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USAID/EGYPT'S PROVISION  
OF  
CASH ADVANCES  
TO  
CONTRACTORS

Audit Report No. 6-263-83-6

July 28, 1983

The AID mission to Egypt provides contractors with advances both in U.S dollars and Egyptian pounds. As of September 30, 1982, outstanding advances to contractors amounted to \$18.9 million. Our review of advances to contractors indicated that there were 13 contractors who maintained sizable advances outstanding for lengthy periods of time. These advances cost the U.S. Government \$3 million in interest. While we acknowledge any cash advance system incurs a valid cost the mission must continue its efforts to reduce advances outstanding to ensure effective cash management.

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## EXECUTIVE SUMMARY

### Background

The AID mission to Egypt provides contractors with advances both in U.S. dollars and Egyptian pounds. As of September 30, 1982, outstanding advances to contractors amounted to \$18.9 million. The size of the advance provided the contractor is based on a three-month cycle of contract expenditures or as in the case of large supply contractors, a set percentage of the total contract value.

Contract provisions guide the contractor on the management and use of AID advance funds. For example, prior to the issuance of an advance, a contractor must submit evidence that a special bank account has been established for the purpose of depositing cash. In addition, a contractor is instructed that strict accountability of AID funds be ensured in order to avoid using those funds for other than contract purposes.

On October 22, 1982, the Office of Management and Budget (OMB) issued Bulletin No. 83-6 entitled "Cash Management." The OMB stated:

"Inefficiencies in cash management cost the taxpayer millions of dollars every year and contribute to the increase in the Federal debt."

The Department of the Treasury has instructed U.S. agencies that it is their responsibility to monitor the cash management practices of their recipient organizations to ensure that Federal cash is not maintained by them in excess of immediate disbursing needs. AID has interpreted immediate disbursing needs as cash requirements for as much as 30 days.

The Regional Office of the Inspector General for Audit/Washington (RIG/A/W) reviewed cash advances given organizations by AID under Federal Reserve Letters of Credit (FRLC). As a result of that review the RIG/A/W published Audit Report No. 0-000-82-73 dated May 25, 1982. The report concluded recipients of AID funds were maintaining excessive cash advances totaling \$15.3 million. This practice costs the Federal Government more than \$2.5 million in interest annually. The report recommended that the Agency take immediate steps to instruct recipients to maintain cash advances at a reasonable level.

### Purpose and Scope of Review

The objective of our audit was to evaluate USAID/Egypt's management and monitoring of cash advances to contractors. We reviewed the mission's: (a) policies on the provision of advances, (b) accountability for the advanced funds and (c) monitoring of contractor's use of the cash provided.

Our audit included a review of mission files for all advances provided recipients in excess of \$100,000. This represented \$8.9 million of total outstanding advances of \$18.9 million.

We interviewed personnel and reviewed financial records at the Mission and contractors' offices located in Cairo.

The audit was conducted in accordance with generally accepted U.S. Government audit practices and procedures.

#### Summary of Major Findings and Recommendations

The AID Mission to Egypt has taken steps to reduce the size of advances to contractors. We believe, however, additional steps need to be taken to ensure contractor advances are maintained at a minimum level and that they represent only immediate disbursing needs. According to U.S. Treasury recommendations, immediate disbursing needs are defined as a 30 day contract expenditure level. We found that contractors had maintained cash advance balances in excess to their immediate disbursing needs.

Our review of 13 contractors with sizable advances outstanding (in excess of \$100,000) showed that on average they were maintaining outstanding advances amounting to \$8.9 million for various periods ranging from 7 months to almost 3 years. We estimated that these advances for the 13 contractors cost the U.S. Government \$3 million in interest. A portion of this interest cost can be attributed to USAID/Egypt's non-compliance with U.S. Treasury recommendations to align advances with immediate disbursing needs or 30 day expenditure levels. We recommend USAID/Egypt review its current outstanding advances and where necessary reduce them to 30 day expenditure requirements.

USAID/Egypt needs to enhance its monitorship of cash advances to preclude the weaknesses noted in the internal controls practiced by contractors. Contractors' lapses in internal control included:

- Misuse of AID funds.
- Failure to perform bank reconciliations.
- Commingling of AID advances with other funds.
- Lack of control on cash payments.
- Failure to account for a cash advance prior to a contractor's departure from Egypt.
- Poor management of subadvances.

We recommended the mission more aggressively monitor contractors to ensure that contractors establish and maintain internal controls of AID advanced funds.

Cash management could be improved. We found contractors inflating their expenditure levels in order to provide a cash cushion to compensate for the possible late receipt of future AID advances. At present, USAID/Egypt's Office of Financial Management does not have a systematic means for reviewing contractor expenditure projections to judge their validity. We recommended that contractor requests for funds be more realistically related to average levels of monthly expenditures.

The preparation and issuance of vouchers by contractors could be more timely. Timeliness in the submission of vouchers would speed the payment process and ensure mission financial records reflect an accurate picture of contract expenditures. We recommended corrective action to ensure that contractors submit vouchers in a timely manner.

A contractor's accounting capability should be reviewed prior to the issuance of advance funds. We found contractors' accounting practices definitely in need of improvement. USAID/Egypt had not performed reviews of contractor accounting records prior to contractors' receipts of AID funds. The Code of Federal Regulations (1-30.410) specifically provides that justification for an advance be based on an adequate financial management system. We recommended that contractors' accounting systems be reviewed by the USAID prior to the issuance of AID funds. This review should be documented and placed on file.

## STATEMENT OF FINDINGS AND RECOMMENDATIONS

### PROVISION OF CASH ADVANCES TO CONTRACTORS

The U.S. Government incurs a significant interest cost when cash advances are provided to contractors. USAID/Egypt has routinely provided advances to contractors in both U.S. dollars and Egyptian pounds. As of September 30, 1982 the AID mission to Egypt had advances outstanding to both host country contractors and direct contractors of \$18.9 million in U.S. dollars and Egyptian pounds. Our audit sample of 13 contracts financed by USAID/Egypt showed that contractors have maintained sizable unliquidated advances. These advances have cost the U.S. government an estimated \$3 million in interest. While there is a valid cost attached to the provision of cash advances we believe advances could be reduced to achieve economies.

A basic principle of program cash management is to eliminate idle cash balances. This, in turn, would reduce the need for cash balances in the U.S. Treasury and thereby decrease Federal borrowing requirements and interest expense.

We have examined all contract files for which contractors have been provided advances exceeding \$100,000. We found that contractors maintained large outstanding balances over periods ranging up to almost four years. Exhibit A illustrates that the contractors included in our review had average advances of over \$8.8 million. This figure represents six U.S. dollar advances and eleven Egyptian pound advances and were paid to thirteen contractors of which seven were profit-making firms. On average the advances were outstanding for 2.3 years.

When we compared the average outstanding advances maintained by contractors to their average monthly expenditure levels, we found that contractors had on hand average advances sufficient enough for three to sixteen months expenditures. Cash advances provided to contractors by USAID/Egypt therefore have exceeded the Treasury Department's recommended limits on advances.

USAID/Egypt provides contractors an initial cash advance for ninety days. The ninety day advance is provided to align the contractor's cash needs with the payment cycle. Subsequent to the initial advance a contractor files monthly expenditure reports. Prior to June 1982 the cash advance was handled on a revolving fund basis. The expenditure reports were processed and the advance outstanding returned to the original ninety day request.

Replenishment of contractor advances on a revolving fund basis precluded alignment of advances to actual needs. Contractor's original projections of actual needs were often out of line and in addition requests were made for special advances for procurement which were not immediately accomplished. Both faults in the advance process allowed contractors to maintain sizable advance balances outstanding.

Beginning in June 1982, the USAID/Egypt Controller required contractors to prepare and submit three month expenditure budgets along with their requests for advances. Before an advance was approved for payment, the budget was compared against the contractor's cash-on-hand. The amount of the advance approved for payment was equal to the contractor's projected three months expenditures less cash already on hand. While in some cases outstanding advances were reduced, advances should be further reviewed to see that they are aligned to immediate disbursement needs.

The Code of Federal Regulations (Section 1-30.4) governs advance payments to contractors. It reads in part:

- Advance payments should be used sparingly and care should be taken to see that advances outstanding are sufficient for but do not exceed the actual reasonable requirements for the contract.
- Advance payments should not be authorized unless no other means of financing is available to the contractor.

The Department of the Treasury has advised agencies that it is their responsibility to monitor the cash management practices of their recipient organizations to ensure that Federal cash is not maintained by them in excess of immediate disbursing needs. The term "immediate disbursing needs" has been defined to be cash requirements for as much as thirty days from the date of receipt of a Treasury check depending upon the nature of the project and related grantee or contractor procurement and payment procedures.

On October 22, 1982, the Office of Management and Budget (OMB) issued Bulletin No. 83-6 entitled "Cash Management." This Bulletin emphasized the need for each Federal agency to aggressively strengthen cash management practices. The bulletin noted that:

Inefficiencies in cash management cost the taxpayers millions of dollars every year and contribute to the increase in the Federal debt.

Unless advances outstanding are reduced to minimum levels, the U.S. Government will continue to incur unnecessary interest costs. The USAID needs to review its outstanding contract advances and reduce the amounts in alignment with current U.S. Treasury recommendations.

Recommendation No. 1

USAID/Egypt review contract advances and recover any outstanding amounts that exceed a 30 day expenditure requirement.

## Mission Comments

The subject draft audit report failed to mention a very important change in USAID's provisions for advancing local currency funds to profit-making firms. Prior to October 1, 1982 Egypt was considered a near-excess currency country. Therefore, in order to avoid a situation where contractors would end up with excess Egyptian pounds at the end of their contract, USAID provided local currency advances to profit-making firms. Since October 1, 1982 USAID is no longer providing local currency advances to new contractors who are profit-making. In addition, USAID is in the process of amending those contracts affected prior to October 1, 1982 to have all contract costs reimbursed in U.S. Dollars, with no advance provisions for profit-making contractors. The result of this change has been a significant reduction in the amount of local currency advances.

The draft audit report also failed to mention that the contractor who received a \$2.4 million equipment advance, subsequently paid approximately \$600,000 in interest to the U.S. Treasury. USAID provided this advance to the contractor because a similar \$2.4 million equipment advance made in January 1980 was cleared within a reasonable amount of time. USAID has since made an arrangement with the contractor that no further equipment advances will be made until the purchase for such equipment is expected within the ensuing 30 day period.

## INTERNAL CONTROLS

USAID/Egypt should monitor cash advances to prevent the kinds of internal control failures we found during our visits to contractors. Contractors' management of AID assets has fallen below acceptable control minimums. Funds were deliberately misused, bank reconciliations were not performed, AID advances were commingled with other funds, cash on hand was not controlled, one contractor failed to account for his LE advance prior to his departure from Egypt, and subadvances of AID funds by contractors were not monitored.

## Misuse of AID Funds

- Advance funds of LE1,600 (\$1,928) were used by a contractor to pay a landlord for a two-month rental on an apartment, a month and a half before the payment was due. According to the contractor, funds were needed by the landlord to pay the cost associated with the expansion of his chicken ranch.
- LE3,000 (\$3,614) of advance funds were used by a contractor to purchase 1982 calendars used to promote business activities. The funds were eventually returned to the AID account.
- A contractor commingled contract expenses of two AID contracts. LE18,000 (\$21,687) programmed for use by the contractor under one contract was used to finance costs associated with his other contract. The contractor advised the auditors he would sort out the commingled expenses and make appropriate adjustments.
- LE3,200 (\$3,855) of AID funds were transferred by a contractor from the prescribed AID advance account to another account to be used for payments associated with the development of new business. The contractor rationalized that the funds not aside came from the contractor's fixed fee and thus could be used for any purpose.

- LE17,650 (\$21,265) of AID advance funds were used to purchase air tickets for ineligible dependents of AID participants sponsored by the contractor. In addition, checks were drawn on an AID advance bank account to buy tickets for non-project personnel in exchange for Egyptian pound currency provided by the non-project travellers. The purpose of this subterfuge was to evade a GOE tax of 10 percent on airline tickets; i.e., airlines in Cairo do not charge a tax on tickets purchased with AID project funds.

#### Bank Reconciliations Not Performed

- A contractor had not received statements from the bank in which he had deposited periodic AID advances since the inception of the contract in October 1980. He had never reconciled his financial records with his bank balance. The contractor had been advanced LE345,454 (\$416,210) in AID funds since contract inception. When questioned by the auditors on the missing bank statements the contractor did not offer a reasonable explanation. At our request, bank statements were obtained and a reconciliation performed.
- A second contractor had not received bank statements since August 1982. The contractor had received LE433,500 (\$522,289) in advance since March 1, 1982. At our request, the contractor was to obtain the missing bank statements and perform the necessary reconciliations.

#### Commingling of Funds

- A contractor received an advance to offset project expenses. The funds were deposited in a Government of Egypt bank. The AID advance funds were commingled with other AID funds of LE4.6 million advanced to finance credit programs. In addition to payments of contractor expenses, withdrawals from the commingled account were made for advance fund and credit programs purposes. The contractor has a fiduciary responsibility to maintain separate accounts for two distinctly different advances for accountability purposes. As a result of this audit, the funds are to be separated into separate accounts.
- AID funds from two separate contracts were commingled in a single bank account. A contractor was awarded two contracts. He received an initial advance of LE325,000 (\$391,566) under his second contract which was deposited in a bank account which had received LE210,000 (\$253,012) from AID under his first contract. According to the contractor an extensive analysis of the operating account would have to be performed in order to segregate the two contracts' funds. The audit did not uncover misuse of AID funds. It is important from an accounting and control standpoint however to segregate AID advances.

### Lack of Control on Cash Payments

- A contractor had maintained cash on hand in his office to effect payments to vendors, landlords, for salaries and other petty cash items. Over the contract's life he made cash payments of LE70,228 (\$84,612) from cash on hand. The cash balance at one point reached the level of LE12,000 (\$14,458). Cash was kept in a box by the contractor's chief of party and given to his accountant to execute payments. The chief of party did not maintain an imprest cash system and did not require the accountant to provide him with cash receipts. When the chief of party estimated that balance of cash in his box was too low, he replenished it by writing checks to "Cash." The cash withdrawals from his bank account had no relationship to disbursements or needs. Our examination noted duplicate payments; i.e., by check and from cash on hand for the same transaction and other questionable payments. In this instance, internal control on cash was completely ineffective.

### Contractor did not Account for his Cash Advance Prior to Departure from Egypt

- A contractor had been provided LE102,000 (\$122,892) as a cash advance. The contract was terminated for cause in June 1982. According to the project officer, the advance funds were turned over to the Government of Egypt and not returned to USAID/Egypt as stated in the contract. A contractor has upto six months to file a final voucher after termination of his contract. USAID/Egypt was still attempting to obtain a complete accounting of the funds nine months after the contract was terminated.

### Poor Management of Subadvances

- One contractor provided subadvances to contract personnel, agriculture research stations and universities throughout Egypt. A total of LE341,443 (\$411,377) has remained outstanding from four months to a year.

We believe that USAID/Egypt needs to take a more aggressive role in the monitoring of cash advances. Prior to the issuance of cash advances USAID/Egypt provides contractors with a document entitled: Payment Provisions for Periodic Revolving Advances. This document provides guidance to contractors on the means by which to manage AID advance funds. The provisions require the contractor to:

- ... Open a special bank account in Egypt for the purpose of depositing all cash provided by USAID.

Only after USAID/Egypt has been notified that a bank account has been established will checks to the contractor be drawn.

The provisions also provide:

... All funds provided by AID may be used solely for the payment of allowable cost items under this grant/contract and any amendments thereto. For the purpose of accountability, any AID-financed currency shall not be commingled with other currencies provided by the Grantee/Contractor, the Government or any other donor.

These provisions provide the basic guidance to contractors on their internal control of AID cash advances. Despite this guidance, however, contractors were not providing sufficient internal controls on AID funds.

Project Officers have a fiduciary responsibility for project funds. We believe that more active monitoring must be done to prevent abuse and misuse of funds advanced by AID. We noted that vouchers approved for payment by Project Officers were rubber stamped; "subject to post audit." The Comptroller General has often stressed that audit is not a substitute for adequate internal controls. The internal control weaknesses noted would have surfaced to the Project Officers involved if adequate monitorship of contractors had been performed.

#### Recommendation No. 2

USAID/Egypt arrange for Project Officer monitoring of advances to contractors and issue appropriate guidance to ensure that the internal control weaknesses noted during the audit are corrected and that Project Officers provide sufficient oversight on contractor financial records to preclude recurrences of weak internal controls on AID advanced funds.

#### Mission Comments

USAID is well aware of its financial vulnerability when it is financing such a large number of varying types of contracts. While this recommendation is limited to those contractors who receive advances, USAID believes that it relates to the overall issue of the role of the USAID project officer in contract monitoring vis-a-vis the roles of the contracting agencies and the various audit entities.

The draft report did not adequately describe USAID's current system of advances, contract monitoring, and audit coverage; nor did the report present a complete or fair analysis of the effectiveness of this system. USAID believes the vulnerability issue, as presented in the draft audit report, is not properly balanced and does not consider alternate uses of USAID resources, such as the audit services contract, to improve the situation.

The draft report does not mention or allude to the numerous instances where costs were suspended and internal control weaknesses discovered and corrected during voucher reviews and normal contract monitoring by the GOE, the project officer, and the USAID Office of Financial Management.

The draft report seems to discount the role of audit in regards to contract monitoring. The audit coverage provided by federal cognizant agencies, IG/W, RIG/A/C, and by Arthur Young under the Audit Services Contract certainly has to be considered when recommending a course of action. Instead, the draft report recommends that, in effect, the USAID project officer perform an audit function in reviewing a contractor's internal and accounting control systems.

JSAID has requested that an independent vulnerability assessment be performed by AID/W personnel. USAID has requested that this assessment include an analysis of USAID's vulnerability in the area of host country contracting. In addition, an AID/W task force has recently been established to offer guidance and procedures on the advance of funds issue.

USAID believes that the process to address the issue of contract monitoring is underway and that this process will include a more fair and comprehensive assessment of the issue and offer alternate courses of action.

RIG/A/Cairo does not agree that this report assigns audit responsibilities to the project officer. We believe it is current Agency policy to assign responsibility to the project officer. Under current AID guidelines the project officers are to observe and report upon the activities and performance of a contractor in order to assure that U.S. public funds are being expended in accordance with statutory and AID administrative requirements. Also, the project officers are to assure that the services and commodities being procured are delivered and used properly.

#### FINANCIAL MANAGEMENT

Mission financial management of cash advances could be improved to ensure advance replenishments requested by contractors represent actual requirements. In addition, contractors should be provided uniform guidance on the preparation and submission of expenditure vouchers (SF 1034).

#### Expenditure Projections

Currently, the Controller requires a contractor to submit a three-month LE expenditure budget to support his request for additional advance funds. The budget is compared with the contractor's cash on hand. The amount of projected expenditures in excess of cash on hand is provided as additional advance funds. Our review of budgets prepared by contractors indicated that projections of actual expenditures were poor and generally in excess of requirements. For example, a contractor projected total expenditures of LE3.1 million for the period (4/1 - 12/31/82). His actual expenditure rate for the period was LE1.3 million. When queried at the lack of success in the development of budgets, the contractor replied that he generally inflated his expenditure projections to ensure a "cushion" in case of a late receipt of funds from USAID. Additional examples of contractor's expenditure projections versus actual expenditures are:

<u>Contractor</u>	<u>Period of Projection</u>	<u>Budget Projection</u>	<u>Actual Expenditure</u>
A	6/82 - 01/83	LE911,000	LE692,544
B	6/01 - 08/31/82	273,482	150,003
C	8/01 - 10/31/82	162,847	80,825

The controller's office relies heavily on project officers to determine the reasonableness of contractors advance requests. Our review indicates that this has proven inadequate. A more reliable basis of estimating need would be to compare contractor advance requests to average monthly expenditures rates. Contractors should support sizable increases by a written description of the additional needs for cash.

### Recommendation No. 3

USAID/Egypt's Office of Financial Management establish procedures to monitor advance replenishments to preclude excessive advances of AID funds.

### Mission Comments

USAID concurs with this recommendation and has taken action for its closure.

The Office of Financial Management (FM) will immediately undertake the analyses comparing project expenditures versus actual expenditures for specified periods. A form letter will be sent to the appropriate project officers stipulating that future projections be more realistic to avoid possible reduction in future advance requests.

USAID believes that this action satisfies the intent of the recommendation and suggests that it be deleted from the final report.

RIG/A/Cairo feels the recommendation should remain open until FM completes its analyses and develop a report on its findings.

### Submission of Contract Vouchers

The preparation and submission of contract vouchers is a slow and irregular process.

Contractors are to submit monthly vouchers for contract expenditures on SF-1034 (Public Voucher for Purchase and Services). We found however that voucher submission varied both in the period of expenditures reported and in the timely submission of vouchers. The majority of contractors reported their expenses on a month-by-month basis. However, we did note one contractor who submitted a voucher covering a six-month expenditure period and another covering a three-month period. He explained that he was unaware of any requirement to provide monthly expenditure vouchers.

Supporting documentation for preparation of LE vouchers is maintained in Egypt. We found that the length of time between the end of the expenditure period and the date the voucher was submitted varied two days to thirty days after the close of the expenditure period. We believe that the timeliness for preparation of vouchers could be improved.

Timely submission of expenditure vouchers would provide USAID/Egypt with a more accurate record of contract expenditures and reduce the amount of advances needed. The Mission should ensure that contractors submit their vouchers on a monthly basis and as soon after the end of the month as possible.

Recommendation No. 4

USAID/Egypt arrange for contractors to submit timely expenditure vouchers.

Mission Comments

USAID does not concur with this recommendation. The majority of contractors file their vouchers on a monthly basis. USAID also considers the "two days to thirty days" to submit vouchers to be reasonable. As for the one contractor who was unaware of the requirement to provide monthly expenditure vouchers, USAID cannot comment on the basis of that remark since all contractors receive the "Payment Provisions for Periodic Revolving Advances." However, such a remark by one contractor certainly should not be the basis for an audit recommendation. Further, USAID is presently converting its accounting records to MACS (Mission Accounting Control System) which will assign an accountability date to all advances. This will allow USAID to more effectively monitor the timely submission of vouchers.

USAID suggests that this recommendation be deleted from the final report.

RIG/A/Cairo acknowledges FM's efforts to further improve its accounting system through the use of MACS however we do not find it unreasonable to improve upon the timeliness for the submission of expenditure reports by contractors particularly in those cases where a contractor's cost records are in Cairo.

CONTRACTORS' ACCOUNTING PRACTICES

Contractors need improvements in their systems of accounts. The problems noted during the audit were:

- Irregular collection of financial data on subadvances made from AID advanced funds. Contractors made subadvances to a multitude of recipients throughout Egypt; many recipients were tardy in their submission of expenditure data. The tardy submission of data results in ever increasing subadvances outstanding. The contractors' systems did not provide for timely identification and follow-up.
- Advance balances could not be determined under contractors' accounting systems. We found situations where contractors commingled advance funds with other cash receipts. In another case, a contractor did not properly employ an imprest petty cash system and relied on month-end reconciliations to determine his balance of cash on hand.

-- Contract costs were not properly segregated to allow for a determination of expenditures of advances funds and unliquidated balances.

We believe that USAID needs to make in-depth reviews of contractors' records prior to the issuance of advances to ensure that the contractor is capable of exercising his fiduciary responsibility for AID funds.

The Code of Federal Regulations, specifically 1-30.410, states that one of the determinant factors in the justification of an advance to a contractor is that:

The financial management system of the contractor provides for effective control over and accountability for all Federal funds ...

AID Handbook 1, Sup. B, 4e. stipulates:

The requirement for a contractor to have an acceptable financial system in order to be given an advance may not be waived.

Accordingly, we recommend that:

Recommendation No. 5

USAID/Egypt determines for the record, that a contractor's accounting capability and systems are adequate for effective control and accountability prior to making an initial advance of AID funds.

Mission Comments

USAID does not concur with this recommendation. USAID is in the process of providing advances only to non-profit organizations, which includes major universities, university consortiums, and private voluntary organizations. Again, the draft audit report does not appear to give consideration to audit coverage of cognizant federal audit agencies over these organizations. In addition, the audit findings do not support this recommendation, in that a one-time check of internal control viability would not have precluded the "abuses" noted in the findings.

Further, as mentioned earlier, USAID is awaiting guidance from the AID/W task force on this issue.

USAID suggests that this recommendation be deleted from the final report.

RIG/A/Cairo acknowledges the efforts of the AID/W task force. However, an initial review of a contractor's financial and accounting procedures and practices is warranted to preclude mismanagement of AID funds.

AUDIT OF  
CASH ADVANCES TO CONTRACTORS  
INTEREST COST TO U.S. GOVERNMENT

EXHIBIT A

<u>U.S. Dollar Advances</u>	Average Advance Outstanding <sup>1/</sup>		Average Interest Rate for Period		Period Outstanding	Accumulated
	<u>Period</u>	<u>Amount</u>	<u>Advance Outstanding</u> <sup>2/</sup>	<u>3/</u>	<u>in Years</u>	<u>Interest Cost</u>
		(A)			(C)	(A)X(B)X(C)
<u>Contractor</u>						
Basil-WBLT-Nassar JT Venture	03/80 - 12/82	\$ 482,232	12.58 %		2.83	\$ 171,679
Agricultural Coop. Develop. Inc.	08/80 - 12/82	129,302	13.05 %		2.42	40,835
Univ. of Calif./Davis (ADS)	03/79 - 12/82	679,675	12.20 %		3.83	317,585
Consortium of Intl. Develop.	01/80 - 12/82	2,400,195	12.58 %		3.0	905,834
Amer. Mideast Educ. Train. Ser. Inc.	08/80 - 12/82	1,666,668	13.05 %		2.50	543,750
Univ. of Calif./Davis (Rice Res.)	08/80 - 01/83	750,674	13.05 %		2.50	244,907
		\$6,108,746				\$2,224,590
<u>L.E. Advances (Expressed in U.S. Dollars)</u>						
<u>Contractor</u>						
U/C-Davis/Rice Research	08/80 - 12/82	\$ 198,215	13.05 %		2.42	\$ 62,598
U/C-Davis/ADS	03/79 - 12/82	344,983	12.20 %		3.83	161,197
M.I.T.	05/81 - 12/82	406,234	13.68 %		1.667	92,640
Chemonics	05/81 - 12/82	174,083	13.68 %		1.667	39,699
C.I.D.	02/80 - 12/82	732,430	12.58 %		2.92	269,048
DMJM/KIDDE	09/80 - 12/82	111,592	13.05 %		2.333	33,975
Agric. Coop. Develop. Intl.	09/80 - 12/82	110,217	13.05 %		2.333	33,555
L. Berger Int. Inc.	09/80 - 12/82	124,332	13.05 %		2.333	37,854
W. Smith & Assoc. (NUDS)	06/82 - 12/82	291,055	12.62 %		.583	21,414
W. Smith & Assoc. Prov. City Devel.	05/82 - 12/82	233,908	12.62 %		.667	19,689
RCA	09/81 - 12/82	79,734	13.37 %		1.333	14,210
		\$2,806,783				\$ 785,879
T O T A L		\$8,915,529				\$3,010,469

<sup>1/</sup> Represents the sum of each month's outstanding advances divided by the number of months in the life of the contract. The advance balances were taken from FM records. FM advised that these balances represent a 90 day float period of advance funds.

<sup>2/</sup> Interest rates were provided by the U.S. Treasury and represent the interest charged to profit-making organizations on outstanding advances (CFR Subpart 1-304).

<sup>3/</sup> We averaged the interest rates by taking those interest rates applicable to the period of time the advance was outstanding and dividing by the number of interest rates involved.

Audit Of  
Cash Advances to Contractors  
Average Advance Outstanding Versus Average Monthly Expenditure

<u>U.S. Dollar Advances</u>	<u>Average Advance Outstanding</u>	<u>Average Monthly Expenditures</u>	<u>1/</u>
<u>Contractor</u>			
Basil-WBLT-Nassar Jt. Venture	\$ 482,232	\$125,949	3.8
Agricultural Coop. Develop. Inc.	129,302	50,249	2.6
University of Calif./Davis/ADS	679,675	151,129	4.5
Consortium of Intl. Devel.	2,400,195	339,194	7.1
Amer. Mideast Educ. Train. Ser. Inc.	1,666,668	382,621	4.4
U/C Davis/Rice Research	750,674	65,671	11.4
 <u>L.E. Advances (Expressed in U.S. Dollars)</u>			
<u>Contractor</u>			
U/C-Davis/Rice Research	\$ 198,215	\$ 27,050	7.3
U/C-Davis/ADS	344,983	73,759	4.7
M.I.T.	406,234	77,082	5.3
Chemonics	174,083	45,101	3.9
C.I.D.	732,430	97,398	7.5
DMJM/KIDDE	111,592	7,031	15.9
Agric. Coop. Develop. Int'l	110,217	17,032	6.5
L. Berger Int. Inc.	124,332	25,556	4.9
W. Smith & Assoc. (NUDS)	291,055	55,632	5.2
W. Smith & Assoc. Prov. City Devel.	233,908	50,383	4.6
RCA	79,734	16,222	4.9

1/ Number of months expenditures the average outstanding advance represents.

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LIST OF REPORT RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	2
USAID/Egypt review contract advances and recover any outstanding amounts that exceed a 30 day expenditure requirement.	
<u>Recommendation No. 2</u>	6
USAID/Egypt arrange for Project Officer monitoring of advances to contractors and issue appropriate guidance to ensure that the internal control weaknesses noted during the audit are corrected and that Project Officers provide sufficient oversight on contractor financial records to preclude recurrences of weak internal controls on AID advanced funds.	
<u>Recommendation No. 3</u>	8
USAID/Egypt's Office of Financial Management establish procedures to monitor advance replenishments to preclude excessive advances of AID funds.	
<u>Recommendation No. 4</u>	9
USAID/Egypt arrange for contractors to submit timely expenditure vouchers.	
<u>Recommendation No. 5</u>	10
USAID/Egypt determines for the record, that a contractor's accounting capability and systems are adequate for effective control and accountability prior to making an initial advance of AID funds.	

LIST OF REPORT RECIPIENTS

Assistant To The Administrator For Management (AA/M)	1
Assistant Administrator/Bureau For Near East (AA/NE)	5
Director, USAID/Egypt	5
Audit Liaison Office (AA/NE)	1
Office Of Egypt Affairs (NE/E)	1
Office Of Financial Management (M/FM/ASD)	2
Directorate For Program And Management Services (M/DAA/SER)	6
Bureau For Program And Policy Coordination (PPC/PDPR/PDI)	1
General Counsel (GC)	1
Office Of Legislative Affairs (LEG)	1
Office Of Public Affairs (OPA)	2
Office Of Evaluation (PPC/E)	1
Office Of Development Information And Utilization (S&T/DIU)	4
Inspector General (IG)	1
RIG/A/Abidjan	1
RIG/A/Karachi	1
AAP--New Delhi	1
RIG/A/Latin America/W	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Washington	1
Office Of Policy, Plans And Programs (IG/PPP)	1
Executive Management Staff (IG/EMS)	12
Assistant Inspector General For Investigations And Inspections (AIG/II/W)	1
Regional Inspector General For Investigations And Inspections (RIG/II/Cairo)	1