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OFFICE OF THE AUDITOR GENERAL  
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AUDIT REPORT  
USAID/BRAZIL  
MINERALS AND WATER RESOURCES PROGRAM  
LOAN NO. 512-L-065

~~512-L-065~~

512-L-065

For the period November 29, 1967  
through May 31, 1973

Audit Report No. 1-512-74-16  
October 31, 1973

TABLE OF CONTENTS

	<u>PAGE</u>
SECTION I - PURPOSE AND SCOPE	1
SECTION II - BACKGROUND	2
SECTION III - SUMMARY	5
SECTION IV - STATEMENT OF FINDINGS AND RECOMMENDATIONS	6
A. LOAN PLANNING	7
B. LOAN IMPLEMENTATION	10
1. Technical Services	10
2. Commodities	11
3. Training	14
C. FINANCIAL ASPECTS OF THE LOAN	17
1. U.S. Dollar	17
2. Local Currency	17
D. PROGRAM REVIEW	19
E. REPORTING REQUIREMENTS	20
1. USGS	20
2. GOB	20
F. GENERAL COMMENTS	21

EXHIBITS

EXHIBIT A - DISTRIBUTION OF AUDIT REPORT

Recommendation #1	page	9
2		12
3		12
4		13
5		14
6		16
7		17
8		18
9	- 1 -	19
10		20
11		20

REPORT ON EXAMINATION

OF

LOAN NO. 512-L-065

MINERALS AND WATER RESOURCES PROGRAM

FOR THE PERIOD

NOVEMBER 29, 1967 THROUGH MAY 31, 1973

SECTION I - PURPOSE AND SCOPE

The Brazil Residency of the Area Auditor General, Latin America has performed an interim examination of Loan No. 512-L-065, Minerals and Water Resources Program. Our examination covered the period from the inception of the loan on November 29, 1967 through May 31, 1973. The audit was performed during the period from May 16, 1973 to July 31, 1973.

The main purpose of the examination was to evaluate the effectiveness of the planning and implementation of the loan and the extent of the achievement of the loan's objectives. Other purposes were to evaluate the administrative and financial management of the loan and the degree of compliance with the terms of the loan and AID policies, procedures and regulations.

Our examination was made in accordance with generally accepted auditing standards and included such tests of the financial records and loan related documents as were considered necessary in the circumstances; discussions with concerned USAID/Brazil (USAID/B), United States Geological Survey (USGS) and Government of Brazil (GOB) officials; and, inspections at selected program sites.

Before issuance, this report was reviewed with appropriate USAID/B officials and their comments were given due consideration.

## SECTION II - BACKGROUND

Cooperative programs between the GOB and the United States Government (USG), represented by USGS, for the study of mineral resources in Brazil date from 1940, and in the field of hydrology from 1963. During this period, the GOB and the USG have participated in a number of cooperative projects for the purpose of scientific collaboration between geologists, metallurgists, hydrologists and engineers of the two countries.

In 1959, a ten-year agreement was signed between the two governments, represented by USAID/B and the Departamento Nacional de Produção Mineral (DNPM) of the Ministry of Mines and Energy (MNE), to develop geological mapping, library and scientific laboratory facilities and to train Brazilian technicians. The USG's contribution to the programs was through grant technical assistance funds.

Technical assistance to Brazil in hydrologic programs was begun in 1963 to increase the availability and improve the reliability of hydrologic data by increasing the institutional effectiveness of the Departamento Nacional de Aguas e Energia Elétrica (DNAEE) of the MNE. Grant technical assistance funds were made available by the USG in support of this program.

In 1965, because of decreasing grant funds availability, it was determined by AID/Washington that some technical assistance activities would have to be curtailed or shifted to loan financing. USAID/B therefore informed the GOB that assistance under the various agreements could not be extended on a grant basis beyond July 1967, but that a loan proposal would be given consideration.

The GOB formally requested loan assistance in 1966 and a comprehensive program for mineral and water surveys, technical assistance and commodity procurement was prepared in consultation with USAID/B.

Loan No. 512-L-065, in the amount of US\$8,400,000, was authorized on May 25, 1967 and entered into on November 29, 1967. The agreement indicated that the proceeds of the loan would be made available to the DNPM and the DNAEE for the purpose of financing continued technical assistance, training for Brazilian technicians, equipment and other dollar costs related to the implementation of eight specific geological and hydrological projects, five with the DNPM and three with the DNAEE, throughout Brazil.

Since the GOB and USAID/B agreed that the loan should be implemented by the USGS, Project Implementation Order/Technical Services (PIO/T) No. 512-252-2-6580001 was issued to obtain the services of the USGS under a Participating Agency Service Agreement. The PIO/T, as amended, stated that the services of 21 full-time and 25 temporary duty (TDY) specialists were to be provided for 771 man-months and 90 man-months, respectively. Some of the positions were immediately filled by USGS personnel who were already assigned in Brazil under the grant funded technical projects which terminated.

The GOB, in 1969, established, in the private sector, the Companhia de Pesquisa de Recursos Minerais (CPRM) for the purpose of promoting the development of Brazil's natural resources. In this connection, CPRM, which is owned by the MNE, has been given responsibility for carrying out the "field activities," i.e. research and exploration, originally performed by the DNPM and the DNAEE. While the establishment of the CPRM initially caused some problems, because of the lack of definitive lines of responsibility, the problems have been and are being overcome.

As a result of a change in the GOB's priorities, Implementation Letter No. 4, dated September 22, 1969 was issued whereby the projects shown in the loan agreement were altered. The Implementation Letter cancelled one DNPM project, the Ground Water Project (DNPM-5), in its entirety and the loan funds were allocated to two other DNPM projects, the Bahia Project (DNPM-1) and the Goias Project (DNPM-2). The project descriptions of these two projects were expanded to provide for uranium exploration activities. The Implementation Letter also changed the area of operations under the Phosphate Project (DNPM-4) from the Recife area to the Belo Horizonte area.

Because of the inclusion of uranium investigations within the framework of the loan agreement and because of agreements between the DNPM and the Comissão Nacional de Energia Nuclear, the USGS also provided short-term technical advisory assistance to the Comissão.

In 1972, because of various changes in the GOB's priorities, the establishment of the CPRM and other factors, USAID/B and the GOB decided to terminate the projects being carried out under the loan agreement and to turn their attention to ten areas in which the GOB had expressed interests. The USGS therefore began, in approximately July 1972, to direct their activities to these new areas of interest, with the support of their counterpart agencies, in anticipation of the formal approval of the activities, which was given by the GOB and USAID/B with the signing of Amendment No. 1 to the loan agreement on January 29, 1973. While the loan agreement as amended calls for the USGS to continue to provide technical assistance to the GOB, the assistance addresses itself to providing the services of, primarily, short-term TDY specialists in the utilization of more sophisticated and up-to-date methods of research, exploration and analysis of natural resources.

The current terminal date for opening commitment documents is June 30, 1974 and the terminal date for disbursements is December 31, 1974. It was agreed, however, that by the end of Fiscal Year (FY) 1974 the parties concerned would review the status of the loan program and its accomplishments, and that USAID/B would then determine the suitability of a further extension of the program and a corresponding later date of final disbursement.

The financial status of the loan as of May 31, 1973, according to the accounting records maintained by the Mission's Office of the Controller, is shown below:

IN U.S. DOLLARS

<u>DESCRIPTION</u>	<u>LOAN AMOUNT</u>	<u>COMMITTED</u>	<u>DISBURSED</u>	<u>UNDISBURSED</u>	<u>UNCOMMITTED</u>
	8,400,000				
Technical * Services		3,151,000	2,343,754	807,246	
Commodities		1,666,060	201,884	1,464,176	
Participants		513,639	313,762	199,927	
Total	8,400,000	5,330,749	2,859,400	2,471,349	3,069,251
	*****	*****	*****	*****	*****

\* Includes commitments of US\$556,900 and expenditures of US\$419,833 converted to local currency for the support of the USGS technicians.

### SECTION III - SUMMARY

During the period from its inception on November 29, 1967 to June 30, 1972, the loan, as revised, provided funds for the implementation of seven projects with the DNPM and the DNAEE. On July 1, 1972, a new program, consisting of ten activities, was begun under the loan. In this connection, assistance is being provided to the DNPM, the DNAEE, the CPRM and other GOB organizations carrying out mineral and water resources exploration and development.

We found that, generally, definitive, time-phased output indicators had not been established for the technical advisory assistance provided to the loan's original seven projects or the current ten activities.

Although the USGS/Brazil contends that the overall target of the loan is being achieved, we were unable to substantiate the contention because of the absence of planned output indicators and because we were unable to relate the actual activities of the various technicians to the activities described in the loan's documentation. Moreover, evaluation reports, resulting from Mission and/or GOB loan review meetings, were not available since it appeared that no such meetings had been convened for the past several years.

Based on our examination of the Mission's "inputs," we concluded that only partial successes may be claimed since the number of technicians, the number of man-months of technical services, the total number of participants and the commodities actually provided under the loan have never reached the "planned" amounts.

We believe that unless the Mission establishes specific, time-phased targets for each of the loan's activities and unless the Mission and the GOB convene regularly scheduled reviews of the loan's activities, no meaningful evaluations of the loan can be made to improve project design and implementation.

In addition, timely information relating to disbursements made for the various elements being financed under the loan is not available to the Mission. It is apparent that the lack of such information impairs the Mission's ability to control the amount of funds actually necessary for the implementation of the loan.

Also, certain reports which are to be made available to the Mission by the USGS/Washington, the USGS/B and the GOB have not been submitted to the Mission because of administrative oversight and/or reporting formats and procedures have not been established by the Mission. We believe that the absence of these various reports also impairs the Mission's ability to adequately monitor the loan's operations.

Regarding commodities provided under the loan, we found that while, generally, the commodities are being properly utilized, there were instances of non-utilization. These instances are generally the result of providing the commodities prior to developing plans for their specific utilization or need.

The report contains 11 recommendations for action by the Mission.

SECTION IV - STATEMENT OF FINDINGS AND RECOMMENDATIONS

## A. LOAN PLANNING

As stated in the loan proposal dated May 5, 1967, the purpose of the loan was to assist the GOB in the strengthening of the DNPM and the DNAEE as agencies of the MNE in carrying out programs of natural resource evaluation, planning and regulation; and, in implementing certain projects of mineral and water evaluation and data collection.

In order to carry out the purpose of the loan, the following eight projects, five of which were under the auspices of the DNPM and three were under the auspices of the DNAEE, were financed by the loan:

1. Bahia Project, DNPM-1;
2. Goiás Project, DNPM-2;
3. Tungsten Project, DNPM-3;
4. Phosphate Project, DNPM-4;
5. Ground Water Project, DNPM-5;
6. Hydrologic Data Collection, DNAEE-1;
7. Photogrammetric Service, DNAEE-2; and,
8. Combined Tariffs, Licenses, Statistical and Administration Services, DNAEE-3.

Descriptions of the projects' targets, courses of action and implementation plans were included in the loan proposal. The implementation plans for the projects were incorporated in the loan agreement as an annex.

We noted that while the implementation plans described the major steps to be taken in carrying out the projects, no quantitative indicators, such as the number of maps to be produced during a specific period or during the life of a project, were presented. There were also certain discrepancies between the stated courses of action and the implementation plans. For example, a course of action for the Goiás Project, DNPM-2, stated that at least 10 Brazilian technicians would receive participant training whereas the implementation plan for the project showed that there would be 15 Brazilian participants.

Approximately 22 months after the signing of the loan agreement, the GOB created, on August 15, 1969, the CPRM. The CPRM was made responsible for all field research, exploration and evaluation related to mineral and water resources. Although we were advised that with the establishment of the CPRM all of the projects, as such, ceased to exist, there were no apparent revisions in the implementation plans reflecting these changes.

However, in September 1969, USAID/B issued Implementation Letter No. 4 which cancelled the Ground Water Project, DNPM-5, and made its resources available to the Bahia and Goiás Projects, DNPM-1 and 2 respectively, for uranium investigations and changed the area of operations for the Phosphate Project, DNPM-4. While the attachment to the Implementation Letter provided project targets and courses of action for these additional or revised activities, there were no changes in their related implementation plans.

Although it became apparent, during the lives of the various projects, that the implementation plans could not be followed, there was no evidence showing that any attempt had been made by USAID/B and/or the GOB to revise these planning documents.

However, as a result of the slow implementation of the projects, it was decided that all assistance to projects would be terminated by June 30, 1972. It was also decided that the GOB should present a new program for the utilization of the residual loan funds, which would be more flexible and more responsive to the GOB's needs.

Although the GOB's new program was accepted and included in the loan agreement by Amendment No. 1 dated January 29, 1973, actual operations under the program began on or about July 1, 1972.

The new program calls for assistance to be provided to the GOB in the following programs:

- a. Remote Sensing Training and Applications;
- b. Hydrologic Data Collection and Analysis;
- c. Laboratory Technical Support and Training;
- d. Training in Basic Field Geology;
- e. Training in Economic Geology and Exploration Techniques;
- f. Training in Photogeology;
- g. Centro de Tecnologia Mineral (CETEM);
- h. Uranium Investigations;
- i. Regulatory Functions and Data Processing; and,
- j. Photogrammetry and Cartography Training.

The amendment also provided descriptions of the areas of activity and a budget covering FY 1973 through 1976.

We noted that the activity descriptions, however, did not always provide specific targets which could be used as a basis for evaluating any achievements. For example, although many of the activities call for

the in-country training of Brazilian personnel, generally, there are no yearly goals for the number of courses to be given or the number of Brazilians to be trained. Also, target dates for the completion of certain activities, such as the development of plans for the installation of recording equipment and for a sediment and quality of water network under the Hydrologic Data Collection and Analysis program, have not been established.

While the activity descriptions state that commodities will be procured and the budget shows the "earmarking" of funds for the procurement, we found that funds scheduled for commitment in FY 1973 were actually committed for the procurement of commodities in FY 1972. In addition, we found that commodity listings, including descriptions, prices and eventual locations, in support of the budgeted funds, were not available.

In connection with the participant training activities described in the amended loan program, we found that the participant training schedules included in the budgetary documentation did not necessarily coincide with the described activities. For example, although the Photogrammetry and Cartography Training Program shows that training will be given, in the United States, to Brazilian technicians, there was no information in the budgetary documentation showing the number of Brazilian technicians to be trained, the fiscal years during which such training would be performed or the costs related to the training.

#### Recommendation No. 1

USAID/B, in conjunction with the GOB, should review the various programs established under Loan No. 512-L-065 and establish specific quantitative, time-phased targets or goals against which program accomplishments may be evaluated.

## B. LOAN IMPLEMENTATION

### 1. Technical Services

Since specific, time-phased targets were not established for the projects, it is difficult to determine the extent to which the activities of the various technicians contributed to the implementation of the projects. In addition, the files maintained by the USGS/B were not "keyed" to the individual projects, thus increasing the difficulties in correlating some of the activities of some of the technicians to the projects.

Our examination of the original seven projects, as revised, showed that although the USGS was to provide 771 man-months of full-time services and 90 man-months of TDY services, the USGS provided only 582 man-months of full-time services and about 70 man-months of TDY services. The examination also showed that while the projects were to be fully staffed from their inception to their completion, with varying numbers of personnel, the projects were, generally, never fully staffed during their operations.

It is apparent, however, from monthly and other reports, that the USGS technicians assigned to the DNPM's projects assisted in the field exploration and evaluation of mineral resources in the projects' areas; in the preparation of geological and mineral reports and maps; and, in the development of the Brazilian personnel assigned to the projects.

In connection with the DNAEE projects, we found that full-time USGS personnel had been assigned only to the Hydrologic Data Collection Project, DNAEE-1, and that these technicians had assisted the DNAEE in the compilation of backlogged streamflow and rainfall data and in developing the DNAEE's methodology in collecting streamflow and rainfall data. The technicians also provided assistance in the training of Brazilian personnel assigned to the project.

The amount of assistance provided under DNAEE-2 and DNAEE-3 was so limited that it is believed that no real project accomplishments may be claimed.

In order to allow more flexibility and responsiveness in the implementation of the loan's activities, the new loan program, which became operational in July 1972, calls for the technical advisory services to be provided, primarily, through TDY specialists.

In this connection, the loan, as amended, shows that 88.5 man-months of TDY services and 67 man-months of full-time services were to be provided during FY 1973. It was noted, however, that no specific plans for the utilization of the services to be provided by the TDY specialists are included in the loan's documentation. According to USGS/B, the activities to be carried out by the TDY specialists and their durations are determined at the time such services are requested by the GOB.

During our examination of the new activities under the loan, we found that during FY 1973 only approximately 48 man-months of TDY services and 62 man-months of full-time services had been provided. The majority of the TDY services, approximately 22 man-months, have been utilized in connection with the development of analytical laboratories. The remaining 26 man-months have been used in connection with, primarily, consultative services and/or training courses in the other programs.

The services of the full-time technicians have been utilized in connection with providing advice and training in the geological and hydrological programs and in the administration of the loan's activities.

## 2. Commodities

### a. Procurement

In accordance with the terms of the loan agreement, the USGS/Washington has been designated as the authorized agent for the procurement of all U.S. equipment financed under the loan.

As of the cut-off date of this examination, 15 Project Implementation Orders/Commodities (PIO/C's), valued at a total of US\$1,666,060, have been issued under the loan.

In addition, the budget supporting the amended loan agreement shows that a balance of approximately US\$466,241 has been budgeted for further procurement. However, as stated above, there were no detailed commodity listings showing the items to be purchased with this amount.

During the course of our examination, we found that some of the PIO/C's do not represent firm commodity requirements under the loan. For example, we were advised that the USGS/Washington had been advised by the USGS/B to discontinue procurement actions under PIO/C No. 6580674, in the amount of US\$318,785. According to the Chief of Party (CofP), USGS/B, the GOB has advised him that these commodities, which were being procured for the Comissão Nacional de Energia Nuclear, will not be needed. The CofP, USGS/B, also stated that he planned to cancel the PIO/C and issue a new one for other commodities which could not be ordered because sufficient funds had not been available.

In connection with the above PIO/C's, we have noted that occasionally problems have arisen at USGS/Washington which have delayed the procurement of commodities.

For example, the procurement of commodities under two PIO/C's, issued in April 1972, with a total value of approximately US\$397,000, was delayed because the USGS/Washington had not been aware of the necessity of including the PIO/C's in its FY 1972 financial plan with the result that these items were not included in its apportionment request for FY 1972. No procurement actions were therefore taken by the USGS/Washington until after the start of FY 1973. Due to this delay, the delivery dates for the commodities

had to be amended to a later date.

In another instance, we found that several PIO/C's calling for the proprietary procurement of commodities and the appropriate waivers had been issued by USAID/B, however, no procurement action was taken by the USGS/Washington. According to the CoFP, USGS/B, the USGS/Washington verbally advised that it was unable to initiate any action because its procurement regulations preclude proprietary procurement. Although, subsequently, some commodities were purchased under only one of the PIO/C's, the CoFP, USGS/B, stated that he was considering cancelling the remaining items to be procured under the PIO/C's.

It appeared that at times decisions have been made by the USGS/B, relating to various actions to be taken in the commodity procurement process, which have been based upon information that has been supplied verbally by the USGS/Washington or the GOB and that such decisions have not always been documented in the files. It is believed that good business practices require the documentation of the justification for decisions relating to operations under the loan.

#### Recommendation No. 2

USAID/B should ensure that all pertinent decisions relating to the activities being carried out under Loan No. 512-L-065, and their justification, are fully documented in the appropriate files.

We have noted that although the PIO/C's issued by USAID/B have included a special instruction for the USGS/Washington to submit a monthly commodity report indicating the procurement and disbursement status for each item contained in a PIO/C, the USGS/Washington has never submitted these reports to the Mission. We have also noted that USAID/B has never requested the USGS/Washington to comply with this special instruction. We believe that this type of report would assist the Mission in controlling the procurement of the commodities being procured under the various PIO/C's and in deobligating any funds found to be in excess of requirements.

#### Recommendation No. 3

USAID/B should request the USGS/Washington to submit the monthly commodity report as required by the special instructions contained in the various PIO/C's issued under Loan No. 512-L-065.

#### b. Utilization

During our examination of the commodities that have been procured under the loan and have arrived in Brazil, we found that, generally, the commodities are being utilized in accordance with the purposes of the loan.

However, we found the following commodities which had not been utilized at the time of our inspections in July 1973:

i. Water stage recorders located at a warehouse in the State of Minas Gerais, which have not been utilized since their arrival in Brazil. Twenty-five of the recorders were procured under PIO/C No. 6580561, at a cost of approximately US\$21,000, and arrived in June 1972. The remaining 300 recorders were procured under PIO/C No. 6580639, at a cost of about US\$240,000, and arrived in Brazil in April 1973. According to the USGS/B, the recorders have not been used because plans for their utilization are still being developed. The USGS/B was unable to provide us with a date by which the recorders will be utilized.

ii. A group of packing crates containing laboratory equipment procured under PIO/C No. 6580659. The total value of the PIO/C amounts to US\$123,050. The commodities, which are located at the CFRM warehouse in Rio de Janeiro, arrived in Brazil in April 1973. According to the USGS/B, the commodities are to be sent to analytical laboratories which are to be constructed in the States of Goiás and Pará. It is understood that although plans call for the construction of the facilities to be completed by early 1974, no construction activities had taken place at the close of our audit.

iii. An infrared camera, procured under PIO/C No. 6580569, at a cost of approximately US\$13,000. The infrared camera arrived in Brazil in October 1972 and is presently located at the headquarters of Projeto Radar da Amazonia (RADAM) in Rio de Janeiro. We were advised by RADAM technicians that the infrared camera will not be used by RADAM because the area now encompassed by RADAM is too large for the efficient utilization of the camera. The RADAM personnel also advised us that arrangements are currently being made to lend the infrared camera to the National Observatory.

During our discussions with the CoFP, USGS/B, we were advised that he believed that his responsibility for project commodities ended when the commodities were delivered to the GOB and that it was thereafter the GOB's responsibility to ensure that commodities are properly utilized. It appeared that he was unaware of the A.I.D. requirement that commodities be utilized within a reasonable period of time after their arrival or that refund action can be taken against the recipient for untimely or improper utilization of A.I.D. financed commodities.

#### Recommendation No. 4

USAID/B should: (a) notify the GOB of the above-mentioned unutilized equipment procured under Loan No. 512-L-065; (b) advise the GOB that commodities must be properly used, within a reasonable period of time, or a Bill for Collection may be issued by the Mission; and, (c) ensure that project technicians, both GOB and USAID/B, are aware of their responsibilities relating to the proper and timely utilization of commodities.

c. Marking Requirements

Although the various PIO/C's have shown that all commodities should bear the A.I.D. (clasped hands) and Alliance for Progress (flaming torch) emblems, we found that, generally, none of the inspected commodities bore the appropriate emblems.

In this connection, we noted that none of the reviewed USGS/Washington purchase orders notified the manufacturers and/or suppliers of the commodities of this marking requirement.

Recommendation No. 5

USAID/B should: (a) ensure that all commodities which have arrived in Brazil under Loan No. 512-L-065 are appropriately marked with the A.I.D. and Alliance for Progress emblems; and, (b) advise the USGS/Washington of the necessity of including the A.I.D. and Alliance for Progress marking requirements in all purchase orders issued in connection with Loan No. 512-L-065.

3. Training

a. Participants

During the period of the implementation of the initial seven projects, i.e. from November 1967 through June 1972, 32 Project Implementation Orders/Participants (PIO/P) were issued for the short-term training of 62 Brazilian technicians. This represents only 28 per cent of the 221 participants who, according to the implementation plan for the loan, were to be trained.

The following is a comparison of the planned and actual participants for each of the seven projects:

<u>Project</u>		<u>No. of Participants</u>	
<u>Name</u>	<u>No.</u>	<u>Planned</u>	<u>Actual</u>
Bahia Project	DNPM-1	74	27
Goiás Project	DNPM-2	17	3
Tungsten Project	DNPM-3	4	1
Phosphate Project	DNPM-4	8	-0-
Hydrologic Data Collection	DNAEE-1	34	18
Photogrammetric Service	DNAEE-2	40	6
Combined Tariffs, etc.	DNAEE-3	<u>44</u>	<u>7</u>
Total		221	62
		---	---

Although there was no available explanation for the short-fall in the number of participants trained, our examination of the loan's documentation indicates it resulted from an over-optimistic estimation of the number of personnel to be trained, an inability of the GOB to assign sufficient personnel to the projects and the reorganization of the structure of the projects resulting from the establishment of the CFRM.

Since the inception of the amended loan program, in July 1972, 18 PIO/P's have been issued for the short-term training of 33 Brazilian technicians. According to the budget supporting the amended loan agreement, 34 participants should have been sent for training during the period under review.

The following is a comparison of the planned and actual participants for the various activities:

<u>Activity</u>	<u>No. of Participants</u>	
	<u>Planned</u>	<u>Actual</u>
Analytical Laboratory	2	11
Remote Sensing	7	10
Hydrology	13	7
Uranium Investigations	3	3
Geology*	8	1
Tariffs	<u>1</u>	<u>1</u>
Total	34	33
	---	---

\* Includes Mineral Economics, Economic Geology and Geochronology.

The CoFP, USGS/B, advised us that the differences between the numbers of planned and actual participants result from the availability of various types of training in the United States and from requests received from the GOB.

We noted that although the budget for the amended loan agreement shows the areas of training, the number of participants to be trained and the number of man-months of training, there was no indication that the GOB has provided an annual training plan for FY 1973 or FY 1974 showing the names of the proposed participants, the areas of training and the dates of such training. It was noted that, as of the close of this audit, no training plan had been submitted by or requested from the GOB.

Recommendation No. 6

USAID/B should request the GOB to submit a training plan for the participant training program to be carried out during FY 1974 under Loan No. 512-L-065.

b. In-Country Training

Although the seven projects initially carried out under the loan agreement showed that various types of in-country training would be provided by the USGS full-time and TDY specialists, there was no definitive information available, at the USGS/B or the GOB, relating to the actual results of any in-country training.

While the amended loan program shows that many of the activities entail in-country training, we found, as mentioned above, that there were no plans showing the annual number of courses and trainees for each activity.

Our examination of monthly and other reports showed that during the period from the inception of the amended loan program, in July 1972 through June 1973, the following training activities had been or were being performed by the full-time and TDY technicians:

<u>Activity</u>	<u>Number of</u>	
	<u>Courses</u>	<u>Trainees</u>
Remote Sensing	1	34
Hydrologic Data Collection	11	127
Basic Field Geology	1	18
Economic Geology and Exploration	2	39
Photogeology	<u>1*</u>	<u>19*</u>
Total	16	237
	***	***

\* A course in photogeology was also given to 22 trainees attending one of the economic geology and exploration courses.

## C. FINANCIAL ASPECTS OF THE LOAN

### 1. U.S. Dollar

During our examination of the financial operations of the loan, we found many PIO/P's with unliquidated balances although the participants had returned to Brazil and the last accounting entry in the Mission's memorandum accounting records had been made years prior to our review. The Mission has been reluctant to deobligate these remaining balances because it has not received notification that all disbursements have been completed.

We also found many PIO/C's which showed that no funds or only minimal amounts had been disbursed although records maintained by the USGS/B showed that all of the commodities on the PIO/C's had been received.

In addition, we found that expenditure information relating to PIO/T 6580001 was not up-to-date. In this connection, we noted that although 62 man-months of full-time services and 48 man-months of TDY services had been provided during the period from July 1972 through June 1973, only approximately US\$7,000 in expenditures were recorded by USAID/B during that period of time.

According to the CoFP, USGS/B, up-to-date disbursement information on all of the various PIO's has been requested from the USGS/Washington but such information has not been received. This lack of information restricts the Mission's ability to control the amount of the funds required for the loan.

### Recommendation No. 7

USAID/B should request assistance from AID/W in obtaining the timely submission of reimbursement vouchers from the USGS/Washington in connection with all costs related to Loan No. 512-L-065.

### 2. Local Currency

Section 2, Annex B, of the loan agreement provides that if local currency becomes available to the GOB, as a result of various USAID/GOB activities, the amount of U.S. dollars made available under the loan would be reduced by an amount equal to the local currency.

We found that although local currencies had been made available to the GOB, the local currencies had not been used and the loan correspondingly reduced because of "an oversight on both the part of the borrower and USAID."

As of the cut-off date of our audit, US\$556,900 have been made available, under the loan, for the local support costs of the USGS technicians, of which US\$419,833 have been expended by the Mission.

Since this problem was brought to the attention of the Mission by members of the staff of the Inspector General, Foreign Assistance and the Mission is currently working with the GOB to resolve the matter, no recommendation is being made at this time.

However, we have noted that other expenses, such as the cost of inland transportation in Brazil for project commodities, have also been paid from these local currencies, although these expenses are not related to support of the USGS technicians but are related to the overall support of the loan's operations.

Recommendation No. 8

USAID/B should request the GOB to authorize the utilization of the local currency, to be made available, for all local operational costs related to Loan No. 512-L-065, rather than limiting its use to the local support costs of the USGS technicians.

**D. PROGRAM REVIEW**

Section IV, B of the loan agreement states that program reviews, participated in by USAID/B, USGS/B and the GOB, will be conducted at least twice a year.

We found that prior to FY 1971 the Mission held irregularly scheduled program review meetings and that there was no evidence that any program review meetings had been convened by the Mission from FY 1971 to the cut-off date of our audit.

There was no indication showing that representatives of the GOB had attended or been invited to any program reviews of the loan.

According to the CoFP, USGS/B, program meetings have been conducted by the USGS/B with the GOB, however, there was no USAID/B participation at such reviews. We noted that USGS/GOB reviews have covered irregular periods of time and that no review has taken place for a considerable period of time.

**Recommendation No. 9**

USAID/B, in conjunction with the GOB, should:

- (a) perform a review of the activities being carried out under Loan No. 512-L-065; and,
- (b) ensure that program reviews are performed in accordance with the provisions of the loan agreement.

## E. REPORTING REQUIREMENTS

### 1. USGS

Section 25 of PIO/T 6580001 states that the USGS/B is to submit quarterly reports on the status of the loan's activities, pursuant to the terms of the agreement, and monthly activity reports for each USGS technician.

We found that although the USGS/B had submitted the monthly activity reports for each technician, no quarterly status reports have ever been provided. We noted that USAID/B has never requested the USGS/B to submit the quarterly status reports required by the PIO/T.

#### Recommendation No. 10

USAID/B should request the USGS/B to submit quarterly status reports, relating to the individual activities being carried out under Loan No. 512-L-065, in accordance with the terms of PIO/T 6580001.

### 2. GOB

Section IV, F of the loan agreement states that "Reporting on program implementation, including technical and administrative aspects, will be submitted by the DNAEE and the DNPM in conjunction with the USGS to AID at least every three months in accordance with requirements of AID as specified by AID Implementation Letters to the Loan Agreement."

We found that no quarterly reports have been submitted by the GOB since no reporting requirements, relating to the GOB's implementation responsibilities have been established by the Mission.

We believe that quarterly status reports covering the GOB's responsibilities under the loan, such as the construction of the various laboratories, the installation of water gauge recorders, etc. would be of beneficial interest to the Mission.

#### Recommendation No. 11

USAID/B should: (a) review the elements making up the various activities being carried out under Loan No. 512-L-065 in order to determine the GOB's implementation responsibilities; (b) establish reporting requirements relating to the GOB's responsibilities; and, (c) request the GOB, through an Implementation Letter, to provide quarterly status reports in accordance with the above requirements.

**F. GENERAL COMMENTS**

There has been no prior audit of Loan No. 512-L-065 performed by the Brazil Audit Residency.

However, Audit Report No. 7/70, entitled "Report on Examination of Grant Funded Bahia Project (No. 512-11-210-252.2) from Inception June 30, 1964 through November 28, 1967, with Continued Financing under Loan Agreement No. 512-L-065, Mineral and Water Resources Project, November 29, 1967 through June 30, 1969," was issued on September 9, 1969. The report included only limited aspects of the loan's operations. One recommendation was included in the report and it has been satisfactorily closed by the Mission.

EXHIBIT A

DISTRIBUTION OF  
AUDIT REPORT  
Nº 1-512-74-16

COPY Nº

Mr. Marvin Weissman, Director, United States Agency for International Development Mission to Brazil	1	-	10
State Department - Inspector General of Foreign Assistance (IGA)			11
State Department - Country Director - Office of Brazil Affairs (ARA-LA/BR)			12
AID/W - Executive Director (ARA-LA/MGT/EX)	13	-	14
AID/W - Office of Audit (AG/AUD)	15	-	16
AID/W - Office of Program Operations (LA/OPNS)	19	-	20
USAID/Panama - Inspector-in-Charge, Inspections and Investigations Staff/Panama (IIS)			21
Office of the Area Auditor General, Latin America (AAG/LA)			22
Brazil Audit Residency, AAG/LA	23	-	27

NOTE: All audit work papers are attached to COPY Nº 23 which is on file in the Brazil Audit Residency Office, AAG/LA.

- - -

24