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AUDIT OF  
CASH ADVANCES TO PROJECTS  
IN RWANDA

Audit Report No. 3-696-88-09  
March 25, 1988

UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
REGIONAL INSPECTOR GENERAL/AUDIT

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March 25, 1988

MEMORANDUM FOR MISSION DIRECTOR, USAID/Rwanda, Emerson Melaven  
FROM: RIG/A/Nairobi, Richard C. Thabet  
SUBJECT: Audit of Cash Advances to Projects in Rwanda

The Office of the Regional Inspector General for Audit, Nairobi has completed its audit of A.I.D. cash advances to projects in Rwanda. Five copies of the audit report are enclosed for your action.

The draft report was submitted to you for formal comments but no response was received from you prior to the release of this report. However, your comments on the written findings as presented to you at the exit conference were considered fully and as a result, we made changes to the report as appropriate. Your comments are attached to the report in their entirety. The report contains two recommendations. Both recommendations are considered resolved but require additional action. Please advise me within 30 days of any additional information relating to actions planned or taken to implement the recommendations Nos. 1 and 2.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

USAID/Rwanda was one of fourteen A.I.D. missions in eastern Africa serviced by the Regional Financial Management Center (RFMC) located in Nairobi, Kenya. The financial services provided by RFMC/Nairobi to client missions depended on the type of financial staff available at specific missions. At USAID/Rwanda, even though a Controller position was recently established and a Mission Controller assigned, requests for cash advances were sent to RFMC/Nairobi for processing. After processing and approval, RFMC/Nairobi sent a request to the Regional Administration Management Center in Paris, France for a check to be issued. That system was in a state of change, at the time of audit, since having a Mission Controller enabled the Mission to assume more responsibility for approving cash advance requests and requesting cash advance payments from Paris. RFMC/Nairobi processing included voucher examination, certification of funds availability, and posting to the

official accounting records. Periodically, RFMC/Nairobi sent financial reports to USAID/Rwanda to reflect the action taken on each voucher. Those reports were intended to facilitate USAID/Rwanda monitoring and reconciliation of its financial transactions.

Among the various financial transactions initiated by USAID/Rwanda were advancement of funds to development projects funded by A.I.D.. These funds were advanced on the basis that the Government of Rwanda could not afford to underwrite project costs and then be reimbursed by A.I.D.. Such advances were made in the form of U.S. dollars or in Rwanda Francs owned by the U.S. Government. Whether dollars or Francs were provided depended on how the advance would be used (e.g., to pay costs outside Rwanda or local costs in Rwanda).

### Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Nairobi made an economy and efficiency audit of cash advances to A.I.D. funded projects in Rwanda. The audit objective was to determine if cash advances were being managed economically and efficiently. Specific objectives were to (1) determine if project advances approved by USAID/Rwanda officials were appropriate, and (2) evaluate USAID/Rwanda monitoring of cash advances.

The audit was made at RFMC/Nairobi and at USAID/Rwanda in Kigali, Rwanda during the period November 3 to November 10, 1987. USAID/Rwanda and RFMC/Nairobi officials were interviewed, project files and financial reports were reviewed, and related internal controls were tested. The audit scope included \$1,391,385 of cash advances outstanding to projects as of September 11, 1987 of which \$1,202,177 was tested. The audit was conducted in accordance with generally accepted government auditing standards.

### Results of Audit

The audit identified improvements in USAID/Rwanda's management of cash advances to projects, especially since the establishment of a Controller's Office. However, the audit identified weaknesses that still needed attention. Cash advances were being provided even though the Government of Rwanda had sufficient funds available and the monitoring of cash advances needed improvement.

The weaknesses identified resulted in U.S.-owned funds being unnecessarily provided as cash advances to project recipients and unnecessary costs to the U.S. Government. Therefore, we recommended that certain types of cash advances be eliminated, monitoring be improved and certain outstanding advances be recovered.

U.S.-Owned Rwanda Francs Cash Advances Can Be Eliminated - A.I.D. and U.S. Treasury regulations allowed for cash advances when recipients did not have the working capital necessary to underwrite costs. USAID/Rwanda officials continued to make cash advances even though the Government of Rwanda accrued certain funds which could be used to underwrite costs. This happened because USAID/Rwanda officials did not consider using local currency revenues generated from other A.I.D. programs. As a result, unnecessary use of U.S.-owned funds continued and unnecessary costs accrued.

Recommendation No. 1

We recommend that the Director, USAID/Rwanda negotiate arrangements with the Government of Rwanda to eliminate using U.S.-owned Rwanda Francs to make cash advances to projects.

Discussion - A.I.D. and U.S. Treasury regulations allowed for cash advances when recipients did not have the working capital necessary to underwrite costs. The preferred method of underwriting project costs was for such costs to be paid by host governments or other concerns and then for A.I.D. to reimburse for those costs - the reimbursement method. The reimbursable method provides interest savings to the U.S. Government.

USAID/Rwanda made cash advances to projects going back several years. According to USAID/Rwanda officials, those advances were needed because the Government of Rwanda did not have sufficient working capital to underwrite project costs. In USAID/Rwanda's 1986 annual budget submission, the Mission expressed an intent to go to the reimbursable method for all new projects and subsequently had some success in new projects. Primary consideration was given to having the Government of Rwanda seek working capital loans from financial institutions.

The audit noted that during 1987, the Government of Rwanda began accruing substantial Rwanda Franc revenues from an A.I.D. Commodity Import Program. Based on A.I.D. reports and discussions with the Mission Controller, the audit identified that the Government of Rwanda had unprogrammed Rwandan Francs totalling \$3,873,000 available from that program. Accordingly, the auditors suggested that USAID/Rwanda officials consider approaching Government of Rwanda officials with the idea of using those funds rather than continuing to use U.S.-owned funds. The \$3,875,000 was more than enough to cover the \$1,252,530 of outstanding Rwanda Franc cash advances outstanding at September 11, 1987. Use of Government of Rwanda owned funds could have saved the U.S. Government about \$44,000 annually in interest costs.

Subsequent to the auditors departure, the Mission Controller met with Government of Rwanda officials and reportedly obtained their agreement to use those funds to make cash advances - thereby eliminating the need for A.I.D. to fund future advances with U.S.-owned resources. Accordingly, upon finalization of the procedures to effect that arrangement, the recommendation related to this issue will be closed.

No formal comments on the draft report were received from the Mission prior to the release of this report.

Management of Cash Advances Can Be Improved - A.I.D. and U.S. Treasury regulations required that cash advances be limited to immediate disbursing needs (i.e., not more than 30 days) unless a longer period is justified. A.I.D. regulations also required that the use of cash advances be monitored and unused funds promptly returned to the U.S. Treasury. USAID/Rwanda however, did not justify advances beyond 30-days and did not effectively monitor cash advances. Mission officials were unaware of the 30-day criteria and did not understand their responsibilities for monitoring. As a result, funds were unnecessarily advanced and not recovered or liquidated for long periods of time.

Recommendation No. 2

We recommend that the Director, USAID/Rwanda:

- a. limit future cash advances to no more than 90-day cash disbursement needs for the initial advance and to 30-day needs for subsequent replenishments,
- b. issue a Mission Order establishing a system for monitoring cash advances to projects and identifying specific monitoring responsibilities for project officers and the Controller staff,
- c. initiate action to recover unused funds outstanding of \$140,180 to the Drought Relief Project and \$1,924 to the Agriculture Education Project,
- d. obtain an accounting and either recover or liquidate advances of \$1,982 to the Fish Culture Project; \$3,467 to the Cropping Systems Project; \$25,597 to the Human Rights Projects; and \$50,313 to the Special Self-Help Project,
- e. deobligate funds totalling \$271,047 for the Drought Relief Project.

Discussion - Consistent with U.S. Treasury requirements, A.I.D. Handbook 19, Chapter 1, page 1B-8 required that cash advances should be provided in minimum amounts required to meet recipients' immediate disbursing needs. Immediate disbursing need was defined to mean cash requirements of up to 30 days. The Handbook also provided that if project implementation would be seriously interrupted or impeded by the 30-day rule, then advances could be provided to cover up to 90 days; however, written justification for any period beyond 30 days had to be approved by the appropriate Bureau Assistant Administrator or A.I.D. representative. In addition, page 1B-7 of this Chapter required the cash management practices of recipient organizations be monitored to ensure that excessive cash balances were promptly returned to the U.S. Treasury. The intent of those requirements was to minimize U.S. Treasury costs associated with cash advances.

USAID/Rwanda was making cash advances which exceeded the limitation of 30-day disbursement needs and providing advances based on 90-day disbursement needs. Required justifications and waivers were not prepared. Mission officials stated that they thought 90 days was allowed and were unaware of the 30-day requirement.

The audit determined that a lengthy processing time was involved before a cash advance actually got to project recipients. For example, 7 to 14 days was required for an advance request to be prepared by the recipient, including preparation of the disbursement schedule justifying the need for the funds. The advance request was then forwarded to the USAID/Rwanda project officer for administrative approval which took five to seven days more. After USAID/Rwanda processing, the request was forwarded to RFMC/Nairobi where processing took about 21 to 30 days. After RFMC/Nairobi processing, a cable was sent to the Regional Administrative Management Center in Paris, France which issued the check and forwarded it to the recipient - another 7 to 14 days. On this basis, the processing time ranged between 40 to 65 days before the recipient got the funds.

Because of the lengthy processing time, the audit determined that an initial cash advance to cover 75 to 90 days was necessary to ensure that project implementation delays did not occur. Subsequent advances however should have been limited to the amounts required for 30-day disbursement needs and vouchers should have been submitted on a monthly basis.

The audit also identified that project officers were unaware of the requirement to analyze cash advance requests and monitor the use of cash advances. Reliance was almost totally left to the Mission Controller to perform these functions, even though the Controller did not have the insight into project

requirements expected of project officers. For example, the audit identified several cases where project officers were unaware that their projects had advances. In one case, the project officer stated that he knew nothing about an advance because "it was not on his watch" that the advance was given. The Mission had not defined these roles.

As a result, the audit found that some actions were taken to recover long outstanding advances, but there were other cases where nothing had been done. For example, an advance of \$10,931 given in July 1983 to the Agriculture Education Project had an unliquidated balance of \$1,924 and no action had been taken to get it liquidated or to obtain a refund (Exhibit 1 identifies all cash advance related transactions needing further follow-up). In another case, the Mission Controller had recommended to the project officer that a \$271,047 obligation be deobligated in May 1987, however nothing had been done at the time of audit.

Overall, unnecessary cash advances resulted in unnecessary interest costs to the U.S. Government. In addition, unnecessary obligations tied up funds which could be used for other A.I.D. purposes and could eventually result in the loss of those funds to A.I.D.. We estimated that unnecessary interest costs of about \$27,300 annually were accruing to the U.S. Government because of unnecessary cash advances provided to projects in Rwanda.

No formal comments on the draft report were received from the Mission prior to the release of this report. However, USAID/Rwanda did submit written comments to the "Report of Audit Findings" presented at the exit conference. These comments were considered fully and changes were made to the report as appropriate. USAID/Rwanda's comments are included in their entirety as an appendix to this report.

AUDIT OF  
CASH ADVANCES TO PROJECTS  
IN RWANDA

EXHIBIT AND APPENDICES

EXHIBIT 1

CASH ADVANCE TRANSACTIONS NEEDING  
REFUND, LIQUIDATION OR DEOBLIGATION  
AS OF NOVEMBER 10, 1987

<u>Project Title/Number</u>	<u>Amount</u>	<u>Required Action</u>
Drought Relief/6960001	\$140,180 271,047	Refund Deobligation
Agriculture Education/6960109	1,924	Liquidation
Fish Culture/6960112	1,982	Liquidation
Cropping System Improvement/6960123	3,468	Liquidation
Human Rights/6989801.96	25,597	Liquidation
Special Self-Help/6989901.96	50,313	Liquidation

ACTION: AID-3 .INFO: ECO **OFFICIAL FILE**

25-JAN-88 TOR: 08:12  
CN: 49428  
CHRG: AID  
DIST: AID  
ADD:

VZCZCNA0789  
PP RUEHNR  
DE RUEHLGB #0329/01 0250736  
ZNR UUUUU ZZE  
P 250656Z JAN 88  
FM AMEMBASSY KIGALI  
TO AMEMBASSY NAIROBI PRIORITY 3174  
BT  
UNCLAS SECTION 01 OF 02 KIGALI 00329

AIDAC

FOR RIG/A/N TEABET, RFMC FOR PAUL KRAMER FROM A.I.D.  
REP. MELAVEN

E.O. 12356: N/A  
SUBJECT: RWANDA - MANAGEMENT OF CASH ADVANCES

REF: NAIROBI 041507

1. OAR/RWANDA HAS THE FOLLOWING COMMENTS CONCERNING THE  
DRAFT AUDIT REPORT PROVIDED BY THE RIG TEAM ON NOVEMBER  
10, 1987:

A. RECORD OF AUDIT FUNDING NO. 1 REMARKS THAT MISSION  
OFFICIALS HAVE NOT FOLLOWED UP PROMPTLY ON CASH ADVANCES  
TO PROJECT. MISSION DOES NOT AGREE WITH THIS  
STATEMENT. IT HAS BEEN OUR POLICY TO ENSURE THAT EACH  
PROJECT RECEIVING CASH ADVANCE HAVE A PROJECT ACCOUNTANT  
AND THAT THE FUNDS ARE DEPOSITED IN A SPECIAL ACCOUNT.  
BEFORE THE CONTROLLER'S OFFICE WAS ESTABLISHED IN  
NOVEMBER 1986, THE MISSION'S PROJECT MANAGEMENT SUPPORT  
OFFICE, AT THE REQUEST OF THE PROJECT OFFICER, WOULD  
SEND A PROJECT ACCOUNTANT TO THE PROJECT SITE TO PERFORM  
A ONE HUNDRED PERCENT VERIFICATION OF THE DISBURSEMENTS/  
PAYMENTS MADE WITH THESE ADVANCES. THIS PROCESS ALSO  
INCLUDED RECONCILING THE PROJECT BANK ACCOUNT AND  
PREPARING THE LIQUIDATION VOUCHER. THESE FINANCIAL  
MANAGEMENT ACTIVITIES ARE STILL BEING PERFORMED BY THE  
CONTROLLER STAFF. SINCE DECEMBER 1986, THE NEWLY  
ESTABLISHED CONTROLLER'S OFFICE HAS TAKEN THE LEAD AND  
GREATER RESPONSIBILITY TO ANALYZE ADVANCE REQUESTS AND  
TO FOLLOW-UP (OBTAIN REFUNDS OR PROPERLY LIQUIDATE) ALL  
OUTSTANDING CASH ADVANCES MADE TO THE GOR.  
MISSION MANAGEMENT HAS ALWAYS BEEN COGNIZANT OF THE  
DIFFICULTIES TO EFFECTIVELY MANAGE A PROJECT FINANCED BY  
THE ADVANCE METHOD OF PAYMENT. IN THE MISSION'S FY86  
ABS, MISSION POLICY WAS ESTABLISHED IN THAT THE  
REIMBURSEMENT METHOD OF PAYMENT WOULD BE RECOMMENDED FOR  
ALL NEW PROJECTS. FOR EXAMPLE TWO ON-GOING BILATERAL  
PROJECTS 696-0126 (ASAP) AUTHORIZED FY86 AND  
696-0127 (PRIME) AUTHORIZED FY85 ARE USING THE  
REIMBURSEMENT METHOD OF PAYMENT.

THE TITLE "MONITORING OF PROJECT ADVANCES HAS BEEN  
INADEQUATE" IS NOT CLEAR. WHAT PERIOD WAS THE MONITORING

OF PROJECT ADVANCES BEING PERFORMED INADEQUATELY BY THE PROJECT OFFICERS? SUGGEST TITLE SHOULD READ "MONITORING OF PROJECT ADVANCES WAS INADEQUATE".

THE STATUS OF RECOMMENDATIONS FOLLOWS:

NO.1 - MISSION IS DRAFTING A MISSION ORDER.

NO.2 - MISSION HAS SENT A SECOND LETTER DATED DECEMBER 28, 1987 TO THE GOR REQUESTING A REFUND. THE PROBLEM IS THAT THE REFUND CHECK MUST BE WRITTEN AGAINST A CONVERTIBLE ACCOUNT. THE GOR DOES NOT HAVE THE U.S. DOLLARS AND WE ARE TRYING TO FIND A SOLUTION. MEANWHILE, THE MISSION WILL REQUEST THE USDO/PARIS TO ALLOW USAID/RWANDA TO DEPOSIT A LOCAL CURRENCY CHECK. IF THE MISSION IS UNSUCCESSFUL TO OBTAIN USDO AUTHORIZATION TO ACCEPT A CHECK AGAINST A NON-CONVERTIBLE ACCOUNT, A BILL FOR COLLECTION WILL BE ISSUED.

NO.3 - MISSION HAS BEEN UNABLE TO LOCATE MR. JUSTUS MUKARAGE AND IS SENDING A MEMORANDUM TO THE RLA/NAIROBI REQUESTING FURTHER GUIDANCE.

NO.4 - THE ACCOUNTING FOR THE ADVANCES TOTALLING: A.)DOLS 1,982.24 UNDER FISH CULTURE PROJECT HAS NOT BEEN DONE. IT WILL BE COMPLETED BY FEBRUARY 28, B.)DOLS 3,467.65 UNDER CROPPING SYSTEMS PROJECT HAS BEEN COMPLETED AND ETC WILL SUBMIT A LIQUIDATION VOUCHER TO CLEAR THE AMOUNT, C.)DOLS 25,597.12 UNDER HUMAN RIGHTS PROJECTS HAVE BEEN LIQUIDATED AS OF JANUARY 15 AND, D.)DOLS 50,312.75 UNDER SELF-HELP PROJECT HAVE BEEN LIQUIDATED OF JANUARY 15.

B. RECORD OF AUDIT FINDING NO.2 REMARKS THAT THE MISSION DID NOT REQUIRE WAIVERS FOR ADVANCE REQUESTS FOR MORE THAN 30 DAYS DISPURRING NEEDS. MISSION AGREES WITH THE FINDING AND THE AUDITOR'S STATEMENT AND WILL ISSUE WAIVERS IN THE FUTURE. A MISSION ORDER IS BEING DRAFTED. MISSION ACCEPTS THE RECOMMENDATION.

C. THE RECOMMENDATION TO DEOBLIGATE THE BALANCE OF DOLS 271,047 UNDER DROUGHT RELIEF PROJECT. MISSION ACCEPTS THIS RECOMMENDATION AND WILL DEOBLIGATE DOLS 130,367.24 NOT LATER THAN JANUARY 30 AND THE DIFFERENCE AS SOON AS THE GOR PROVIDES THE MISSION WITH A REFUND CHECK FOR THE OUTSTANDING ADVANCE FOR DOLS 140,179.76.

2. MISSION WILL CABLE STATUS OF OPEN RECOMMENDATIONS ON  
JANUARY 30. PLEASE CABLE YOUR COMMENTS ASAP. DE WILDE

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RIG/A/S	1
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RIG/A/W	1
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