary maintenance costs on the states which they can ill afford to bear. Clay which has been used for many years is not an

economical construction material when the schools must be continually rebuilt". During our end-use check, we found that schools rehabilitated under this program are also in need of maintenance. Some of the repairs now needed could be defined as rehabilitation.

4. Equipment

SECEP spent Cr\$202,596,000 of program funds on the following items (000 omitted):

	<u>USAID</u>	<u>SUDENE</u>	<u>State</u>	<u>Total</u>
Classroom furniture	1,311	137,984	-	139,295
Classroom material	12,444	-	5	12,459
Supervisory center equip.	2,954	-	2	2,956
Office equipment	11,261	-	645	11,906
Vehicles	29,840	-	6,000	35,840
Kitchen equipment	<u>140</u>	<u>-</u>	<u>-</u>	<u>140</u>
Total	57,950	137,984	6,662	202,596
	-----	-----	-----	-----

Because of the preponderance of procurement with SUDENE funds, their auditors examined the equipment accounts and reviewed accounting, procurement and inventory procedures. They informed us that the State generally adhered to competitive bidding practices. It was the State's practice to solicit public bids for equipment purchases in excess of 33 million cruzeiros. For purchases of 3 to 33 million cruzeiros, non-public bids (a minimum of three) were solicited and procurement awards were published. For purchases under 3 million cruzeiros, telephone requests were solicited from suppliers registered with SECEP.

SECEP did not maintain adequate inventory procedures for classroom furniture. SUDENE's auditors informed us that classroom furniture purchased with MEC funds was commingled with program procured furniture. SECEP kept no inventory records of MEC financed furniture.

In addition to inventory procedural deficiencies, SECEP did not maintain an adequate record of the furniture distributed to schools. Consequently, we were unable to perform end-use checks. The furniture

we observed in the classrooms appeared to be adequate for its intended use. We noted, however, that furniture, once broken, was usually not repaired. In some instances, repairs were made by the municipality. SECEP has no maintenance program for school furniture.

Adequate accounting, inventory and distribution procedures were maintained for supervisory center equipment, office equipment, and vehicles.

Of the 11 vehicles purchased with program funds ten are assigned to the capital city and one is assigned to the school lunch program. Purchase of four additional vehicles is proposed with CONTAP funds. Based on the reduced rate of construction and the limited activities of the supervisory centers, it is our opinion that a surplus of vehicles presently exists. We strongly urge that full utilization of existing vehicles be considered in the projected plans before purchasing additional vehicles.

Ten of the vehicles purchased were "jeeps" or trucks suitable for Piauf's difficult terrain. An exception was an Aero-Willys passenger sedan. This purchase was one of the first expenditures from USAID/B funds and the sedan was bought for the exclusive use of the Secretary of Education.

5. Training

As of November 30, 1966 SECEP spent Cr\$100,645,000 of program funds on training activities. They are compared to programmed objectives as follows (000 omitted):

<u>Persons</u>	<u>PROGRAMMED</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Emergency teacher training	1000	Cr\$200,200	381	Cr\$ 89,982
Lay teacher training	1000	27,400	331	10,663
Supervisors training	50	5,750	-	-
Adult literacy	60,000	85,890	-	-
Total		Cr\$319,240		Cr\$100,645
		*****		*****

1/ Training for 39 supervisors was financed from other resources.

2/ SECEP reports that an adult literacy course financed by MEC was attended by 7,124 persons in 1964 and 11,645 persons in 1965.

The State was divided geographically into five regions for the purpose of establishing supervisory control and training. The system has not functioned properly. The NEMO reports that the State of Piauí's supervisory system lacks well defined procedures and policies. In addition, we found that the supervisors in the Parnaíba region were assigned as teachers at specific schools and were not performing supervisory functions. Supervisors in the other centers were working only in the center cities and not in the regions. As reported in the construction and equipment section of this report, none of the supervisory centers was built and vehicles were not furnished.

Construction of supervisory centers and training of supervisory personnel are priority items in the proposed amendment to program objectives.

6. Other

Other expenses totalling Cr\$68,959,000 were charged to the program. Expenditures from USAID/B funds were selectively reviewed and found to be in accordance with project agreement terms.

C. REPORTING

Reporting by SECEP on the financial and physical progress of this project was generally inadequate. We found that SECEP accounted only for expenditures of project funds at the time when requests for additional funds were submitted. SECEP requested additional funds in April, 1964 and April, 1965. The NEMO states that subsequent to April 1965, SECEP was requested to submit quarterly reports. Through November 30, 1966, only two reports had been submitted. Control of financial and physical progress has been strengthened by the "Joint Task Force" action of December 15, 1966 requiring prior SUDENE/USAID approval of disbursements and payment on a direct reimbursement basis.

D. SUDENE

SUDENE was responsible for providing technical assistance for and exercising control over the project. We found that SUDENE did not effectively execute its responsibilities. Corrective action was initiated

under a recommendation of an earlier audit report and we noted that "field trips" by SUDENE had increased substantially during the latter part of 1966.

E. PUBLICITY AND MARKING

A review of USIS and SECEP files indicate that the project agreement and the three releases of funds were publicized. No adverse publicity was noted.

Our end-use observation of 15 schools financed with USAID/B funds revealed that only one of the schools completed and one of the schools under construction were identified with the Alliance for Progress sign. As marking deficiencies are included within the definition of construction deficiencies, they will be corrected by the pending action outlined in the "Joint Task Force" guidelines.

EXHIBIT A

DISTRIBUTION OF
 REPORT ON EXAMINATION
 No. 17/67

	<u>COPY No.</u>
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Mr. William A. Ellis, Deputy Director (DDOM) - USAID/B	2
Mr. Donor M. Lion, Associate Director - USAID/B/NEAO	3
AID/W - Executive Director (ARA-LA/MOT/EX)	4 - 5
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NOTE: All audit work papers are attached to Copy No. 26 which is on file in the Office of the Controller (NECO), USAID/B/NEAO.