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MANAGEMENT OF CASH ADVANCES
BY AID OVERSEAS MISSIONS
NEEDS IMPROVEMENT

Audit Report No. 0-000-84-15

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U.S. Treasury and AID regulations require the Agency to follow prudent cash management practices. OMB Bulletin No. 33-6 issued on October 22, 1982, placed additional requirements on the Agency with this regard.

This report discusses what can happen when AID's Mission Controllers fail to follow sound policies and procedures and adequately manage their cash advances, and AID's actions taken in response to OMB Bulletin No. 83-6.

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EXECUTIVE SUMMARY

Background

The Administration and the Congress are very sensitive to the impact that cash management of Federal funds has on the national debt. In 1980, the Senate Committee on Appropriations recommended that U.S. Government agencies carry out steps to improve the management of cash advances provided for Federal programs. In July 1981, the Director, Office of Management and Budget (OMB) urged the heads of Federal departments and establishments to instruct their staffs to carry out these recommendations. In October 1982, OMB renewed its efforts to have Federal agencies institute an aggressive program for strengthening cash management practices. On October 22, 1982, OMB issued Bulletin No. 83-6 to implement the cash management provisions of an overall management improvement process referred to as "Reform 88". This bulletin required each agency to designate a Cash Management Officer and to submit a plan improving its cash management. Mission Controllers are responsible for implementing Treasury and AID regulations related to cash management--including advances--overseas. (See page 1)

Lessons To Be Learned

Mission Controllers have at their disposal sound policies and procedures to guide them in carrying out their duties and responsibilities. This report discusses what can happen when these officials fail to follow these policies and procedures and ensure that (1) initial advances are provided in appropriate amounts; (2) recipients' cash needs are routinely analyzed and their advances adjusted accordingly; and (3) excess funds are returned to the Treasury. (See page 2)

Purpose and Scope

The purpose of this audit was to determine: (1) the extent that recipients were maintaining excessive cash balances as of September 30, 1982; (2) the overseas missions' effectiveness and efficiency in monitoring advances; (3) if recipients were using advances for intended purposes; and (4) any actions necessary to improve the management of advances overseas. We visited six missions during the period May through August 1983 and reviewed selected advances, financial records, and procedures related to the control and accountability over advances. The advances reviewed did not represent a valid statistical sample of the $161 million in advances made by the overseas missions as of September 30, 1982. (See page 3)

Overseas Missions Have Provided Excess Advances

As of September 30, 1982, 1,669 advances made by overseas missions to borrower/grantees worldwide totaled about $161 million. Some of these advances had been outstanding for several years. We reviewed 90 advances in the six missions visited and identified that about 45.5 percent were excess. While the actual amount of excess advances worldwide and their related costs to the U.S. Government could not be determined within the scope of our review--it is obvious that they are significant. To illustrate the significance, we projected the potential amount of excess advances that could have been provided based on the results of our visits to the six missions. This projection indicated that as much as $73 million in excess advances could have been provided by the overseas missions as of September 30, 1982. We calculated that it would cost the U.S. Government about $10.2 million to provide excess advances of $73 million for one year. We recognize the lack of preciseness in these figures--they are presented to illustrate the potential magnitude of this problem. (See page 5)

The Management Of Advances Has Been Inadequate

Mission Controllers have not adequately managed cash advances. In practice, such advances have been routinely provided to borrower/grantees with little or no regard for following the cash management regulations and procedures prescribed by the Treasury and the Agency. We found that (1) the cash flow needed to fund projects has been over-estimated; (2) advances beyond immediate disbursing needs have been intentionally provided; (3) the actual processing time required to replenish advances has not been determined; (4) revolving funds with fixed amount advances have been set up without consideration of immediate cash needs; and (5) periodic and systematic reviews of advances were not being made. (See page 7)

AID's Implementation Of OMB Bulletin No. 83-6

In the course of our review, the Agency submitted an action plan in response to OMB Bulletin No. 83-6. This plan contained six goals related to improving AID's cash management. The fifth goal was to reduce the advances of overseas missions by $40 million. The AID Comptroller issued instructions to the overseas missions requiring them to take actions required to meet this goal. The missions were also advised that use of permanent or fixed amount revolving balances was not in compliance with sound cash management policy and that regular periodic review of advances should be standard procedure. The need for Mission Controllers to be thoroughly familiar with AID's cash management policies was emphasized as was the need for full compliance therewith. Finally, the controllers were told that the Office of Financial Management planned to monitor and measure advance account activity, and that the regular submission of an advance aging report would be required in the future. Implementation of the Agency's plan was not far enough along for us to evaluate at the time of our review. However, if this plan is successful, it should eliminate some of the weaknesses discussed in this report. (See page 14)

Conclusions and Recommendations

The management of cash advances by AID's overseas missions has been inadequate. Mission Controllers have failed to follow Treasury and AID's own cash management procedures related to such advances. As a result, as much as $73 million dollars could have been advanced to recipients in excess of their immediate disbursing needs. Overadvances of this magnitude would cost the U.S. Government about $10.2 million dollars annually in unnecessary interest costs--based on the Treasury interest rate prevailing at September 30, 1982. In view of the potential magnitude of excess advances, the Agency's goal of reducing the advances made by overseas missions by $40 million may be inadequate. (See page 15)

Recent Agency actions taken in response to OMB Bulletin No. 83-6, if successful, should eliminate some of the weaknesses discussed in this report, improve cash management, and significantly reduce the overseas missions' advances. Our recommendation is directed towards bringing about necessary changes which were not covered by these Agency actions. This recommendation provides for: (See page 16)

- A requirement that written justifications be prepared for initial advances. The Controller should be the approval authority for such advances.

- Amendment of existing agreements which provide for advances beyond immediate disbursing needs; collection of any excess funds advanced; and an end to the use of agreements which provide for excess advances.

- A determination of the actual processing time required to replenish advances for use in estimating the amount of advances necessary.

- An end to the use of so called revolving funds with fixed advance provisions.

- Review and verification of the appropriateness of all cash advances, at a minimum every 90 days, and reduction and/or elimination of any excess amounts.

Management Comments

The Office of Financial Management provided written comments to our draft report. Those comments were considered in preparing the final report.

BACKGROUND

The Administration and the Congress are very sensitive to the impact that cash management of Federal funds has on the national debt. In 1980, the Senate Committee on Appropriations recommended that U.S. Government agencies carry out steps to improve the management of cash advances provided for Federal programs.

In July 1981, the Director, Office of Management and Budget (OMB) urged the heads of Federal departments and establishments to instruct their staffs to carry out the recommendations of the Senate Committee On Appropriations. Among other things, the Director noted that Federal agencies should review their systems for monitoring cash balances to assure that they are adequate to prevent excessive drawdowns from going undetected. At that time, AID had done little to carry out the recommendations of the Senate Committee.

In October 1982, OMB renewed its efforts to have Federal agencies institute an aggressive program for strengthening cash management practices. Recognizing that inefficiencies in cash management cost the taxpayers millions of dollars every year and contribute to the increase in the Federal debt, on October 22, 1982, OMB issued Bulletin No. 83-6 to implement the cash management provisions of an overall management improvement process referred to as "Reform 88".

Bulletin No. 83-6 required each agency to designate a Cash Management Officer with responsibility and authority for cash management as described in the bulletin. The name of this designated official was to be submitted to OMB by November 15, 1982. The bulletin further required the Cash Management Officer to submit a plan containing: (1) an inventory that identified each cash receipt and disbursement activity subject to cash management control, and a projection of the significant interest savings that could result from improving cash management; and (2) a detailed action plan that described each major cash management problem, issue, deficiency and opportunity in the agency, the specific steps needed to correct them, and a timetable for doing so. This plan was to be directed towards achieving three major objectives. These were (1) expediting the billing, collection, processing, and deposit of monies due the Government; (2) better scheduling of and control over disbursements; and (3) reducing excess or idle cash balances in the hands of recipients.

The detailed action plan was also supposed to address deficiencies and opportunities identified by the General Accounting Office and Inspector General reviews and previous cash management studies. A draft plan was due by November 30, 1982, and the final about the third week in December. AID designated the Controller as its

Cash Management Officer. Its final Cash Management Action Plan was submitted on February 4, 1983, and accepted by OMB on May 25, 1983.

Two recent AID Inspector General reviews of AID/Washington (AID/W) cash advances reported serious deficiencies. Audit Report No. 82-68, dated April 30, 1982, Controls Over Cash Advances To Grantees and Contractors Are Lax, covered advances made by Treasury checks. Audit Report No. 82-73, dated May 25, 1982, Excessive Cash Advances Are Costing The Federal Government Over $2.5 Million In Interest Annually, covered advances drawn by recipients using Federal Reserve Letters Of Credit (FRLC). These reports presented significant findings:

--AID/W had no system to follow-up and effect recovery on advances outstanding beyond project completion dates. The auditors concluded that as much as $5.3 million should be returned to AID.

--AID/W advance records were poorly kept. The records were in disarray and incomplete.

--Recipients were abusing the FRLC authority. They were overdrawn by $15.3 million and this practice was costing the U.S. Government $2.5 million annually in interest.

--Interest earned on Federal funds was not returned to AID. Four recipients were identified who collectively earned $170,000 in interest by investing advance funds.

--FRLC drawdowns were used for non-AID activities such as business lunches, credit card charges, life and property insurance, and privately funded development projects.

Mission Controllers are responsible for implementing Treasury and AID regulations related to cash management--including advances--overseas.

Lessons To Be Learned

Mission Controllers have at their disposal sound policies and procedures to guide them in carrying out their responsibilities. Treasury and AID regulations require that advances provided should not be excess to recipients' immediate disbursing needs. These regulations further require that the use of advanced funds by recipients will be monitored and that any excess balances will be promptly returned to the Treasury.

This report discusses what can happen when Mission Controllers fail to follow these policies and procedures and ensure that (1) initial advances are provided in appropriate amounts; (2) recipients' cash needs are routinely analyzed and their advances adjusted accordingly, and (3) excess funds are returned to the Treasury.

Purpose and Scope

In view of the serious deficiencies found in the management of cash advances made by AID/W, and Administration and Congressional concerns over cash management, we decided to review cash advances made by AID overseas missions. Our review objectives were to determine: (1) the extent that recipients were maintaining excessive cash balances; (2) the overseas missions' effectiveness and efficiency in monitoring advances; (3) if recipients were using advances for intended purposes; and (4) any actions necessary to improve the management of advances overseas.

To meet these objectives, we collected a complete inventory of the overseas missions' cash advances to contractors, grantees, and host governments as of September 30, 1982; analyzed the data collected; and selected six missions for site visits. In selecting the missions to be visited, we took into consideration a recent Inspector General review of cash advances in Egypt. The results of that review are discussed in Audit Report No. 6-263-83-6, dated July 28, 1983, USAID/Egypt's Provision Of Cash Advances To Contractors.

Field visits were made to Bangladesh, Barbados, El Salvador, Honduras, Indonesia, and Nepal during the period May through August 1983. At these missions we reviewed selected advances, financial records, and procedures related to the control and accountability over advances. The advances reviewed were selected on the basis of their size and represented about 70 percent of the total advances outstanding, at the missions visited, at the time of our review. They did not represent a valid statistical sample of all advances made by the overseas missions.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

U.S. Treasury and AID regulations require the Agency to follow prudent cash management practices. Based on projecting the results of our visits to six missions, the Agency's overseas missions could have provided as much as $73 million in excess advances of U.S. Government funds to borrower/grantees. For the most part, excess advances were caused by the failure of Mission Controllers to follow existing regulations and procedures and adequately manage advances. We found that:

- --the cash flow needed to fund projects has been overestimated;
- --advances beyond immediate disbursing needs have been intentionally provided;
- --the actual processing time required to replenish advances has not been determined;
- --revolving funds with fixed amount advances have been set up without consideration of immediate cash needs; and
- --periodic and systematic reviews of advances were not being made.

As a result, the U.S. Government has incurred significant and unnecessary interest costs1/ amounting to millions of dollars. The overseas missions must do a better job of following Treasury and AID regulations if their management of cash advances is going to be improved. If the Agency hopes to achieve its planned goal--under OMB Bulletin No. 83-6--of reducing the advances of overseas missions by $40 million (see pages 14 and 15), the weaknesses discussed in this report will have to be eliminated.

TREASURY REGULATIONS AND AID POLICY ON CASH ADVANCES

Treasury Fiscal Requirements Manual (TFRM), Volume I, Part 6, Chapter 8000 prescribes the cash management procedures to be observed by U.S. Government organizations. Section 8050, states that it is the responsibility of Federal agencies to monitor the cash management practices of recipient organizations to ensure

1/ These interest charges relate to the cost to the U.S. Treasury for borrowing funds to finance Government programs.

that Federal cash is not maintained by them in excess of immediate disbursing needs.[1] The TFRM provides that agencies will establish such systems and procedures as may be necessary to assure that (1) balances are maintained commensurate with immediate disbursing needs, (2) excess balances are promptly returned to the Treasury, and (3) except where contrary to law, interest earned on Federal funds by recipient organizations is promptly turned over to the Treasury.

The TFRM provides that in monitoring the practices of recipient organizations, agencies will base evaluations on cash payments and not on accrued liabilities. The TFRM also provides that advance funding arrangements with recipient organizations unwilling or unable to comply with Treasury regulations are to be terminated.

AID's Cash Management Policy Guidelines that implement the Treasury regulations were approved by the Deputy Administrator on November 21, 1978. Procedures for implementation of these guidelines were transmitted to all overseas posts by State 273219 dated October 19, 1979. (As of December 8, 1983, these procedures had not been incorporated into AID's Handbook). Guidance on cash advances is contained in AID Handbooks 1 and 19. AID's regulations contain an exception to the 30 days rule regarding a recipient's needs. These regulations provide that an advance under the Treasury check method may extend for as long as 90 days when the Bureau Assistant Administrator, AID Mission Director, or Office Chief has determined in writing that implementation will be seriously interrupted or impeded by applying the 30 days rule.

Except for arrangements entered into for the sole purpose of implementing U.S. international monetary policy, AID is supposed to ensure that: (1) U.S. dollars are retained in the account of the U.S. Treasury as long as possible to minimize interest costs on the public debt, (2) interest on Federal funds is not used to subsidize program activities, and (3) arrangements with foreign countries and international organizations will accommodate the financial policies and procedures of each participating country or organization--to the maximum extent feasible.

OVERSEAS MISSIONS HAVE PROVIDED EXCESS ADVANCES

In FY 1982, AID expended about $4 billion to implement the foreign assistance program. About $800 million of that amount

1/ Immediate disbursing needs has been defined by Treasury to mean a recipient's cash requirements for 30 days from the date the advance is received.

was processed by overseas missions. In order to facilitate the delivery of goods and services, the overseas missions provide cash advances to contractors, grantees, and host governments.

We reviewed 90 advances in the six missions visited. These advances amounted to $24.2 million out of the $34.5 million advanced by those missions at the time of our review. We identified excess advances[1/] of $11 million or about 45.5 percent of the amount reviewed. The percentage amount of the excess advances varied significantly between missions. They ranged from a low in Barbados of about 24 percent to a high in Honduras of about 81 percent. A chart showing the missions visited, advances reviewed and results, can be found in the Exhibit (see page 17).

As of September 30, 1982, advances made by overseas missions to borrower/grantees worldwide totaled about $161 million as shown on the following chart.

	Total		
Geographic Region	No. of Field Missions	No. of Advances	Amount ($ Millions) (Rounded)
East Africa	17	171	$ 10
West Africa	16	257	17
Egypt	1	236	35
Near East	10	143	16
South Asia	4	211	28
Latin America	14	651	55
	62	1,669	$ 161

Some of these advances had been outstanding for several years. The amount of advances outstanding as of September 30, 1982, represents the residue of all advances made by the overseas missions up to that date.

While the actual amount of excess advances worldwide and their related costs to the U.S. Government could not be determined within the scope of our review--it is obvious that they are significant. To illustrate the significance, we projected the potential amount of excess advances that could have been provided based on the results of our visits to six missions. This projection indicated that as much as $73 million in excess advances ($161 million x 45.5 percent) could have been provided

1/ We considered advances to be excessive when the cash provided exceeded a recipient's needs for 30 days plus any additional amount required to cover the time necessary to process advance replenishment vouchers.

by the overseas missions as of September 30, 1982. We then calculated how much it would cost the U.S. Government to provide excess advances of $73 million for one year. To determine that cost we used the Treasury interest rate (about 14 percent) that prevailed on September 30, 1982. On that basis the cost was estimated to be about $10.2 million. We recognize the lack of preciseness in these figures--they are presented to illustrate the potential magnitude of this problem.

THE MANAGEMENT OF CASH ADVANCES HAS BEEN INADEQUATE

Mission Controllers have not adequately managed cash advances. In practice, such advances have been routinely provided to borrower/grantees with little or no regard for following the cash management regulations and procedures prescribed by the Treasury and the Agency. While some Mission Controllers have recently established follow-up systems and Agency actions related to OMB Bulletin No. 83-6 have resulted in renewed concern over excessive advances--much has to be done.

The Cash Flow Needed to Fund Projects Has Been Overstated

Treasury and AID regulations require that cash advances be provided on the basis of need. The Mission Controllers have failed to adequately estimate the cash flow needed to fund projects. Excess funds generally result because Agency projects do not progress as rapidly as planned. This condition was found at all six of the Missions we visited. It was also identified as a problem in our report covering cash advances in Egypt (see page 3 for the title of that report).

The following are examples of this condition.

El Salvador

In March 1981, USAID/El Salvador requested approval to advance $21 million in working capital to five ongoing loan projects. This request was based on estimated project needs and the Government of El Salvador's immediate need for dollars. The Treasury Department approved the request based on assurances that the advance would be reduced as expeditiously as possible. The USAID/El Salvador Controller said the funds would be disbursed by host country institutions within 120 days--this did not happen.

--One project received cash advances of $1.5 million in July 1980 and an additional $1.2 million in March and April 1981. These advances were not liquidated until about 6 months--or 180 days--after April 1981. This project was also provided an additional $5 million advance in April 1981. The average monthly expenditure rate for these funds was only $216,487 as opposed to the $1.25 million that would have been required to liquidate it in 120 days.

--Another project received a $1 million advance in April 1981 that was "frozen" by the mission for over a year until internal problems of the recipient could be resolved. Between May 1982--when the freeze was lifted--and February 1983, only $460,000 of this advance had been expended because the recipient was having difficulty in finding sub-recipients which met program viability criteria. We asked the acting USAID/El Salvador Controller why the mission did not recall the advance when it became obvious that it would not be spent in 120 days. He told us that no one thought to request a refund.

Nepal

Advances provided under the mission's working capital system are determined by a joint Agency/host country review of project workplans and budget estimates. Based on this review, tri-mestral expenditure estimates are made and AID's contribution to projects is determined. The validity of the advanced amounts is determined when actual expenditures are subsequently compared to the estimates. In October 1981, the USAID/Nepal Acting Director reported to his staff, "We did a rotten job on our FY 81 estimates--actuals were only 39% of original (October 1980) estimates and (an) even less impressive 49% of the revised estimates that were prepared in February 1981." This inadequate job of estimating expenditures apparently has not been corrected. USAID/Nepal estimated that the Government of Nepal was holding over $4 million in excess advances in April 1983. (The annual interest cost to the U.S. Government for providing a $4 million advance is about $490,000).

Indonesia

Most of the excess advances in this country were due to the way the Family Planning/Mother-Child Welfare program estimated its expenditure flow. Budget estimates invariably called for heavy spending in the first and second quarters of the fiscal year, or if the agreement was for a shorter period, in the first fiscal period. For example:

--In Central Java 70 percent of a one-year program of about $506,615 was budgeted for the first 6-month period.

--In West Java 90 percent of a one-year program of about $383,385 was budgeted for the first 6-month period.

--In East Java 92 percent of a one-year program of about $422,154 was budgeted for the first 6-month period.

Although most activity was planned to take place in the first and second quarters, subsequent submission of expenditure vouchers showed what really happened. Vouchers were usually submitted five to six months late--actual expenditures were about half of those projected.

Honduras

An initial advance of $318,876 was provided to an agency of the Government of Honduras in June 1982. This advance was supposed to cover a 90 day period. A second advance of $169,500 was provided in December 1982 bringing the total advanced to $488,376. A voucher liquidating expenditures of $184,800 was also processed in December 1982 leaving an advance balance of $303,576. A second voucher for $105,705 was in process at the time of our review. Taking that voucher into consideration, as of April 30, 1983, $197,871 was still outstanding. The projected expenditures rates for the two advances were $106,292 and $56,500 per month, respectively. However, the actual expenditure rates were significantly less than projected. They were only $26,400 and $26,426 per month, respectively.

Advances Beyond Immediate Disbursing Needs Have Been Intentionally Provided

Despite Treasury and AID regulations which provide that cash advances will only be provided for immediate disbursing needs--two missions reviewed had agreements with recipients that provided for working capital advances that exceeded 30 days cash requirements. In Nepal, the U.S. Government also lost about $817,444--because of excessive advances--when that country devalued its currency in September 1981 and December 1982. Such losses could be reduced by limiting advances to immediate disbursement needs.

The Mission in Nepal, by agreement, has instituted a working capital system which provides cash equal to the estimated expenditures for two trimesters (240 days). As was discussed on page 8, this resulted in the Government of Nepal holding $4 million of dollars in cash--in excess of its needs and the amount that should have been provided if the Treasury and AID's cash management policies were followed.

In Bangladesh, several recipients received advances to cover working capital requirements for six months or more. The advances for these extended periods were provided for in the project agreement documents. For example, one recipient, the International Project Association for Voluntary Sterilization (IPAVS), received an advance equal to its estimated expenditures for six months. IPAVS's projected expenditures were $100,000 per month and so it received an advance of $661,000. It is obvious that this advance--which covered more than six months estimated expenditures--exceeded IPAVS's immediate disbursing needs.

The Actual Processing Time Required To Replenish Advances Has Not Been Determined

Mission Controllers need to know the actual time it takes to process requests to replenish advances in order to comply with Treasury and AID regulations, and ensure that advances do not exceed recipients' immediate disbursing needs. The time allowed for processing these requests was based on general estimates made by the Mission Controllers, rather than on detailed analyses of the actual time required. Except in Nepal, the controllers generally determined the size of advances by estimating a recipient's cash requirements for 30 days and then by adding an additional amount to cover processing time. In Nepal, a 120 day period--rather than 30--was used before adding an amount to cover processing time.

The number of days allowed for processing time--which directly affects the amount of cash advanced--by the missions visited ranged from 30 to 120 days as shown on the following chart.

	Days Allowed For		
	Working Capital	Processing	Total
Barbados	30	60	90
Honduras	30	60	90
El Salvador	30	30	60
Nepal	120	120	240
Bangladesh	30	30	60
Indonesia	30	60	90

The number of days allowed for processing requests to replenish advances may be excessive. For example, we noted that a contractor in Bangladesh was given an advance on the basis of 30 days processing time when less than 10 days was required to process his reimbursement claims (see page 11). Mission Controllers should conduct detailed analyses of their actual processing times with the aim towards reducing the number of days allowed--thereby achieving a corresponding decrease in the amount of their cash advances.

Revolving Funds With Fixed Amount Advances Have Been Set Up Without Consideration Of Immediate Cash Needs

Treasury and AID regulations require that advances be limited to recipients' immediate disbursing needs. The overseas missions were using so called revolving funds--with fixed amount advances which were to be liquidated at the end of the projects--to provide working capital for some projects. These "funds" would be more properly called "revolving advances" rather than revolving funds. The use of these "revolving advances" resulted in excess funds being provided to some degree in all six missions visited. A case in point was the International Agriculture Development Service (IADS). We reviewed advances made to IADS by the missions in Nepal, Bangladesh, and Indonesia. IADS had received advances amounting to $1.2 million of which about $670 thousand was excess to its immediate disbursing needs. (The excess for this recipient alone would cost the U.S. Government about $93,814 in annual interest costs).

Problems with "revolving advances" are more fully discussed in the following two examples in Bangladesh.

--In July 1981, a contractor received an advance of $500,000 to establish a so called revolving fund. This fund was to be liquidated by "no-pay vouchers" during the last two calendar quarters of the contract scheduled for completion in July 1986. The fund was raised to $575,000 in November 1982. The contractor cables its monthly expenditure figures to the mission, which in turn, directs AID/W to make payment. Reimbursement is made by AID/W via electronic transfer through the Federal Reserve Bank system. This is done during the first week following the month in which the expenditures take place. The contractor's monthly expenditures averaged $208,000 so its cash needs for 40 days would only be about $280,000. Thus, about $295,000 of the $575,000 advance was excess of needs. We discussed this with the contractor in Washington, D.C., and it agreed that the advance was too high. As a result of our efforts the advance was being reduced to $300,000.

--In July 1981, a contractor received an advance of $211,339 as a so called revolving fund. Its expenditures for the 19 month period, July 1981 to January 1983, averaged only $51,000 per month. Even after allowing 30 days for processing claims, about $109,000 of this advance was excess. In March 1983, the contractor requested and received an additional advance of $661,085 to fund subgrantees. That amount was computed by taking 40 percent of the total budgeted cost. The contractor's own projection showed its average monthly expenditures for subgrantees would only be $101,395. The contractor's cash needs for both programs was only $152,395 per month. Even after allowing 30 days for processing claims, the total advance should not have exceeded $304,790. However, in June 1983 the contractor had a total advance of $872,424--or $567,634 in excess of its needs. We discussed this with the contractor and it agreed with our findings. The contractor told us that the advance would be immediately reduced to an appropriate amount and that the difference would be covered by disbursements and/or a refund.

Periodic and Systematic Reviews Of Advances Were Not Being Made

Treasury and AID regulations require that advances (1) will be provided only at times and in amounts necessary to meet immediate disbursing needs, (2) be monitored and evaluated on the basis of cash payments and not on accrued liabilities to assure they are appropriate; and (3) which are excess to immediate disbursing needs be immediately returned to the Treasury. OMB Bulletin No. 83-6 also required agencies to implement cash management procedures as a part of the Administration's "Reform 88" program.

Mission Controllers have generally addressed advances on an ad hoc basis. While some, at the time of our review, had recently established follow-up systems, these were not yet fully operational. None of the controllers at the missions visited had been routinely (1) analyzing the appropriateness of recipients' requests for initial advances, (2) conducting analyses of each recipients' cash needs and adjusting advances accordingly; or (3) following up to ensure that excess funds were returned. These steps are of utmost importance--had they been done--some of the problems already discussed in this report would have been eliminated. Mission Controllers also need to ensure that the amounts carried on their records as advances are correct.

Following are examples of action and/or lack of action taken by some missions.

Bangladesh

--An advance of $51,608 made in July 1980 was still outstanding at the time of our review. In November 1982, the controller had notified the recipient that the advance would be applied against the next liquidation voucher, however, this was not done. The mission has now initiated action to recover the advance by requesting a refund.

--A mobilization advance of $250,000 was provided to a contractor in April 1978. Mission records showed this advance was still outstanding as of June 1983. A review of payment files showed that the contractor had provided disbursement documents several years before--but the controller had failed to process the voucher. This has now been done.

--The mission issued its own policy on advances in July 1983. Up to that time, Treasury/AID's cash management policies had not been implemented. We found little evidence of oversight by the mission of the cash advances for the eighteen projects reviewed.

Barbados

--Up to April 1983, this mission had conducted aggressive periodic reviews of its advances to the Caribbean Development Bank. In September 1979, the outstanding balances for loans totaled $5.9 million, as of April 1983, the balances were reduced to $1.5 million. Advances for grant financed projects were similarly reduced and as of April 1983, totaled $1.7 million. While the monitoring of the bank's advances was impressive--nothing was being done about the mission's advances to other recipients. As of April 30, 1983, these advances were about $3.7 million.

--In April 1983, the Controller completed the first cash flow analysis of all advances provided by this mission. As a result of that review, a memo was circulated to mission division chiefs that identified $2.9 million--out of the $3.7 million discussed above--that was excess to the recipients' immediate disbursing needs. Action was requested to reduce the outstanding amounts--this was the beginning of an overall cash monitorship program by the mission.

Indonesia

--In June 1983, the Controller identified $1.6 million in excess of recipients' immediate cash disbursement needs. Letters were sent to these recipients about one month prior to our visit but no further action had taken place. The Deputy Controller told us that follow-up on advances was an established procedure. However, he said that in the past lists of excess advances were sent to the mission's technical divisions via "buck slips" and that no formal records were kept. No documentation was available to show what action, if any, was taken by the technical divisions regarding these excess advances.

--The Controller's office started a voucher verification program--which also covered cash advances--in March 1983. As of July 1983, eight reviews had been done. Problems related to cash advances had been identified and recommendations made requesting refunds and other actions. However, there was no follow-up being done to ensure that the deficiencies reported were corrected, or if recommended actions had been carried out.

AID'S IMPLEMENTATION OF OMB BULLETIN NO. 83-6

As was discussed on pages 1 and 2, the Agency submitted an action plan in response to OMB Bulletin No. 83-6. This plan contained six goals related to improving AID's cash management.

The fifth goal was to reduce the advances of overseas missions by $40 million. To achieve this goal, the plan specified six time-phased steps that were supposed to be completed by September 30, 1983. On October 13, 1983, we discussed this goal with officials of the Office of Financial Management (FM). They provided us with the following status on the six steps necessary to achieve it.

(1) Analyze inventory of USAID advances to determine detail action plan.

<u>Status</u>: FM's Accounting Systems Division was responsible for completing this step by February 28, 1983. We were advised that the analysis called for in step one of the plan was not successful. The AID/W Controller found that existing reports from the field did not provide adequate data.

(2) Prepare instructions to USAID's.

<u>Status</u>: FM's Central Accounting Division was responsible for completing this step by March 31, 1983. On May 5, 1983, field missions were notified to provide the data necessary to complete the analysis required in step one and to undertake the third, fourth, and fifth steps required to complete the fifth goal (see below and next page). The missions were also advised that use of permanent or fixed amount revolving balances was not in compliance with sound cash management policy and that regular periodic review of advances should be standard procedure. The need for Mission Controllers to be thoroughly familiar with AID's cash management policies was emphasized as was the need for full compliance therewith. Finally, the controllers were told that FM planned to monitor and measure advance account activity, and that the regular submission of an advance aging report would be required in the future.

(3) Conduct review and vigorous follow-up of advances outstanding in excess of 120 days.

(4) Establish procedures for review of revolving account amounts every 60 days.

(5) Establish procedures for financial review of implementing plans and contracts to ensure funds are disbursed to recipients with the objective of reducing advances to minimum amounts required.

Status: The USAIDs were responsible for completing these steps by June 30, 1983, April 30, 1983, and May 31, 1983, respectively, (see comments for status of next step).

(6) Obtain report from USAIDs regarding results of the three steps above. Analyze results and determine additional actions, if any.

Status: FM's Central Accounting Division was responsible for completing this step by July 31, 1983. As of October 13, 1983, the AID/W Controller was still in the process of getting the field missions to report. Data on about 95 percent of the estimated amount of outstanding advances had been received and an analysis was underway.

CONCLUSIONS AND RECOMMENDATIONS

The management of cash advances by AID's overseas missions has been inadequate. Mission Controllers have failed to follow Treasury and AID's own cash management procedures related to such advances. As a result, as much as $73 million dollars could have been advanced to recipients in excess of their immediate disbursing needs. Overadvances of this magnitude would cost the U.S. Government about $10.2 million dollars annually in unnecessary interest costs--based on the Treasury interest rate prevailing at September 30, 1982. In view of the potential magnitude of excess advances, the Agency's goal of reducing the advances made by overseas missions by $40 million may be inadequate.

While some missions have recently started to implement cash management procedures--much has to be done: (1) estimates of the cash flow required to fund projects need to be more precise; (2) existing agreements which provide for advances beyond immediate disbursing needs should be amended and the use of agreements that provide for excess advances discontinued; (3) the actual processing time required to replenish advances needs to be determined and used in estimating the amount of advances necessary; (4) the use of so called revolving funds with fixed amount advances should be discontinued; and (5) periodic and systematic reviews of advances need to be made.

Sound procedures and guidelines are available in the form of Treasury and AID regulations and OMB Bulletin No. 83-6 to assist the Mission Controllers in carrying out their duties and responsibilities. These officials should be held accountable for their failure to follow these procedures and guidelines. The weaknesses discussed in this report will have to be eliminated if the management of cash advances is going to be improved and