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AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A.I.D. MISSION TO BRAZIL

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REPORT ON EXAMINATION

OF

GETULIO VARGAS FOUNDATION CONSTRUCTION

GRANT AGREEMENT No. 512-31-660-263.1 AND COUNTERPART CRUZEIRO RELEASE

FOR THE PERIOD

DECEMBER 3, 1964 THROUGH JUNE 30, 1967

OFFICE OF THE CONTROLLER

REPORT No. 14/68 **COPY No.** 4 **DATE:** JANUARY 4, 1968

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AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A.I.D. MISSION TO BRAZIL

Office of the Controller

January 4, 1968

TO The Director of Mission

Minister Stuart H. Van Dyke

The Office of the Controller, Audit Division has completed an examination of the grant project, "Getulio Vargas Foundation Construction", covering the period from December 3, 1964 through June 30, 1967.

The Getulio Vargas Foundation (GVF) was established in 1944 to promote scientific research and technical education in the field of economics, public and business administration. Until 1958, the GVF received technical assistance from the United Nations, and in 1959 USAID/B started to provide technical assistance in public and business administration. Purpose of the USAID/B project was to assist in constructing two buildings in Rio de Janeiro and São Paulo which housed the schools of public administration and business administration respectively. Under Public Law 480 Section 104 (e), grants of NCr$4,145,000 were approved (pp.4-5).

Although the project was generally slow moving, our physical inspection of the buildings in Rio and São Paulo indicated that construction objectives had been accomplished, with only finishing work and mechanical installations needed in Rio. The project has been successful in that the buildings are functionally designed, suitable for current needs, and unostentatious (page 6).

In the São Paulo building, significant modifications were made to original plans, in that school capacity was increased 50 per cent in size at the expense of facilities for teachers' apartments and participant training called for in the original plans. In Rio, modifications were made in the electrical system and in internal layout. Such modifications were not communicated to USAID/B until after the fact. At the urging of the USAID/B project coordinator, the GVF contracted with an engineering firm to assist in completing the project effectively (pp.6-7)

The GVF received total funds of NCr$9,153,235 from all sources to complete building construction (see page 8 for details). As of June 30, 1967, there remained an undisbursed balance derived from GOB counterpart sources in the amount of NCr$2,768,005.86. The GVF had purchased Government bonds for NCr$401,22 and also deposited NCr$450,000 in an interest bearing account without securing USAID/B approval. We are therefore recommending that GVF return to the counterpart special account, any unused funds, together with interest earned, which are not needed to complete final building construction (page 9).

Robert B. Curtis
Controller

AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A.I.D. MISSION TO BRAZIL

REPORT ON EXAMINATION

OF

GETULIO VARGAS FOUNDATION CONSTRUCTION

SECTION I - GENERAL

A. PURPOSE AND SCOPE

An examination has been performed of the implementation of the Grant Agreement 512-31-660-263.1 with the "Fundação Getulio Vargas", (GVF), executed on December 3, 1964 under the title: "Improvement of Higher Education in Brazil", and the counterpart cruzeiro release derived from Program Loan No. 512-L-055 dated October 17, 1966. This was the initial examination of this program and covered the period from December 3, 1964 through June 30, 1967. The principal objectives of our examination were to review and evaluate the effectiveness of program implementation and the extent of financial and administrative control exercised by the grantee and USAID/B.

Our examination was made in accordance with generally acceptable auditing standards, which included a review of both the PL 480 Section 104 (a) grant and counterpart release agreements. We made such tests of financial records, progress and inspection reports, correspondence and interviews with USAID/B and Foundation representatives as we considered necessary under the circumstances.

B. BACKGROUND AND PROGRAM OBJECTIVES

The Getulio Vargas Foundation was established on December 20, 1944 under the laws of Brazil to promote scientific research and technical education in the fields of economics, public and business administration. The GVF has played a leading role in programs assisted by USAID/B in administrative education through the School of Business Administration in São Paulo, public administration education through the Shool of Public Administration in Rio de Janeiro, and programs in economics through the Brazilian Institute of Economics.

Based on a proposal presented in 1948 by the Brazilian delegation to the Economic and Social Council of the United Nations, a pilot course was inaugurated in November 1951 at the GVF, Rio de Janeiro, with three subjects offered to students: Personnel, Budget and Organization. On April 15, 1952 GVF inaugurated its major unit, the Brazilian School of Public Administration (EBAP). This initial group was composed of 68 students including 23 from 13 foreign countries.

During the following five years, GVF received the assistance of the United Nations in the form of a series of visiting professors and specialists from the United States and Europe, travel grants for more than 300 Latin Americans to attend the schools, and opportunities for professors from EBAP to study in other countries. On December 31, 1958, United Nations assistance to EBAP was terminated; however, the school continued to operate as before. On March 9, 1959 US/ID/B signed two contracts with the University of Southern California and Michigan State University to provide professors to assist in development of the GVF teaching organiza-

tion. Those contracts, after a series of amendments, were terminated in 1965; the total amount contributed by USAID/B was US$3,515,787.

In 1959, due to the increase of the number of the students enrolled, the Ministry of Education and Culture (MEC), signed an agreement with the GVF granting an annual contribution of NCr$40,000 which was increased to NCr$50,000 in 1962. The purpose was to finance the construction of two buildings, one in Rio and another in São Paulo with sufficient space to locate the necessary classrooms and administrative departments of the GVF. At that time (1959), GVF started both constructions. However, due to growing inflation in Brazil, original cost estimates became unrealistic, and the MEC contribution plus the scant funds available to GVF were insufficient to carry out the construction project. In the meantime, GVF took steps to find another source to finance the project. In the USAID/B E-1 dated 1961, a proposed loan of US$2 million was included for the GVF, but this was subsequently rejected.

After many studies by various divisions of USAID/B, the PRAC - Project Review and Action Committee (now DERC - Directors Executive Review Committee), approved a grant to GVF. In its meeting of September 24, 1964, DERC approved grants totalling NCr$4,145,000 on the grounds that: (1) USAID desired to support the project, and (2) the GVF did not have an assured source of funds to pay off a loan. The grant agreement was signed with GVF on December 3, 1964 for the amount approved. At that date, the cost-wise percentage of the work already completed amounted to 39 per cent for the Rio construction and 60 per cent for that in São Paulo. During this period, construction costs increased up to 70 per cent.

C. PROGRAM ACCOMPLISHMENTS

Our physical inspection of both buildings indicated that the construction objective of the project had been accomplished, with only finishing work and some mechanical installations needed at the Rio building. The project is successful in that the buildings are suitable for current needs, functionally designed, not ostentatious, and these facilities are clearly needed.

SECTION II - FINDINGS AND RECOMMENDATIONS

A. PROGRAM MODIFICATIONS AND ADMINISTRATION

Significant modifications were executed in the São Paulo building. School capacity was increased substantially in size at the expense of facilities for apartments for teachers and the training of participants called for in the original plans. The school area increased from 9,000 square meters to 13,500 square meters. Delays and higher construction costs were caused by these substantial changes in the plans, in that extensive demolition work was required. In Rio, modifications were made in the electrical system and to the layout of the internal partitions. All these modifications were not communicated to USAID/B until after the fact, and were usually found during field inspections by USAID/B's Engineering Office. Discussions with ENRT indicated that these modifications probably would have been approved, but ENRT was denied the opportunity to evaluate the cost of these modifications.

During the course of the construction, the GVF Board of Directors decided to accelerate construction of the São Paulo building and reduce construction efforts in Rio. This decision was reached without consulting

USAID/B representatives.

At the urging of the project coordinator, the GVF contracted with an engineering firm to assist in completing the project.

B. REPORTING

USAID/B received 14 quarterly progress reports from the GVF, as required by the agreement, and made a like number of physical inspections at the construction sites. There was inadequate evidence in Mission records to establish any correlation between the quarterly progress reports and the inspections. Generally, memoranda referencing the quarterly progress reports were mostly summarizations and did not present an analysis of the data nor point out specific deficiencies requiring corrective action, together with any proposed solutions. In this connection, it should be pointed out that the GVF's submission of quarterly progress reports generally was one to two months late, making timing or project monitoring difficult, and the data only of limited usefulness. There were instances where the project coordinator pointed out valid deficiencies; however, the Foundation was not required to take corrective action.

C. FINANCIAL ANALYSIS

The following schedule summarizes funds received from all sources and disbursements from December 1964 through June 30, 1967:

SCHEDULE OF FUNDS RECEIVED AND DISBURSED
DECEMBER 3, 1964/JUNE 30, 1967
(In NCr$)

SOURCES	%	RECEIPTS	DISBURSEMENTS	BALANCE
USAID/B owned Cruzeiro Grant: December 3, 1964	45	4,145,000.00	4,145,000.00	-
GOB counterpart release: October 17, 1966	48	4,400,000.00	1,631,994.14	2,768,005.86
GOB - MEC Annual Contributions	4	377,530.00	377,530.00	-
GVF Contributions	3	230,705.95	230,705.95	-
TOTAL	100	9,153,235.95	6,385,230.09	2,768,005.86

Since this project was started there has been a constant plea for rapid release of funds for construction, yet the GVF received NCr$4.4 million on March 17, 1967, and at June 30, 1967 there remained a balance of NCr$2,768,005.86. The GVF purchased Government Bonds for NCr$401,220.95 and also deposited NCr$450,000 in an interest bearing account without approval from USAID/B. In a letter to Minister of Planning, Roberto Campos, Dr. Simões Lopes, President of the GVF, requested the last cruzeiro release, mainly because USAID/B had not previously granted permission to buy securities with grant funds and that needs have increased since. There is, to date, no written approval of any kind granting the GVF permission to purchase securities.

The following schedule clearly points out the unauthorized use of funds and indicates that funds in excess of current needs were released by USAID/B:

UNEXPENDED FUNDS JUNE 30, 1967

Bank Balance	NCr$1,894,072.09
Checks Outstanding (Issued not Cleared)	22,712.82
Transferred to Special Interest (6%) Bearing Acct.	450,000.00
Purchased National Treasury Bonds (14%)	401,220.95
TOTAL	NCr$2,768,005.86

RECOMMENDATION No. 1

That USAID/B ADCD (a) request a firm estimate of funds required to complete the approved construction, and (b) request that GVF redeposit to the counterpart special account any balances, including interest earned, not needed to complete such construction.

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EXHIBIT A

SUMMARY OF RECOMMENDATIONS

Number		Page
1	That USAID/B ADCD (a) request a firm estimate of funds required to complete the approved construction, and (b) request that GVF redeposit to the counterpart special account any balances, including interest earned, not needed to complete such construction.	9

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EXHIBIT B

DISTRIBUTION OF
REPORT ON EXAMINATION
No. 14/68

	COPY No.
Minister Stuart H. Van Dyke, Director, United States Agency for International Development Mission to Brazil	1
Mr. Herman Kleine, Deputy Director (DDOM) - USAID/B	2
State Department - The Honorable J.K. Mansfield, Inspector General of Foreign Assistance (IGA)	3
State Department - Mr. Jack B. Kubish, Country Director - Office of Brazil Affairs (ARA/BR)	4
AID/W - Executive Director (ARA-LA/MGT/EX)	5 - 6
AID/W - Office of the Controller, Audit Division (C/AUD)	7
USAID/Panama - Mr. William F. Magee, Inspector in Charge - Inspections and Investigations Staff	8
American Embassy, Rio de Janeiro, Mr. Frank C. Carlucci, Executive Officer (EXEC)	9
USAID/B - Office of Technical Cooperation (ADTC)	10
USAID/B - Office of Technical Cooperation (DDTC)	11
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NOTE: All audit work papers are attached to Copy No. 19 which is on file in the Office of the Controller, Audit Division (COAD), USAID/B.

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