

# AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES A. I. D. MISSION TO BRAZIL

AUDIT REPORT

OF

ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST

STATE OF MARANHÃO

PROJECT AGREEMENT No. 512-N-64-AE

FOR THE PERIOD

OCTOBER 22, 1963 THROUGH APRIL 30, 1966

REPORT NO. 3/67

COPY NO. 5

OFFICE OF THE CONTROLLER  
USAID/BRAZIL

DATE: AUGUST 12, 1966

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

Office of the Controller

August 12, 1966

TO The Director of Mission  
Minister Stuart H. Van Dyke

The Office of the Controller has completed an examination of the Maranhão Elementary and Basic Education project covering operations during the period from October 22, 1963 through April 30, 1966.

Under the terms of an umbrella loan agreement with SUDENE, USAID has obligated Cr\$17.2 billions of PL 480 U.S.-owned cruzeiros for a program of school construction in 8 States of the Northeast. SUDENE in turn grants the funds to the States pursuant to the terms of individual project agreements with each of the States. In the case of Maranhão the project agreement of October 1963 provided for a grant of Cr\$3.4 billions in A.I.D. funds for a 3 year program ending in October, 1966.

The Maranhão program provided for the construction of 1700 classrooms, renovation and reconstruction of 300 classrooms, construction of 7 audio visual centers, construction of 6 normal schools and training centers, school equipment, and teacher training programs. The program is administered by the State organization Comissão Executiva do Plano Educacional do Maranhão (CEPLEMA).

As of April 30, 1966 of the amount of Cr\$3.4 billions in A.I.D. funds committed for this project approximately Cr\$2.0 billions have been released to the State, the last release having been made in June 1965. The State has expended a total of Cr\$376 millions from the funds received.

The auditors' findings confirm that the implementation of this program for the State of Maranhão has been unsatisfactory. Significant deficiencies noted in this program are as follows:

(1) The project plan as set forth in the project agreement had as a goal the construction of 1700 new schoolrooms in the State. By April 30, 1966 after 2-1/2 years of the 3 year program had elapsed, only 66 had been constructed. Eighteen percent of the A.I.D. funds budgeted for construction had been expended with less than 4% of the classroom construction target having been attained.

TO The Director of Mission

(2) In addition to construction of new schools the project budget provided for reconstruction of 300 existing schoolrooms. A total of 50 schoolrooms have been reconstructed. Thirty percent of the budgeted funds in this category have been expended with 16% of the target achieved.

(3) No arrangements existed or were funds available for the maintenance of the schoolhouses. The State Secretary of Education advised that attempts are being made to obtain a budgetary allocation for this purpose.

(4) Programs for the development of teachers were inadequate and the State could not provide sufficient teachers to fill the needs of the schools under this program. Approximately 135 State schools were reportedly closed due to the lack of teachers. Although the program provided for Cr\$456 millions for training purposes, approximately only Cr\$12 millions have been spent for this need.

(5) Another factor, in addition to the lack of teachers, contributing to inadequate school utilization was that schools were planned in some locations without sufficient regard to local school age population and existing school facilities. For example, a two room school was located on the private estate of the former State governor, and only one other family reportedly lived in the area.

(6) The controls established by the State (CEPLEMA) over the administration and expenditure of these funds were inadequate, with the result that funds were susceptible to misappropriation. The auditors established that funds were misappropriated in some cases by State and municipal employees through the submission of false and fictitious invoices, padded payrolls and other devices. Considering the inherent weaknesses in the system of control over the funds it is probable that the extent of such misappropriation is greater than the approximately Cr\$27 millions disclosed by the sampling undertaken by the auditors. In announcements made public by the Governor of Maranhão, the State has initiated an investigation of the financial irregularities and has asserted its intention to reformulate and improve the program. In the course of the USAID Controller's follow-up procedures on recommendations contained in the audit report, the effectiveness of actions taken by the State will be evaluated.

(7) The State Agency, CEPLEMA, had responsibility for administering this program. But, its engineering staff has lacked the capabilities, both quantitatively and qualitatively, to discharge this responsibility effectively.

(8) Under the terms of the project agreement SUDENE had a re-

TO The Director of Mission

sponsibility to inspect, audit, check execution of plans, evaluate results, etc. SUDENE did not adequately discharge this responsibility.

(9) The firm of Leo A. Daly, Architects and Engineers, was contracted as an independent engineering consultant to the USAID's Northeast Area Office (NEAO) in Recife. The auditors noted that although the Consultant's monthly progress reports submitted to the NEAO generally contained accurate and valuable information, inadequate use of these reports were made by the NEAO. For example, Daly's January 1965 report recommended resolution of certain specified problems before USAID effected the next quarterly release of funds. The auditors found no evidence that corrective action was taken as recommended by Daly and that, on the contrary, additional releases of funds to the project were processed.

(10) SUDENE honored its commitment under the project agreement to contribute Cr\$150 millions of its own funds to this project. However, as of April 30, 1966 the State was lagging in meeting its scheduled commitment to contribute Cr\$400 millions to the project.

Inflation was a principal factor contributing to the project's lack of success. However, as noted above, various other factors contributed importantly to the general unsatisfactory situation.

The general shortcomings of this program are no doubt symptomatic of a more "underlying cause" i.e., the need for increased emphasis during the planning stages of projects on "feasibility", with particular reference to the Brazilian executing agency's capabilities to manage the programs effectively and to USAID's staff capabilities to monitor them.

The NEAO is aware of the problems in the Elementary and Basic Education Program and created in March 1966 a NEAO "Task Force" to define the problem areas and initiate corrective action.

Two issues, among others, requiring resolution, are currently under USAID consideration. These are:

(1) Taking into account the automatic termination date of October 21, 1966, provided for in the project agreement, should the USAID terminate its contribution to the project, or alternatively, extend the agreement and continue to release the balance of the committed funds only, of course, after certain effective improvements have been made in project administration, including appropriate safeguards over the use of funds ?

(2) Should the USAID resort to the recourse provided for in the umbrella loan agreement with SUDENE and request SUDENE to make an appropriate refund to A.I.D ?

TO The Director of Mission

The audit report contains a number of recommendations designed to improve upon the management of this program.

*Norman Olnick*  
Norman Olnick  
Controller

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AUDIT REPORT  
No. 3/67

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SECTION I - INTRODUCTION

A. PURPOSE

The purpose of this examination was to review and evaluate the progress achieved as outlined in the project agreement, to determine the extent of compliance with its terms, and to verify that the funds were properly utilized.

B. SCOPE

This was the initial audit of the project agreement in the State of Maranhão. The audit covered the period from the inception of the project on October 22, 1963 through April 30, 1966.

Accounting records were examined and meetings and discussions were held with the Director of Comissão Executiva do Plano Educacional do Maranhão (CEPLEMA). We also held meetings with the Secretary of Education and the Governor of Maranhão.

A field trip was made to 9 schools in May and June 1966 for purposes of physical observations and evaluation. Related discussions were held with mayors, teachers, and citizenry in the communities visited.

This examination was made in accordance with applicable manual orders, other directives and generally accepted auditing standards

which we considered appropriate in the circumstances.

The audit was performed jointly with SUDENE auditors, however, separate reports were prepared. The auditors found the joint audit working relationship satisfactory.

We reviewed and discussed the findings of this report with the Chiefs, NEAO (USAID/B Northeast Area Office) Education Branch and Engineering, Industry and Natural Resources Division who are in accord with its contents.

## SECTION II - GENERAL

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 subsequently increased to Cr\$17,280,592,000.

On October 22, 1963, SUDENE, USAID/B, and the State of Maranhão entered into Project Agreement No. 512-N-64-AE under which SUDENE agreed to make available to the State of Maranhão, as a grant from the Federal Government, the amount of Cr\$3,473,440,000 from the USAID/B loan proceeds. This project agreement was aimed at providing financial resources to the State of Maranhão for expanding and improving the elementary and basic educational system in the State. The scope of this project agreement broadly provided, among other things, for the construction of 1700 schoolrooms, the renovation and reconstruction of 300 schoolrooms, construction of 7 audio visual centers, construction of 6 normal school and training centers, school equipment, and teacher training programs.

The USAID/B loan funds were generated from the Second Sales Agreement - P.L. 480, Title I, Section 104 (g).

SECTION III - FINDINGS AND RECOMMENDATIONS

A. FUNDING

1. General

A total of Cr\$4,023,440,000 was pledged by the signatories to accomplish the objectives of this project. Our examination revealed that as of April 30, 1966, CEPLAMA recorded the receipt of Cr\$ ..... 2,375,641,216 as follows:

	<u>PLEGGED</u>	<u>PROVIDED</u>
USAID/B	Cr\$3,473,440,000	Cr\$1,992,307,884
SUDENE	150,000,000	150,000,000
State of Maranhão	<u>400,000,000</u>	<u>233,333,332</u>
TOTAL	<u>Cr\$4,023,440,000</u>	<u>Cr\$2,375,641,216</u>

The final contribution date under the project agreement is October 21, 1966.

2. USAID/B

Our examination revealed that as of April 30, 1966, Cr\$..... 1,992,307,854 of USAID/B loan funds were released to the State of Maranhão as follows:

November 26, 1963	Cr\$ 178,700,000
July 23, 1964	342,718,295
June 22, 1965	<u>1,470,889,589</u>
	Cr\$1,992,307,884
	=====

The USAID/B funds were properly deposited in a separate bank account opened at the Banco do Estado do Maranhão, which reflected an unexpended balance of Cr\$1,094,505,746 as of April 30, 1966. Our examination revealed that CEPLAMA's limited management capability considerably restricted the pace and implementation of this project. This accounts for the fact that CEPLAMA did not fully draw on the Cr\$3,473,440,000 USAID/B pledged or fully utilize the USAID/B funds released.

a. Bank's Financial Position

The Balance Sheet of the Banco do Estado do Maranhão, dated May 5, 1966, revealed that the bank, if requested, was unable to release the full balance of USAID/B funds. The USAID/B funds represented 11.6 per cent of total assets. On the date of the balance sheet the bank had Cr\$848,461,187 in vault cash and Cr\$862,411,327 on deposit with the Banco do Brasil. We were informed by officials at Banco do Brasil that this latter balance could not be fully withdrawn. In our opinion CEPLAMA cannot make a substantial withdrawal of USAID/B funds at this time due to the State Bank's liquidity position. This situation should be considered in scheduling funds for project activities.

RECOMMENDATION No. 1

That the NEAO, Education Branch, consider selecting banks with larger and more liquid resources for the future deposit of USAID/B funds, such as the Bank of the Northeast or Banco do Brasil.

b. Interest Earned

Our examination revealed that CEPLAMA opened a second account at the Banco do Estado do Maranhão as stated in the project agreement for the accumulation of earned interest. As of April 30, 1966, there was a balance in this account of Cr\$8,383,421. We discussed the eventual disposition of these funds with the NEAO Education Branch and Program Office and were informed that the funds would be utilized for project purposes.

3. SUDENE

SUDENE agreed to contribute Cr\$150,000,000 to the project as a grant. Our examination revealed that SUDENE fulfilled its financial obligations as of April 30, 1966, with the following releases to the project:

December 12, 1965	Cr\$ 43,000,000
April 13, 1966	<u>107,000,000</u>
	Cr\$150,000,000
	=====

4. State of Maranhão

According to the project agreement the State of Maranhão pledged Cr\$400,000,000 to the project. The State was to deposit its funds at a minimum rate of Cr\$11,111,111 per month for the 36 month period covered by the project agreement. Our review of CEPELEMA's records revealed that as of April 30, 1966, the State released Cr\$.. 233,333,332, representing 21 monthly payments.

The records revealed that no State releases were made since February, 1966. As of April 30, 1966, the State should have released Cr\$333,333,330, the equivalent of 30 months. The State of Maranhão was, therefore, 9 months in arrears, representing Cr\$100,000,000.

RECOMMENDATION No. 2

That the NEAO, Education Branch, initiate appropriate action which requires the State to fulfill its financial obligation.

B. PROJECT PROGRESS

1. General

As of April 30, 1966, we found that CEPELEMA expended Cr\$.. 898,017,191 of USAID/B funds as follows:

Construction	Cr\$494,715,084
Reconstruction	65,503,906
Equipment	116,776,854
Training	11,996,755
Other	<u>209,024,592</u>
	Cr\$898,017,191
	=====

2. Construction and Reconstruction

a. Construction

Our examination revealed that the progress in new construction was unsatisfactory as compared to project goals. This was reflected in the following figures as of April 30, 1966, which shows the expenditures of Cr\$494,715,084 or 16% of USAID/B funds compared to less than 4 per cent accomplishment of the physical objectives.

	PROGRAM		ACTUAL	
	Number	Cost #	Number	Cost
Classrooms	1700	Cr\$2,713,200,000	66	Cr\$494,715,084
Normal schools	4	208,000,000	-	-
Training Centers	2	30,000,000	-	-
Audio Visual Centers	7	82,000,000	-	-
Institute of Education	1	80,000,000	-	-
		<u>Cr\$3,113,200,000</u>		<u>Cr\$494,715,084</u>
		=====		=====

# Includes undisclosed provision for equipment.

This program was adversely affected by inflation. For example, the construction index for the State of Guanabara, which can be used for illustrative purposes, increased from 747 for 1962 to 4249 for 1965. Coupled with this climate of serious inflation, we found such factors as incompetent CEPELEMA engineering, inadequate contractor capability and SUDENE administrative delays which adversely affected the progress of this program. These factors, which are discussed below, augmented the already harmful impact of inflation:

1. The CEPELEMA engineering staff lacked the competence and personnel to administer a program of this magnitude. The technical staff of the architectural department consisted of two architects and two engineers. We found evidence that the staff only worked 2 to 3 hours per day on project activities. Outside activities consumed most of their time. The staff was supplemented by 2 full time draftsmen and 5 full time field inspectors. The field inspectors were reported by the Leo A. Daly Co., Architects and Engineers, the firm engaged by AID/W to review and supervise construction activities, as "incapable of carrying on the work for which they were hired." The Project Engineers for the Daly Co. informed us that the inspectors were unable to assist the mayors in construction matters and in many cases failed to recognize poor or dangerous construction. Our examination revealed that these inspectors were responsible for the final construction of 10 or 15 schools started and nearing completion under this pro-

gram. In each case the school was poorly constructed and rejected by the Daly Co.

RECOMMENDATION No. 3

That the NEAO, Education Branch, initiate action to have CEPLEMA replaced with an effective entity or sufficiently strengthened to implement its project responsibilities.

2. Contractors' capabilities were insufficient to construct a program of this size. We found that too much reliance for arranging construction was placed on town mayors who lacked knowledge of construction matters. Our examination revealed that 14 schools were originally started by mayors, however, as noted above, 10 of these were completed under CEPLEMA inspectors. We found that this lack of continuity in construction was a contributing factor to the misappropriation of USAID/B funds by both the local mayors and CEPLEMA's Engineering staff. We found also that the construction schedules were considerably lengthened, thus further exposing the project to the inroads of inflation.

RECOMMENDATION No. 4

That the NEAO Engineering, Industry, and Natural Resources Division, request that CEPLEMA use reputable contractors in all future construction; when not possible specific approval of the NEAO should be obtained for other parties selected.

3. The amount of time needed by SUDENE to review and approve school construction plans and site locations was excessively long and inadequately controlled. We found that it usually required SUDENE about a year to review and approve construction plans and that in some cases construction was completed by CEPLEMA, although the architectural designs, specifications and sites were not approved by either SUDENE or the NEAO. We found that closer, continuous supervision was necessary in a project of this scope. Yet there was little evidence to indicate that SUDENE's Engineering Department showed the required interest in the project.

CEPLEMA, themselves, complained in a financial report submitted to SUDENE and the NEAO in June, 1965 as follows:

"We find it strange that SUDENE .... demands the perfect operation of this Executive Commission while it fails to provide us with the necessary technical assistance."

RECOMMENDATION No. 5

That the NEAO Engineering, Industry and Natural Resources Division, initiate action which requires SUDENE's Engineering Department to expedite the approval, or take other action, of all future plans and effect the necessary controls.

b. Reconstruction

We found that as of April 30, 1966 CEPLEMA expended Cr\$65,503,906 of USAID/B funds on the reconstruction of 50 classrooms. This compared unfavorably with project goals as follows:

	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Cost</u>	<u>Number</u>	<u>Cost</u>
Classrooms	300	Cr\$231,600,000	50	Cr\$65,503,906

The reasons cited for the lack of progress in reconstruction were:

1. Reconstruction was planned during the initial stages of this program when the CEPLEMA Engineering Section was not fully staffed;
2. New construction was subsequently given priority over reconstruction by the CEPLEMA Engineering Staff.

Our examination revealed a failure to properly define the work involved in reconstruction. We found that CEPLEMA usually interpreted reconstruction as normal maintenance. As a result, very little reconstruction work was performed under the program.

c. Contracting Procedures for Construction and Reconstruction

We reviewed and evaluated CEPLEMA's procurement procedures and found them ineffective and susceptible to misappropriation of funds.

Our examination revealed that competitive bidding was not performed, the construction contract amounts were frequently and unreasonably readjusted, and the disbursement process enabled misappropriation of USAID/B funds. These findings are discussed below:

1. We reviewed CEPEMA's bidding procedures and found no evidence of competitive bidding for construction and reconstruction either completed or in progress. However, according to Brazilian federal regulations, applicable to all public agencies, contracts can only be awarded by competitive bidding. Nevertheless, we found that all construction contracts were awarded by direct negotiations between CEPEMA Engineering Staff and local mayors. We were informed by the CEPEMA Engineering Staff that this action was necessitated because of a lack of qualified construction companies in the State. This explanation, however, was in contradiction to 9 construction contracts which were awarded on January 25, 1966, to 6 construction firms located in the capital city of São Luiz. It is evident that bidding was possible.

RECOMMENDATION No. 6

That the NEAO Engineering, Industry and Natural Resources Division, initiate action to enforce CEPEMA's compliance with Brazilian regulations on bidding practices for public agencies.

2. Our examination revealed that the awarded contracts enabled the mayors to perform the construction or reconstruction work either themselves or sublet it to local building firms. We found that almost all construction work was started by the mayors and subsequently completed by the CEPEMA Engineering Staff. The reconstruction work, however, was usually completed by the mayors. The CEPEMA Engineering Staff prepared budgets for each contract and advances were made to the mayors and CEPEMA field inspectors against these budgets. We found, for example, that these budgets for construction were usually subject to several readjustments as reflected in the following figures:

Original budgets	Cr\$200,831,367
Adjustments	<u>315,459,773</u>
	Cr\$516,291,140
	=====

X

These readjustments represented an increase of 157 per cent over the original budgets. To some extent these adjustments represented valid increases due to inflation. But the Daly Co. informed us, based on their periodical review of local construction materials, that the budget estimates were approximately 50 per cent above market costs. Yet we found that actual reported costs of 6 of the 15 schools were exactly equal to revised budgets, in terms of materials, labor, and unit prices. This, in our opinion, represented an unlikely coincidence (Exhibit I).

3. We reviewed CEPELEMA's disbursement procedures and found that advances of 20 per cent were normally effected at the time contracts were awarded and subsequent advances made as required. These advances were cleared when the mayors and the CEPELEMA field inspectors submitted paid invoices to the CEPELEMA Accounting Section as proof of payment. However, we found numerous instances where the CEPELEMA Field Inspectors prepared receipts which were signed by suppliers and others as evidence of payment. These receipts were then submitted as proof of payment. We performed a selective verification of invoices and receipts submitted by the mayor and the CEPELEMA field inspectors for the construction of the São Mateus school. The school construction was originally started by the mayor and later completed under CEPELEMA Engineering Staff. The costs incurred were Cr\$69,079,575 distributed as follows:

Mayor	Cr\$30,522,000
CEPELEMA	<u>38,557,575</u>
	Cr\$69,079,575
	=====

Our invoice verification of the above costs revealed the following: (a) the mayor of São Mateus presented Cr\$24,119,785 in invoices as proof of payment (the balance of Cr\$6,402,215 was reflected as an advance); however, we found on the basis of personal discussions with suppliers and other persons that several of the invoices were fraudulently prepared. The amount of the fraudulent documents acknowledged by suppliers and others represented Cr\$17,295,180.

We found such examples as stolen blank supplier invoices used for charging materials to the school, forged payroll signatures, and receipts signed in blank. We obtained statements from suppliers confirming these diversions. (b) The CEPLAMA Engineering Staff Field Inspectors also submitted false documents for expenses incurred. We found that invoiced materials were charged at prices equivalent to budget although suppliers stated they received less. We verified with suppliers and others the actual amounts paid and found that the Engineering Staff submitted documents for Cr\$10,320,500 in excess of actual cost. Statements from suppliers authenticating this finding were not obtained although some of the same persons were involved.

A sampling of local prices appeared to indicate the diversion of USAID/B funds by the State Engineering Staff at schools constructed in Santo Antonio de Lopes, and Caxias. We found that the prices charged were substantially higher than local costs and equivalent to the budget prices.

RECOMMENDATION No. 7

That the NEAO stop further releases of USAID/B funds to CEPLAMA until the situation of misappropriation of funds, construction deficiencies and inadequate controls of funds, are properly resolved.

d. Utilization

We performed an end-use observation of 9 schools financed under this program of which 6 were new construction and 3 reconstruction. Our examination revealed that:

- 1 school was still under construction
- 2 schools were vacant
- 3 schools were only partially utilized
- 3 schools were fully utilized

On further examination, we found that the Daly Co. reported in April 1966 the following utilization of schools either constructed or reconstructed as part of this program:

- 1 school under construction
- 4 schools vacant
- 22 schools operating either partially or fully

Our examination revealed that this unsatisfactory utilization of schools was attributable to:

1. Poor site selection; we found that the school age population figures used for selecting sites were not accurate. For example, a two room school which cost Cr\$35,277,670 was located on the private estate of the former governor. Reportedly only one other family lived in the area (São Bento-Poleiro).

Our end-use observation revealed that 3 of the schools were less than 50 per cent utilized because existing schools were not taken into account in the site selection criteria. A summary of the inadequate criteria used to locate schools is presented in Exhibit II which was prepared by SUDENE's Chief Architect.

2. A lack of trained teachers; our examination revealed that 2 schools were completed in February 1966 but no teachers were hired and the opening of the schools was still questionable.

We discussed the problem of vacant schools with the Secretary of Education. He informed us that he would exert all possible efforts to get the schools open as soon as possible. He indicated, however, that closed schools were a very serious problem in Mara-

nhão. We were informed by the Secretary that there were 337 State schools presently operating, however, there were approximately an additional 135 schools closed due to lack of teachers.

We found that 21 of the schools either constructed or reconstructed were not approved by the Daly Co., due to such reasons as noncompliance with engineering specifications, faulty construction or work simply not performed. Our end-use examination revealed, for example, that reconstruction work usually consisted of painting and a few normal repairs. We also found that many of the new schools were poorly constructed and required major repairs. We were informed by the Daly Co. that approximately Cr\$50,000,000 is required to perform these needed repairs.

e. Maintenance

Our physical observation of 9 schools revealed that maintenance was a very serious problem. We found that several of the schools recently constructed were deteriorating rapidly. We were informed by the principals of the schools that there was no general maintenance program to effect the necessary repairs.

We discussed this problem with the Secretary of Education who informed us that there were no funds provided in the Education Budget for maintenance. The Secretary indicated that the Federal Government was providing federal assistance this year amounting to Cr\$3,050,218,811 including balances carried forward from 1964 and 1965. He stated that he tentatively planned to allocate approximately 40 per cent of this amount to the reconstruction and maintenance of schools.

RECOMMENDATION No. 8

That the NEAO Engineering, Industry and Natural Resources Division, exert reasonable efforts to initiate a maintenance program for schools financed with USAID/B funds.

3. Equipment

Our examination revealed that Cr\$116,776,854 of USAID/B funds were expended on equipment as shown below:

	<u>PROGRAM</u>	<u>ACTUAL</u>
Classroom furniture	Cr\$ 47,640,000	Cr\$ 55,221,654
Office equipment	7,000,000	11,403,200
Vehicles	44,640,000	46,057,000
Kitchen	82,200,000	4,095,000
Medical units	<u>11,800,000</u>	<u>-</u>
TOTAL	Cr\$193,280,000 =====	Cr\$116,776,854 =====

a. Procurement

We reviewed CEPELEMA's procurement practices for equipment and found that the State adhered to the usual Brazilian federal regulations on public bidding prescribed for governmental agencies. In all cases which we reviewed the lowest bidder received the award. We examined CEPELEMA's disbursements procedures, receiving reports and distribution and stock records and found them to be in order and in accordance with acceptable accounting practices.

b. Utilization

We performed, on a selective basis, an end-use observation of the equipment purchased under this program and found it was generally well distributed and effectively employed. Vehicles, however, were an exception. We found that 2 of 13 vehicles purchased were seriously damaged and not operating. We found also that 5 vehicles were reflected as distributed to 5 supervisory centers, although our end-use examination revealed that the vehicles were utilized by the CEPELEMA Administrative and Engineering Sections. Consequently, we were informed by these Supervisory Center personnel that they never visited the schools within areas of responsibility due to lack of transportation.

RECOMMENDATION No. 9

That the NEAO, Education Branch, initiate action to (1) see that distribution of existing and/or additional vehicles are made to the Supervisory Centers, and (2) that the damaged vehicles are either repaired or replaced.

4. Training

As of April 30, 1966, CEPELEMA expended Cr\$11,996,755 of USAID/B funds on training activities which compares unfavorably with program goals as shown below:

	<u>PROGRAM</u>		<u>ACTUAL</u>	
	<u>Number</u>	<u>Total Cost</u>	<u>Number</u>	<u>Total Cost</u>
Supervisory Training	-	-	42	Cr\$ 1,747,325
Emergency Teacher Training	1000	Cr\$277,400,000	97	9,731,430
Adult Literacy Program	2200	128,030,000	50	518,000
Scholarships	30	12,530,000	-	-
Didactical materials	-	38,600,000	-	-
TOTAL		Cr\$456,560,000		Cr\$11,996,755
		=====		=====

Our examination revealed that unsatisfactory progress was achieved in the training program. This was, in part, due to the cancellation of the "Adult Literacy Program" by the Brazilian Federal Ministry of Education subsequent to the March 1964 Revolution; however, we found that both the SUDENE and the USAID/B/NEAO Education Branch were slow in formulating alternative programs for the utilization of these funds. At the time of this examination, there was no apparent evidence to indicate that much was being done or planned in training by anyone. Our review also indicated that the results of the "Emergency Teacher Training Program" thus far were unsatisfactory as compared with the program. In our opinion more emphasis must be placed in this area to develop adequate teachers for the 135 State schools which are reportedly closed. It is our opinion that there is currently an imbalance of attention focused on the construction sector. We feel that NEAO should consider a reappraisal of the whole program, increasing emphasis on teacher training.

RECOMMENDATION No. 10

That the NEAO, Education Branch, initiate (1) an effective program for the utilization of funds allocated to training, and (2) in cooperation with the Associate Director, consider increasing program emphasis on teacher training.

5. Other

Our examination revealed that as of April 30, 1966 CEPLEMA expended Cr\$209,024,592 of USAID/B funds on administrative salaries, expenses and advances as presented below:

	<u>BUDGET</u>	<u>ACTUAL</u>
Salaries	Cr\$28,800,000	Cr\$ 35,505,106
Travel	-	7,906,545
Miscellaneous	-	7,087,796
Organization Expense	-	40,000,000
Advances to contractors	-	118,530,145
TOTAL	Cr\$28,800,000	Cr\$209,029,592
	=====	=====

On January 25, 1966, CEPLEMA awarded 9 new school construction contracts to 6 construction firms, however, the contracts were subsequently cancelled by the incumbent Governor after his inauguration on February 1, 1966, as Brazilian law prohibits awarding contracts within the last 90 days term of an out-going administration. We found that CEPLEMA made advance payments against these contracts totalling Cr\$118,530,145 (see figure above). A total of Cr\$48,944,501 was returned by the contractors during May, 1966. However, we were informed by CEPLEMA that they were having difficulty getting the balance of Cr\$69,585,644 back from the contractors.

RECOMMENDATION No. 11

That the NEAO Engineering, Industry and Natural Resources Division, initiate action for the refund of Cr\$69,585,644 to the project account for construction advances.

On a selective basis we reviewed the other expenses incurred above and it is our opinion, from the documents reviewed, that the expenses are reasonable.

C. REPORTING, ACCOUNTING AND SUDENE AUDITING PROCEDURES

1. Reporting Procedures

Financial reporting by CEPLEMA on the progress of this project was inadequate. We found that CEPLEMA only accounted for the expenditure

of USAID/B funds when requests for additional funds were submitted. We found that two periods were reported; each period reported was longer than one year. The result was a lack of budgetary control by both SUDENE and the NEAO.

RECOMMENDATION No. 12

That the NEAO, Education Branch, initiate action that will require reporting for the expenditures of USAID/B funds on a quarterly basis.

The Leo A. Daly Co., Architects and Engineers, submitted school inspection reports as well as monthly progress reports to the NEAO. We found that the monthly progress reports generally contained complete and accurate information. However, we feel that inadequate use was made of these reports by NEAO. We found, for example, that the Daly Co. Report No. 10, dated January 1965, stated the following:

"The following problems must be resolved before we can recommend the release of 3rd quarter funds:

1. The present budgets for the prototype schools must be completely analyzed and the following corrections made:
  - a) Correct the quantities of labor and material;
  - b) Provide a suitable percentage for contractors profit and overhead;
  - c) The estimate must take into consideration the effects of inflation over the contract period."

We found no evidence that corrective actions were taken as suggested in the above report. On the contrary, we found that additional USAID/B funds were released to the project. One of the weaknesses we noted in this project was that USAID/B funds were released without any apparent approval of the engineering consultant. It is our opinion that the Leo A. Daly Co. should be included in the approval routine for releases of all construction funds as a control to ensure that past deficiencies are corrected before initiating additional construction activities.

RECOMMENDATION No. 13

That the NEAO, Education Branch, in cooperation with the NEAO Engineering, Industry and Natural Resources Division, (1) initiate the necessary corrective action when and where deficiencies are reported by the Leo A. Daly Co., and (2) include Leo A. Daly Co. in the approval of releases involving construction funds.

2. Accounting Procedures

We examined CEPLEMA's accounting procedures insofar as they were related to our examination of this project agreement and it is our opinion that they generally maintained their books and records in accordance with sound accounting principles and procedures. We found that CEPLEMA maintained separate accounting records for the receipt and disbursement of all USAID/B funds. The most significant accounting irregularity we noted pertained to the disbursement procedure for construction. We found that the CEPLEMA field inspectors prepared receipts which were signed by suppliers and submitted as proof of payment. This procedure (1) was irregular and avoided the payment of the State Sales Tax, (2) aided in avoiding federal income tax, and (3) was susceptible to misappropriation.

RECOMMENDATION No. 14

That the NEAO, Education Branch, initiate action requiring payment of USAID/B funds against official suppliers invoices only.

3. SUDENE Audit Procedures

According to the project agreement SUDENE was assigned the responsibility for exercising the following controls:

"auditing; ensuring the proper use of funds; checking the execution of the plans; inspecting and evaluating results to ensure compliance with proper technical standards."

Our examination revealed that SUDENE did not effectively execute its responsibility. We found that this present joint audit with SUDENE was the first field examination they made of CEPELEMA's records and procedures. However, SUDENE certified the expenditures of Cr\$... 40,400,945 in USAID/B funds on the basis of "desk audits".

Our examination also revealed that SUDENE approved CEPELEMA's requests for construction funds although the SUDENE Engineering Department did not approve the architectural specifications. In several cases, schools were completed without the SUDENE Architectural Department's approval. It is our opinion that the poor progress achieved under this program is in part related to SUDENE's failure to fully execute their responsibilities.

RECOMMENDATION No. 15

That the NEAO discuss with appropriate officials of SUDENE, by way of offering constructive criticism, their agreed-to responsibilities with respect to control of funds, auditing, and the technical aspects of execution, inspection and compliance with technical standards.

D. PUBLICITY AND MARKING

1. Publicity

We contacted the United States Information Service (USIS), Recife, who provided us with their files. A review of their files indicated that the projects were adequately publicized after the announcement of the project agreement and the subsequent releases of funds. The files reviewed revealed no adverse publicity.

2. Marking

Our end-use observation of 9 schools financed with USAID/B funds revealed that only one school was properly identified with an Alliance for Progress sign.

RECOMMENDATION No. 16

That the NEAO, Education Branch, initiate action to properly identify all buildings constructed with USAID/B funds.

ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST  
 STATE OF MARANHÃO  
 SUMMARY OF NEW CONSTRUCTION  
 AS OF APRIL 30, 1966

<u>DATE</u> <u>STARTED</u>	<u>DATE</u> <u>FINISHED</u>	<u>SCHOOL</u>	<u>NUMBER</u> <u>OF ROOMS</u>	<u>ORIGINAL</u> <u>BUDGET COST</u>	<u>REVISED</u> <u>BUDGET</u>	<u>ACTUAL</u> <u>COST</u>
10/23/64	-	Caxias	9	Cr\$ 43,000,000	Cr\$ 80,394,003	Cr\$ 67,191,839
12/17/64	5/27/65	Gonçalves Dias	7	24,500,000	36,473,172	36,473,172
5/11/64	8/11/65	Mata Roma	6	2,971,000	27,655,000	27,655,000
4/14/64	4/10/65	Igarapê Grande	6	5,400,000	17,507,520	17,507,520
5/ 5/64	5/ 1/65	Alcântara	6	5,400,000	34,440,870	34,440,870
9/16/64	1/19/66	Sto. Antonio do Lopes	6	20,511,654	44,028,734	44,028,535
9/ 1/64	5/20/66	São Mateus	6	19,022,000	69,079,575	61,079,575
8/31/64	10/ 6/65	Aldeias Altas	4	12,580,000	24,403,778	23,736,554
9/22/64	2/19/66	Paço do Lumiar	3	2,700,000	32,606,595	33,510,721
9/22/64	2/19/66	Mercês	3	15,801,713	33,413,340	32,772,714
10/15/64	12/30/65	Poleiro	2	12,600,000	35,536,160	35,746,730
9/24/64	12/14/65	Icatú	2	11,200,000	24,746,310	24,541,528
4/23/64	3/10/65	Cumã	2	2,445,000	6,941,500	6,941,500
8/31/64	10/29/65	Cajueiro	2	10,100,000	23,030,703	22,984,471
10/15/64	11/17/65	Alegre	2	12,600,000	26,033,880	26,104,355
TOTAL				Cr\$ 200,831,367	Cr\$ 516,291,140	Cr\$ 494,715,084
				=====	=====	=====

ELEMENTARY AND BASIC EDUCATION IN THE BRAZILIAN NORTHEAST  
STATE OF MARANHÃO  
OBSERVATIONS OF SUDENE'S ENGINEER  
CONSTRUCTIONS

Locality	POPULATION 7-14 YEARS	EXISTING SCHOOL-ROOMS NUMBERS	NECESSARY SCHOOL-ROOMS NUMBERS	CONSTRUCTED SCHOOL-ROOMS NUMBERS	SHORTAGE OF SCHOOL-ROOMS NUMBERS	SURPLUS OF SCHOOL-ROOMS NUMBERS
Alcântara	347	-0-	4	6	-0-	2
Paço do Lumiar - Séde	100	-0-	2	3	-0-	1
Paço do Lumiar - Mercês	45	-0-	1	3	-0-	2
Caxias	4,884	27	55	9	19	-0-
Igarapé Grande	383	-0-	5	6	-0-	1
Gonçalves Dias	427	-0-	5	6	-0-	1
São Mateus	640	-0-	8	6	2	-0-
Aldeias Altas - Séde	35	-0-	1	4	-0-	3
Aldeias Altas - Cajueiro	(*)		(*)	2	(*)	
Sto. Antonio do Lopes	492	-0-	6	6	-0-	-0-
Mata Roma	279	-0-	4	6	-0-	2
São Bento - Alegre	75	-0-	1	2	-0-	1
São Bento - Poleiro		-0-	-0-	2	-0-	2
Guimarães - Cumã	170	-0-	2	2	-0-	-0-
Itapera - Icatú	116	-0-	2	2	-0-	-0-
TOTALS	7,993	27	(96)	65	(21)	15

(\*) No information available.