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AUDIT OF
INTEREST EARNED ON
OUTSTANDING PROJECT CASH ADVANCES
Audit Report No. 6-263-87-11
June 30, 1987

memorandum

DATE: June 30, 1987

REPLY TO
ATTN OF: *Joseph R. Ferri*
Joseph R. Ferri, RIG/A/Cairo

SUBJECT: Audit Of Interest Earned On
Outstanding Project Cash Advances

TO: Mr. Arthur M. Handly, Director USAID/Egypt (A)

This report presents the results of audit of Interest Earned on Outstanding Project Cash Advances. The audit showed that the Mission was unaware that recipients were failing to remit significant amounts of interest earned on AID advances, as required. Please advise us within 30 days of any actions taken or contemplated to close the recommendation.

Background

USAID/Egypt Office of Financial Management made cash advances to recipients of grant funds under project agreement arrangements. At June 30, 1986, there were 207 unliquidated advance balances totaling \$18.6 million. The advances were provided generally to fund the recipients 30-day cash requirements. Typically, the funds were required to be placed in special project accounts and withdrawn as needed. Recipients were to submit monthly expenditure vouchers and request replenishment of the outstanding advance based on a projection of cash requirements for the next 90-day period. The names of the banks where the funds were being held oftentimes was known, but the Mission did not require information on the type of account maintained--interest-bearing or noninterest-bearing.

U.S. Government regulations required the return of interest earned on advances of Federal funds to the government. Project contractual agreements usually provided for the advance recipient to refund the interest no later than quarterly.

This report concerning interest earned by recipients, but not refunded to AID, is one of three Regional Office of Inspector General for Audit, Cairo reports dealing with outstanding project cash advances. The other audit reports concern excessive advances and project advance accounting records.

- 1 -

OPTIONAL FORM NO. 10
(REV. 1-23)
GSA FPMR (41 CFR) 101-11.6
5010-114

Audit Objectives And Scope

The objective of this financial and compliance audit was to evaluate the adequacy of USAID/Egypt procedures for controlling cash advances to AID grantees. Specifically, the audit was directed to determining whether interest was being earned and, if so, whether the interest was being returned to the U.S. Government, as required.

The audit scope included a review of 80 outstanding advance balances amounting to about \$11 million, or 59 percent of the total outstanding balance of \$18.6 million at June 30, 1986. This review involved sending out 64 confirmations of outstanding balances to advance recipients. The confirmations included a request for information on the type of account in which the USAID/Egypt funds were being kept. The confirmations sent out totaled about \$10.8 million, or 58 percent, of the outstanding balances of \$18.6 million at June 30, 1986. Responses were received from almost 100 percent of the recipients contacted. Five respondents said that the advances were held in interest-bearing accounts (see Exhibits 1 and 2).

The audit included a detailed review of 10 advance balances totaling \$9.3 million. During this part of the audit, one more account was identified, making a total of 5 advance recipients and 6 accounts that were being kept on an interest-bearing basis. (The Institute for Training and Research in Family Planning had 2 accounts.) Exhibit 1 shows the advance accounts identified. The audit also included a review of bank statements and Office of Financial Management cash advance records. Discussions were held with Financial Management officials and officials from cash advance recipient organizations. The review of internal controls extended only to determining whether the Mission maintained basic information on the types of accounts maintained by advance recipients.

No previous audits were made solely of interest earned on project cash advances. The Office of Inspector General had issued several reports detailing Mission weaknesses in the cash advances area.

The audit work was done between September 1986 and March 1987, and was made in accordance with generally accepted government auditing standards.

Results Of Audit

USAID/Egypt did not have adequate procedures for controlling cash advances to recipients of AID funds. Accordingly, unknown to USAID/Egypt interest was earned on cash advances. In some cases, the interest was refunded to the U.S. Government; in other cases, it was not.

At the exit conference in May 1987, Office of Financial Management officials said information would be kept on the type of account maintained by advance recipients. With this information and closer monitoring the Mission should be able to establish appropriate control over interest earned and ensure such interest is remitted as required.

The lack of an effective system to ensure the periodic refund of interest earned on cash advances was a material internal control weakness. The audit identified six interest-bearing accounts and interest earned of at least \$1.034 million based on a sampling of 59 percent of the value of advances outstanding at June 30, 1986. We recommended establishing a system to identify and collect the interest earned on cash advances to AID grantees, and to keep appropriate records on interest-earning accounts of AID grantees. A draft of this report was provided to the Mission for formal comment. The Mission declined comment, but indicated it agreed with the report recommendation.

Requirements to Remit Earned Interest Must be More Effectively Enforced - The audit identified interest totaling at least \$1,034,222 that was earned on cash advance balances. USAID/Egypt was unaware that recipients were depositing advances in interest-bearing accounts and failing to remit the interest earned to AID, as required by U.S. Treasury and AID regulations. It is likely that more interest-bearing accounts have yet to be identified, because the audit tested only 59 percent of the value of outstanding balances at June 30, 1986. The main cause of this condition was that the Office of Financial Management did not keep information on the types of accounts being maintained by recipients of advances. It, therefore, could not ensure that interest was remitted as required. As a result, the U.S. Government did not have the benefit of the interest earned by advancees.

Discussion - The U.S. Treasury Fiscal Requirements Manual, Chapter 8000, states:

"Except where specifically prohibited by law, agencies will require that all interest earned by recipients on advances of Federal funds be remitted

to the agency. The agency will promptly deposit such interest in the General Account of the U.S. Treasury..."

AID Handbook 3, page 6A-4-6, paragraph H.(3), implements the U.S. Treasury regulation:

"...(3) Any interest or other earnings on funds provided by AID to the Grantee under this Agreement will be returned to AID by the Grantee."

USAID/Egypt generally required advance recipients to identify the banks where the advance accounts would be kept. Agreements generally stipulated that if interest was earned it would be returned to AID. The Mission did not require information on the type of account (interest or noninterest-bearing) maintained, nor did it monitor the accounts for the purpose of ascertaining whether interest was earned. The following examples demonstrate the problems caused by the lack of effective USAID/Egypt oversight.

1. Egyptian Major Cereals Improvement, Project No. 263-0070, L/Com-263-0070-01

The audit showed that the contractor, The Consortium for International Development (CID), earned interest on USAID/Egypt cash advances totaling about \$963,167 (see Exhibit 2). CID earned this interest by depositing the advances in an account at a Tucson, Arizona bank. The bank invested excess funds daily in Overnight Repurchase Agreements.

The contract between CID and the Egyptian Ministry of Agriculture required, as set forth in the general provisions, paragraph No. 9: "...If any interest is earned by the contractor on the advance funds, it shall accrue to and be paid to AID quarterly..."

USAID/Egypt was unaware of the interest earned on cash advances, and CID did not refund each quarter the interest earned, as required. Interest of \$629,048 earned during the period February 1980 to December 1981 was unknown to USAID/Egypt until October 24, 1985, when the Office of Financial Management received a check for \$304,605 from CID. This check represented a refund of interest earned on cash advances for the period from January 1982 to June 1985, (see Exhibit 3).

The covering letter of this check informed USAID/Egypt that the total interest earned and refunded to AID amounted to \$933,653. The Deputy Controller was unable to verify receipt of the difference of \$629,048 between the value of the check and the total interest refunded. This difference was actually refunded to AID in Washington in February 1982 and represented interest earned for the period from February 1980 to December 1981. Accordingly, this interest was unknown to USAID/Egypt for more than 3 years from the date of refunding on February 5, 1982, to October 24, 1985 (see Exhibit 3, pages 1, 4, 7, and 8).

Additional interest of about \$29,514 earned for the period from July 1985 to June 1986 had not been returned to AID as of the time the audit work was completed (see Exhibit 3, page 10). Interest earned from July 1986 to the end of the project had yet to be calculated and returned to USAID/Egypt.

The audit also showed that CID deposited the cash advances from USAID/Egypt in a bank account commingled with other CID monies. Commingling did not comply with USAID/Egypt regulations, which required contractors to establish special accounts for advance payments so that adequate control could be exercised over the funds. USAID/Egypt did not know about the commingling of funds or the investment of funds in repurchase agreements until the audit disclosed these conditions. This project was completed in January 31, 1987.

2. University Linkages, Project No. 263-0118, PIL No. 13

The audit showed that unknown to the Mission the Foreign Relations Coordination Unit (FRCU) at Cairo University earned interest of \$58,476 on USAID/Egypt funds (see Exhibit 2). The interest earned was not refunded as required by AID regulations. More than 4 years transpired from the date the interest was earned to the date the interest was refunded to USAID/Egypt.

USAID/Egypt did not closely monitor the advancee's funds deposited in special bank accounts as required. A RIG/A/Cairo confirmation letter was sent to FRCU on July 31, 1986. The reply disclosed that the advancee had earned interest on cash advances totaling \$28,537 (see Exhibit 5, page 1). The Project Officer and FRCU officials did not know the period related to this interest. The auditor, therefore, visited FRCU at Cairo University and the Misr Bank in Garden City where the funds were held. The auditor found that FRCU could not reconcile its records with the bank statements for

PIL No. 13 because the cash advances deposited in this account were commingled with other USAID/Egypt funds from the Commodity Import Program. The bank statements did not describe the account transactions, which could have been used to reconcile the bank balance with FRCU's records. Nevertheless, all of the interest earned could be attributed to USAID/Egypt cash advances. FRCU eventually refunded interest of \$28,537 to the Mission on October 14, 1986, covering the period from July 1, 1982 to June 30, 1983 (see Exhibit 5, pages 3, 4 and 5).

The bank visit showed that Misr Bank's policy was to pay interest on balances over \$1,000 on all U.S. dollar accounts. The payment of interest was in accordance with a general policy adopted by the Egyptian Government to encourage dollar deposits in Egyptian banks. The audit also showed that the account for PIL No. 13 earned additional interest of \$29,939 for the period July 1, 1981 to June 30, 1986 as follows.

<u>Period and Rate</u>	<u>Interest</u>
July 1, 1981 to June 30, 1982, at 11%	\$16,314
July 1, 1983 to June 30, 1984, at 7.45%	6,335
July 1, 1984 to June 30, 1985, at 6%	6,162
July 1, 1985 to June 30, 1986, no rate given	<u>1,128</u>
Total	\$29,939 =====

This additional interest was not known to USAID/Egypt and FRCU until disclosed by the audit. FRCU subsequently delivered a check, dated December 22, 1986, to the Project Officer for \$29,939 making the total interest earned and refunded on this account \$58,476 (see Exhibit 5, pages 6 through 12).

3. Peace Fellowship Program, Project No. 263-0110, L/Com 263-0110-01, AMIDEAST

The audit showed that the contractor, America-MIDEAST Educational and Training Services (AMIDEAST) received cash advances from USAID/Egypt in U.S. dollars. According to the

contractor, the advance funds were deposited in a separate noninterest-bearing, receiving account at the Riggs Bank in Washington, D.C. All disbursements were made from AMIDEAST's main disbursing account at Riggs Bank, which also was noninterest-bearing.

AMIDEAST reported it had a "sweep arrangement" with Riggs Bank on a daily basis. If the balance of all AMIDEAST accounts exceeded \$250,000, the excess was swept into an interest-bearing account. AMIDEAST said that interest income from all sources was analyzed on a monthly basis, allocated to month-end contract cash balances, and remitted to the appropriate earning entity.

The contract between AMIDEAST and the Egyptian Ministry of Higher Education required, as set forth in paragraph B.-2 and 3 that: "3. ...Any interest or other earnings on AID-financed currency under this contract shall be paid directly to AID as earned and shall not be used to offset Project Expenditures."

As a result of confirmation letters sent to AMIDEAST, we were told that AMIDEAST had refunded \$1,811 to AID/Washington on June 9, 1986. This amount represented USAID/Egypt's share of interest earned by AMIDEAST for the month of April 1986 under Letter of Credit No. 72-00-1304 (\$1,697) and Letter of Commitment No. 263-0110-01 (\$114). The interest refunded was unknown to USAID/Egypt until the audit disclosed the AMIDEAST practice (see Exhibit No. 4, pages 1 and 2).

The audit also indicated that AMIDEAST had previously refunded over \$150,000 to the U.S. Treasury under the Peace Fellowship Program (see Exhibit 4, page 3). AMIDEAST's letter to the Project Officer dated October 8, 1985 did not give the exact amount of the refund, the period involved, or the reference documents used to refund this interest. The Project Officer was requested to provide the information, as well as a statement of interest earned under the project up to the time the audit work on the account was completed on December 31, 1986. An AMIDEAST/Egypt official advised us in January 1987 that AMIDEAST/Washington, D.C. would provide the information required. At the time the audit report was issued, however, this information had not been provided.

4. Family Planning-1, Project No. 263-0029,
SA-263-0029-G-00-3024

Confirmation letters sent to the advancee disclosed that the Institute for Training and Research in Family Planning had deposited cash advances in an interest-bearing account at Misr Bank. This account earned interest of \$1,802 for the period from March 1, 1983, to June 30, 1985 (see Exhibit 2, page 2). The USAID/Egypt Project Officer discovered the interest during a review of a liquidation voucher in 1986 and USAID/Egypt received a refund of the interest in June 1986 (see Exhibit 7, page 5).

The advancee's reply also showed that other interest was earned totaling \$701 for the period from July 1, 1985, to June 30, 1986. The advancee refunded \$696 to USAID/Egypt with \$5 being used to offset a bank charge (see Exhibit 7, pages 2 and 6).

5. Population-Family Planning-2, Project No. 263-0144,
SA-263-0144-G-00-6023

The audit showed that the Institute for Training and Research in Family Planning deposited USAID/Egypt cash advances in an account bearing interest at Misr Bank. The account earned interest of \$276 for the period from January 29, 1986 to June 30, 1986 (see Exhibit 7, page 7). The interest was not refunded to USAID/Egypt. USAID/Egypt did not know about the interest earned on cash advances provided under this project until the audit disclosed the condition.

6. Peace Fellowship Program, Project No. 263-0110, Ministry
of Higher Education, PIL Nos. 7 and 9

The audit showed that the Ministry of Higher Education deposited USAID/Egypt dollar cash advances in an interest-bearing account at the Misr Bank. This account earned interest totaling \$7,989 for the period from June 30, 1982 to June 30, 1986 (see Exhibit 6, page 1). USAID/Egypt did not know that these cash advances were in an interest-bearing account until the audit disclosed the condition. The advancee refunded \$7,989 to USAID/Egypt on October 20, 1986 (see Exhibit 6, pages 3 and 4).

Recommendation No. 1

We recommend that USAID/Egypt's Office of Financial Management establish a system and procedures for identifying and collecting the interest earned on cash advances to AID grantees; and keep appropriate records of interest-earning accounts.

A draft of this report was provided the Mission for official comment. The Mission declined to comment, but indicated it agreed with the report recommendation. The Office of Inspector General, therefore, considered the matter resolved. The recommendation will be closed upon evidence that the Mission has established the recommended system and procedures for controlling interest earned on cash advances.

EXHIBIT 1

Schedule Of Reported Interest-Bearing Accounts

<u>Advancee Recipient</u>	<u>Project Description and Number</u>	<u>Unliquidated Balance at June 30, 1986</u>
I. Consortium for International Development (C.I.D.)	Egyptian Major Cereals Improvement Project (EMCIP) Project No. 263-0070. (L/Com-263-0070-01\$)	\$ 274,710
II. Foreign Relations Coordination Unit, (FRCU) - Cairo University	University Linkages Project, Project No. 263-0118\$. (PIL No. 13)	159,450
III. Missions Department Ministry of Higher Education	Peace Fellowship Program, Project No. 263-0110. (PIL No. 7 and PIL No. 9-\$)	49,300
IV. Institute for Training and Research in Family Planning (ITRFP)	Family Planning-1, Project No. 263-0029. (SA-263-0029-G-00-3024)	7,073
	Population/Family Planning-2, Project No. 263-0144. (SA-263-0144-G-00-6023)	40,000
V. America-Mideast Educational and Training Services (AMIDEAST)	Peace Fellowships Program, Project No. 263-0110. (L/Com 263-0110-01\$)	606,447
	Total Unliquidated Balances	<u>\$1,136,980</u> =====

Interest Earned On Cash Advances of Federal Funds
Under Projects of USAID/Egypt

<u>Advance Reference</u>	<u>Descriptions</u>	<u>Refunded to USAID</u> (A)	<u>Not refunded to USAID</u> (B)	<u>Total earned</u> (A)+(B)
<u>I. Consortium For International Development</u>				
P4100216W, L/Com-263- 0070-01\$ Project No. 263-0070	Interest earned for the period from February 1980 to December 31, 1981 refunded to U.S. Treasury by check no. 4504 dated February 5, 1982 and received on February 11, 1982.	\$629,048		\$629,048
	Interest earned from January 1, 1982 to June 30, 1985. Refunded to USAID/Egypt on October 15, 1985 and received on October 24, 1985 by check no. 09917.	304,605		304,605
	Interest earned from June 30, 1985 to June 30, 1986 and not refunded to USAID/Egypt as of February 3, 1987 as per CID Telex No. 146 Tucson, Arizona dated February 3, 1987.		\$29,514	29,514
	Interest due USAID/Egypt not yet calculated for the period from July 1, 1986 until end of the project January 31, 1987.	-	-	-
Total Interest earned by CID		<u>\$933,653</u>	<u>\$29,514</u>	<u>\$963,167</u>
<u>II. Foreign Relations Coordination Unit-Cairo University (FRCU)</u>				
P014206626, PIL No. 13 Project No. 263-0118-\$	Interest earned from July 1, 1982 to June 30, 1983. Refunded to USAID/Egypt and received by receipt no. A723018 dated October 14, 1986.	\$ <u>28,537</u>		\$ <u>28,537</u>

Interest earned from July 1, 1981 to June 30, 1982,	16,314		16,314
Interest earned from July 1, 1983 to June 30, 1984,	6,335		6,335
Interest earned from July 1, 1984 to June 30, 1985, and	6,162		6,162
Interest earned from July 1, 1985 to June 30, 1986.	1,128		1,128
Sub-Total	<u>\$ 29,939</u>		<u>\$ 29,939</u>
Total Interest earned by FRCU	<u>\$ 58,476</u>		<u>\$ 58,476</u>

III. Missions Department - Ministry of Higher Education

P089301940 PIL No. 7 and 9-\$ Project No. 263- 0110	Interest earned from June 30, 1982 to June 30, 1986. Refunded to USAID/Egypt by check no. 2167211 and receipt no. A723024 on October 20, 1986.	\$7,989		\$7,989
	Total Interest Earned by MOE	<u>\$7,989</u>		<u>\$7,989</u>

IV. Institute for Training and Research in Family Planning (ITRFP)

P151502251 SA-263- 0029-G-00- 3024 Project No. 263- 0029	Interest earned from March 1, 1983 to June 30, 1985, was refunded to USAID/Egypt by check no. 858236 on June 24, 1986.	\$1,802		\$1,802
	Interest earned from July 1, 1985 to June 30, 1986, refunded to USAID/Egypt by check no. 0858237 as per receipt no. A723023 on October 20, 1986.	696	\$ 5	701
P372301652 SA-263- 0144-G-00- 6023 Project No. 263-0144	Interest earned from January 29, 1986 to June 30, 1986, not yet refunded to USAID/Egypt.		276	276

18

		Not Applicable	
Interest earned from July 1, 1986 to date and prior to January 29, 1986, should be determined and refunded to USAID/Egypt.			
Total Interest earned by ITRFP	<u>\$2,498</u>	<u>\$281</u>	<u>\$2,779</u>
 V. <u>AMIDEAST</u>			
P15'00487W Interest earned for the month of L/Com-263- April 1986, refunded to AID/W 0110-01\$, on June 9, 1986. Attributable AMIDEAST to AID Letter of Credit No. Project No. 62-00-1304 (\$1,697) and the 263-0110 balance (\$114) is attributable to AID Letter of Commitment No. 263-0110-01.	\$1,811		\$1,811
Interest earned for the period prior to and after April 1986, which should be determined and refunded to USAID/Egypt.	-	-	-
Total Interest earned by AMIDEAST	<u>\$1,811</u>	_____	<u>\$1,811</u>
Total Interest earned on advances as identified by audit. *	\$1,004,427 =====	\$29,795 =====	1,034,222 =====

* Totals do not include "over \$150,000" AMIDEAST reportedly refunded to the U.S. Treasury.

Exhibit 3
Through
Exhibit 7

EXHIBITS 3 THROUGH 7 CONTAIN SUPPORTING DETAILS
PRIMARILY OF INTEREST TO USAID/EGYPT.
THESE EXHIBITS WERE OMITTED
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15