

# AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A. I. D. MISSION TO BRAZIL

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REPORT ON EXAMINATION

OF

ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST

STATE OF ALAGOAS

PROJECT AGREEMENT No. 512-N-64-AE

FOR THE PERIOD

MAY 3, 1963 THROUGH OCTOBER 31, 1966



OFFICE OF THE CONTROLLER



REPORT No. 16/67

COPY No. 4

DATE: JANUARY 9, 1967

# ALAGÔAS

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

January 9, 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 Alagôas. Our report covers the period May 3, 1963 to October 31, 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 Alagôas in the amount of Cr\$1.1 billion to assist in the State's education program. To date, Cr\$866 million of USAID/B funds have been transferred to the project.

The Alagôas project agreement provided for the construction of 850 classrooms and one normal school and for the renovation and reconstruction of 250 classrooms and two normal schools as well as for the procurement of equipment and educational materials, plus teacher training. The program was administered by the Alagôas Department of Education.

Implementation of the project had been unsatisfactory. Significant deficiencies found in the program are cited below:

1. During the more than 3 years which have elapsed since the inception of the project, only 147 out of the planned 850 classrooms and one normal school have been constructed. Only 17 per cent of the physical objectives have been achieved. Tentatively, only an

Institute of Education is contemplated to be constructed during the remainder of the program.

2. Although 250 classrooms and 2 normal schools were programed to be renovated and reconstructed, no progress had been made after 39 months.

3. The State engineering staff lacked the capabilities to administer a program of the magnitude undertaken. Architectural plans and specifications were usually faulty and incomplete, resulting in serious structural deficiencies.

4. Construction contractor capabilities, poor to begin with, were accentuated by lack of State supervision. Building construction is inferior and dangerous. Four school roofs have already collapsed, and according to the USAID/B engineering consultant, Leo A. Daly & Co., 50 per cent of the total school roofs constructed will eventually collapse if construction deficiencies are not corrected and adequate maintenance provided.

5. The construction program received inadequate technical assistance and supervision from SUDENE and NEAO. SUDENE provided no technical assistance with the preparation of plans and specifications. It was not until 15 months after the signing of the project agreement that the USAID/B engineering consultant was on the job. During the interim period, much of the construction work had been completed.

6. The State does not provide for the maintenance of school buildings. Rapid deterioration, compounded by inferior construction, is resulting.

7. Selective end-use checks of equipment distributed to schools indicated that such equipment was effectively employed. However, the State's records respecting the receipt, distribution and inventories for equipment purchased were inadequate.

8. The instructional aspects of this program for the most part were financed with non-project State and GOB funds. However, it was noted that the NEAO has successfully introduced the supervising center concept, being that of decentralized administrative units responsible for schools and teachers within a geographic area. The auditors noted that these centers have enabled the State to improve its control over schools and teachers.

9. Although the State accounting procedures were generally satisfactory, there were accounting weaknesses such as the State's failure to support disbursements of USAID/B funds with proper documentation and to prepare periodic reconciliations of cash accounts with bank statements.

10. SUDENE did not effectively discharge its responsibilities with regard to auditing, checking, execution of plans, and inspection.

In general, the attached report restates many of the same deficiencies cited in our previous audit reports on the Elementary and Basic Education program in 4 states of the Northeast (Maranhão, Ceará, Paraíba, and Sergipe). Although inflation was a principal factor contributing to the unsatisfactory results, poor planning, execution, and monitoring were also major underlying weaknesses.

NEAO is aware of the above problems and is working to initiate corrective actions. On December 31, 1966, an amendment was signed extending the loan agreement through January 31, 1967. The amendment required that further release of USAID/B funds will be contingent on acceptable correction of all present construction deficiencies.

  
Norman Olnick  
Controller

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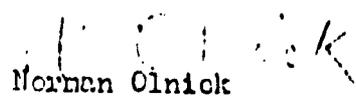
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REPORT ON EXAMINATION  
OF  
ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST  
STATE OF ALAGOAS

SECTION I - GENERAL

A. SCOPE AND PURPOSE

We have examined the project "Elementary and Basic Education in the Brazilian Northeast - State of Alagoas". This was the initial examination of the project and covered the period from May 3, 1963 through October 31, 1966.

The principal objective of our examination was to review and evaluate the effectiveness of program implementation as compared with objectives outlined in the project agreement. Other purposes were to determine the quality and effectiveness of financial and administrative management and the degree of compliance with AID policies, regulations and procedures.

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 which 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 are in accord with its contents.

B. BACKGROUND

The 1960 census disclosed that the school age population in the State of Alagoas was approximately 272,140, but only 30 per cent of this population was served by schools. The illiteracy rate in Alagoas was reported as being in excess of 75 per cent. With the

rapid increase in population and increasing shortages of classrooms, teachers, and equipment, illiteracy was described as growing. This project was undertaken to alleviate these conditions.

NEAO responsibility for monitoring this project was originally assigned to Miss Luella Koithan, USAID education advisor. However, the independent engineering consultant reported to the chief of the NEAO Engineering, Industry, and Natural Resources Division (NEEIN). On April 28, 1966, the responsibility for the construction phase of the project was transferred from Miss Koithan to NEEIN where, due to lack of staff, no one individual was made responsible for overall project surveillance. Obviously, implementation of construction plans was primarily an engineering responsibility, and an education advisor could not have been expected to implement a construction program although this is essentially what happened. The project was probably too big for even two technicians to monitor. As has been pointed out in our other audit reports on Education in the Northeast, too much was attempted with too few capabilities.

### C. LOAN AGREEMENT

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 of basic education in the Northeast. The amount of this loan was later increased by two separate amendments to Cr\$17,280,592,000.

On May 31, 1963, SUDENE, USAID/B, the Brazilian Ministry of Education (MEC), and the State of Alagoas (hereinafter referred to as "State") entered into Project Agreement No. 512-N-64-AE under which SUDENE agreed to make available to the State, as a grant from the Federal Government, the amount of Cr\$1,146,296,000 from USAID/B loan proceeds. The scope of this project agreement broadly provided for the construction and reconstruction of 1100 classrooms, construction of a normal school, equipment, and teacher training programs.

USAID/B loan funds were generated from the Second Sales Agreement under Public Law 480, Title I, Section 104 (g).

SECTION II - FINDINGS AND RECOMMENDATIONS

A. FUNDING

A total of Cr\$1,567,776,000 was pledged by the signatories to accomplish the objectives of this project. As of October 31, 1966, the State recorded the receipt of Cr\$1,163,044,628 as follows:

	<u>OBLIGATION</u>	<u>FUNDS PROVIDED</u>
USAID/B	Cr\$1,149,296,000	Cr\$ 866,000,000
SUDENE	100,000,000	100,000,000
State of Alagoas	250,000,000	197,044,628
CONTAP	<u>68,480,000</u>	<u>-</u>
TOTAL	Cr\$1,567,776,000 -----	Cr\$1,163,044,628 -----

USAID/B funds were deposited in a separate account at the Banco da Produção do Estado de Alagoas, hereinafter referred to as the "USAID/B account". As of October 31, 1966, the USAID/B account showed a balance of Cr\$37j.

Although SUDENE had fully paid-in its contribution, its funds had not been programmed and the balance of Cr\$100 million is still on deposit at the Banco da Produção do Estado de Alagoas.

Under the project agreement, the State of Alagoas pledged Cr\$250 million. The State was to deposit its funds at a minimum rate of Cr\$6,944,444 per month during a 36 month period starting in August 1963. As of July 1966, the State should have made its final payment. However, the State is Cr\$52,995,372 in arrears, or about 8 months behind in its agreed payments. Further NEAO releases of USAID/B funds are being withheld to this project until the State meets its financial obligations. In view of this NEAO action no recommendation is being made.

By amendment No. 2 dated July 1, 1966, the Technical Cooperation Council of the Alliance for Progress (CONTAP) pledged Cr\$68,480,000

to the project. A specific budget for the utilization of these funds has been approved by SUDENE and USAID/B and the funds are expected to be released by CONTAP in January 1967.

B. PROJECT PROGRESS

1. General

Through October 31, 1966, the State had expended Cr\$... 868,865,824, including interest of Cr\$2,865,824, from the USAID/B account on the following activities:

Construction	Cr\$521,733,822
Equipment	260,539,353
Training	11,384,663
Other	75,207,986
TOTAL	Cr\$868,865,824

Additionally, Cr\$151,257,708 of State funds were expended on the project for construction (Cr\$97,804,087) and administrative expenses (Cr\$53,453,661).

2. Construction and Reconstruction

a. Construction

During the 39 month period since inception of this project only 17 per cent of the physical objectives had been started and completed. Representing about 45 per cent of the total USAID/B contribution, the following summary shows that Cr\$521,733,822 of USAID/B funds had been expended:

	<u>PROGRAMMED</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Classrooms	850	Cr\$1,059,656,000	147	Cr\$434,601,540
Normal Schools	1	30,000,000	-	-
Training Centers	-	-	1	87,132,282
TOTAL		Cr\$1,089,656,000		Cr\$521,733,822

Inflation was the principal factor which seriously affected the progress of this whole program. For example, the construction index for the State of Guanabara, which can be used for illustrative purposes, in-

crossed from 747 for 1962 to 4294 for 1965. It is significant to note that in April 1964, the State reported to the NEAO that it would only be possible to construct 399 of the proposed 1100 classrooms. Notwithstanding, it is our opinion that better progress might have been achieved had the project not been slowed by such factors as (1) inadequate and incompetent engineering on part of the State, (2) lack of contractor capability, and (3) inadequate SUDENE/NEAO technical assistance and supervision. Those factors, which are discussed below, added to the already harmful impact of inflation:

1. Inadequate and incompetent engineering. The State engineering staff demonstrated a general inability to administer a program of this magnitude. The Leo A. Daly Co., engineering consultant engaged by AID/W, stated that architectural plans and specifications were usually faulty and incomplete. The State Secretary of Education acknowledged that the plans and specifications were faulty and much to blame for the existing construction deficiencies. This serious situation was accentuated by an inexperienced, understaffed inspection group. The inspection group seldom visited construction sites, and when it did, it frequently did not recognize inferior and dangerous construction. Resultantly, about half of the construction under this project is inferior and dangerous. Four school roofs have already collapsed. The Daly Co. estimated that half of the roofs of the 69 schools constructed could possibly collapse if corrective action is not immediately initiated on reported deficiencies and required maintenance.
2. Lack of contractor capability. In its January 1965 report to the NEAO, Daly Co. emphasized this problem in the following words: "..... many of the contractors in Alagôas appear incapable of doing acceptable work without a great deal of supervision". The result of this situation is reflected in

the fact that Daly Co. has disapproved 47 of 69 schools started and completed under this program. The estimated cost of correcting construction deficiencies is Cr\$32 million.

3. Inadequate SUDENE/NEAO technical assistance and supervision.

SUDENE provided no technical assistance and/or supervision to this program, reportedly due to a limited engineering staff. The Loo A. Daly Co. was not operational until the end of 1964 or about 15 months after the effective date of the project agreement. During the interim period much of the construction had been started and in some instances completed. The Daly Co., therefore, had no role in appraising bids, approving architectural plans and specifications, determining the acceptability of contractors and a very limited role in supervising construction.

Tentatively, additional construction under this program will be limited to the construction of an Institute of Education and reconstruction of a normal training school. Corrective action is, therefore, limited to strengthening the procedures and controls required to complete the latter facilities. We feel that the NEMO should (1) ensure that the Daly Co. is fully and properly utilized in the approval of bids and specifications, approval of contractors and subsequent supervision and (2) that SUDENE renders the required technical assistance in the preparation of plans and specifications.

RECOMMENDATION No. 1

That SUDENE/NEEMIN take action to ensure that adequate procedures and controls are instituted for any additional construction under this program.

b. Reconstruction

Records indicated that no specific reconstruction program had been started under this project, although the following physical objectives were outlined in the project agreement:

	<u>PROGRAMMED</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Cost</u>	<u>Number</u>	<u>Cost</u>
Classrooms	250	Cr\$171,500,000	-	-
Normal Schools	2	<u>10,000,000</u>	-	-
TOTAL		Cr\$181,500,000 -----		

However, the Daly Co. reported that 49 classrooms were reconstructed in connection with the amplification of existing schools. The cost for this work was included in the amplification contracts and not shown separately. Hence, it could not be identified in the above tabulation.

c. Contracting Procedures

We found that non-public bids were solicited from 6 construction firms located in the State of "lagôns. Sixty-eight contracts amounting to Cr\$469,021,323 of USAID/B funds were awarded to these contractors. However, these contracts were subject to subsequent upward readjustments of Cr\$52,711,499. Our perusal of contract amendments disclosed that the adjustments were valid increases for changes in scope of work, a conclusion shared by the Daly Co. All bids examined by us revealed that contracts were awarded to the lowest bidders.

The contracts awarded for school construction revealed some inadequacies of which the following were the most pertinent:

1. We found that most of the contractors did not meet contract deadlines; in several cases, construction lagged 6 to 9 months beyond the construction schedule. According to the contracts the contractors were subject to a penalty of 0.1 per cent of the contract value for each day exceeding the established construction period. However, penalty clauses were not exercised.
2. No provision was made for retaining contract holdbacks as guarantees of good workmanship. Without holdbacks, the State has little effective control to ensure that the contractors

perform acceptable work. This is especially pertinent now regarding correction of unacceptable work.

It is our opinion that future contracts must not only contain effective provisions but that these should be enforced to avoid further abuses and delays.

#### RECOMMENDATION No. 2

That SUDENE/NEEIN ensure that provisions of future contracts are strengthened to include holdback provisions and that penalty clauses are enforced.

#### 3. End-Use Observations

We performed end-use observations of 7 schools and found all but one to be operative (Viçosa). The inoperative school as well as 3 others reported by the Daly Co. (Poncho, União dos Palmares, and Tatuamunho), were closed because the roofs had collapsed.

We found the appearance of the schools to be generally attractive; however, on closer examination we noted that sub-standard materials were usually used, resulting in dangerous construction. For example, inferior lumber was used in the construction of trusses supporting heavy tile roofs. In 4 of the 7 schools observed the lumber was cracked and bent due to the pressure of the heavy roofs. Additionally, we found 3 cases where sanitation systems were installed which did not function. Our overall impression was one of very poor workmanship. Construction difficulties were accentuated by a lack of proper maintenance. Termites, rain, etc., were hastening the deterioration of the schools.

Guidelines for an amendment to the loan agreement were negotiated between NEAO and SUDENE. On December 31, 1966, an amendment was signed extending the loan agreement through January 31, 1967. The project agreement will be amended accordingly. The amendment required inter alia as a condition precedent to the further release of USAID/B funds the acceptable correction of all present construction deficiencies. In cases where correction of deficiencies is not acceptable, the NEAO

can request refunds for the applicable amount of funds expended or, if it prefers, a redeposit of the funds to the USAID/B account for subsequent reprogramming. It is our opinion that the proposed amendment is the only effective means of correcting this serious situation. In view of this pending amendment, we are not making a recommendation.

#### 4. Maintenance

The State has not formally established a program for the maintenance of schools. However, the Secretary of Education informed us that a program will be started in January 1967. A reserve of Cr\$80 million is being funded for this purpose. The reserve, which represents about 2 per cent of the 1967 education budget, will provide each school with a monthly allotment of Cr\$50,000 per classroom. Additional contingency expenses for maintenance up to Cr\$5 million will be provided from the reserve; expenditures over Cr\$5 million will be provided from the construction budget. Responsibility for supervising maintenance will be assigned to the supervisory centers.

It is our opinion that the proposed maintenance program will require further follow-up by SUDENE and NEAO to ensure its fruition. Additionally, we feel that the NEAO could possibly render some valuable assistance during the initial planning stages, especially regarding the schools constructed with USAID/B funds.

#### RECOMMENDATION No. 3

That SUDENE/NEEIN initiate procedures for follow-up action regarding the State's proposed maintenance program, emphasizing those schools financed with USAID/B funds.

#### 5. Equipment

As of October 31, 1966, the State had expended Cr\$260,539,353 of USAID/B funds, as shown below.

Classroom furniture	Cr\$166,386,531
Office equipment	41,262,822
Kitchen equipment	5,750,000
Vehicles	<u>47,140,000</u>
TOTAL	Cr\$260,539,353
	-----

Our review of the State's procurement procedures disclosed that the State did not adhere to usual Brazilian public bidding regulations. In some cases we found procurement was solicited from several local suppliers; however, in most instances, prices were negotiated directly with local suppliers. Notwithstanding the absence of public bidding, we found no apparent abuses in the State's procurement practices.

The State did not establish effective inventory control procedures. Receiving reports were not prepared for equipment purchased, and only informal records were maintained for equipment distributed. This procedural deficiency was pointed out to the SUDENE Audit Department for corrective action.

On a selective basis we performed an end-use observation of the equipment purchased and found it to be distributed as reported and effectively employed. The classroom equipment appeared to be of exceptionally good quality and was withstanding day-to-day use remarkably well. Generally, we found the vehicles to be in satisfactory condition.

#### 6. Training

As of October 31, 1966, the State had expended Cr\$11,384,663 of USAID/B funds on training activities as presented below:

	<u>PROGRAMMED</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Noncertified teacher training	1000	Cr\$ 44,850,000	524	Cr\$ 5,977,870
Secondary teacher training	1000	(*)	-	-
Supervisors training	50	5,600,000	45	406,793
Adult literacy	30,000	<u>69,800,000</u>		<u>5,000,000</u>
TOTAL		<u>Cr\$120,250,000</u>		<u>Cr\$11,384,663</u>
		-----		-----

(\*) No funds budgeted.

As shown above, the State has only made limited use of USAID/B funds for training activities. However, progress achieved in training was considerably greater than the figures would suggest. This has been due to the fact that the State has taken the initiative to carry out an extensive training program with its own and GOB funds.

One of the significant aspects of the non-construction program has been the introduction of the supervisory center concept, an NEAO innovation. The State has been sub-divided into 12 administrative districts, each district containing an average of 90 classrooms. This decentralization has considerably improved the State's control over schools and teachers. According to the Secretary of Education the supervisory centers provide control where none previously existed.

#### C. REPORTING, ACCOUNTING, AND SUDENE AUDITING PROCEDURES

##### 1. Reporting

Reporting on the financial progress of this project was generally inadequate. We found that the State accounted only for the expenditures of USAID/B funds at the time when requests for additional funds were submitted. Reports were only prepared for two periods; in each case, the period was considerably longer than one year. The result was a lack of budgetary control both by SUDENE and NEAO.

The Daly Co. submitted school inspection reports as well as monthly progress reports to NEAO. We reviewed the monthly progress reports and felt they contained accurate narrative information. However, we feel that the NEAO made inadequate use of these reports during the period covered by this audit.

No recommendation regarding these deficiencies are being directed to the NEAO inasmuch as corrective action was initiated in accordance with recommendation No. 12 cited in our report No. 3/67 on Elementary and Basic Education in Maranhão dated August 12, 1966.

## 2. Accounting Procedures

We examined the State's accounting procedures insofar as they related to our examination, and it is our opinion that books and records were generally maintained in accordance with acceptable accounting principles and procedures. However, our review of the State's payment procedure for construction revealed a deficiency we regarded as highly irregular. We found that contractors did not invoice the State for progress payments nor did the State request official contractor invoices. Progress payments for construction costs were acknowledged by signing receipts prepared by the State Engineering Staff. Under this system, the contractor was aided in avoiding the payment of the Alagoas State sales tax of 5 1/2 per cent and in avoiding possible income tax liabilities to the GOB.

This deficiency was pointed out to the SUDENE Audit Department which notified the State it would henceforth only accept the expenditure of USAID/B funds against official contractor invoices. In view of this corrective action no recommendation is being made.

Additional weaknesses which we pointed out to the SUDENE Audit Department as needing corrective action were: (1) monthly bank reconciliations and balance sheets should be prepared, and (2) the USAID/B bank account should be transferred to the Banco do Nordeste, the bank specified in the project agreement.

## 3. SUDENE Auditing Procedures

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

Our examination revealed that SUDENE did not effectively execute the above responsibilities. For example, our present audit with SUDENE was the first field examination performed of the State's records and procedures; also, as stated earlier (page 5), little

technical assistance was provided the State in the preparation of construction plans and specifications. It is our opinion that the poor progress of this school construction program is, in part, related to SUDENE's failure to fully carry out its responsibilities. Since corrective action was initiated under an earlier recommendation made in the Maranhão Education Audit Report (No. 3/67 dated August 12, 1966), we are not making a recommendation here regarding the Alagôas project.

D. PUBLICITY AND MARKING

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

Our examination disclosed that 6 of 66 schools financed with USAID/B funds were not identified with signs or other markings reflecting participation of the Alliance for Progress.

EXHIBIT A

LIST OF RECOMMENDATIONS

<u>Number</u>		<u>Page</u>
1	That SUDENE/NEEIN take action to ensure that adequate procedures and controls are instituted for any additional construction under this program.	1
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3	That SUDENE/NEEIN initiate procedures for follow-up action regarding the State's proposed maintenance program, emphasizing those schools financed with USAID/B funds.	12

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NOTE: All audit work papers are attached to Copy No. 29 which is on file in the Office of the Controller, USAID/B/NEAO.