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AUDIT OF
CASH ADVANCES TO PROJECTS
IN MALAWI

Audit Report No. 3-612-88-07
March 25, 1988

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

UNITED STATES POSTAL ADDRESS
BOX 232
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March 25, 1988

MEMORANDUM FOR MISSION DIRECTOR, USAID/Malawi John F. Hicks

FROM: RIG/A/Nairobi, Richard C. Thabet *Richard C. Thabet*

SUBJECT: Audit of Cash Advances to projects in Malawi

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

The draft report was submitted to you for comment and your comments are attached to this report. The Mission requested that RIG/A/N revise the draft report and resubmit it for a final review. However, RIG/A/N did not consider this necessary because the revisions made as a result of Mission comments did not materially change the report. The report contains two recommendations. The two recommendations are considered resolved but require further action. Please advise me within 30 days of any additional information relating to actions planned or taken to implement recommendations Nos. 1 and 2.

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

Background

USAID/Malawi 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 to client missions depended on the type of financial staff available at specific missions. At USAID/Malawi, there was no Controller; rather, the financial staff consisted of a Financial Management Officer who arrived at post in October 1986, one foreign service national (FSN) accounting technician, two FSN voucher examiners and one FSN accounts assistant. From June 1987, the Financial Management Officer began certifying all financial vouchers for payment and forwarding them to Regional Administration Management Center in Paris, France which issued checks. Copies of the voucher were also sent to RFMC/Nairobi which maintained the official accounting records for USAID/Malawi. Periodically, RFMC sent

financial reports to USAID/Malawi to reflect the action taken on each voucher. These reports were intended to facilitate USAID/Malawi monitoring and reconciliation of its financial transactions.

Among the various financial transaction initiated by USAID/Malawi were advancement of funds to A.I.D. funded development projects. These funds were advanced on the basis that the Government of Malawi could not afford to underwrite project costs and then be reimbursed by A.I.D..

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Nairobi made an economy and efficiency and compliance audit of cash advances to A.I.D. funded projects in Malawi. 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/Malawi officials were appropriate, (2) evaluate USAID/Malawi monitoring of cash advances and (3) perform limited test of related internal controls.

The audit was made at RFMC/Nairobi and at USAID/Malawi in Lilongwe, Malawi, during the period November 18-24, 1987. RFMC/Nairobi and USAID/Malawi officials were interviewed, project files and financial reports were reviewed, and selected internal controls were tested. The audit scope included \$796,534 of cash advances outstanding as of September 11, 1987. The audit was conducted in accordance with generally accepted government auditing standards.

Results of Audit

Over the past year, USAID/Malawi had made improvements in its management of cash advances. These improvements began with the arrival of the Financial Management Officer and included (1) liquidation of some long outstanding advances, (2) correction of longstanding errors in the accounting records, and (3) a reduction of about \$130,000 in the advance account.

Recognizing that Mission initiated improvements were underway, the audit identified areas in USAID/Malawi's management of cash advances which still need improvement. Advances had been made which were uneconomical to the U.S. Government. In some instances Mission officials were not effectively monitoring the use of cash advances, and related internal controls were not being implemented. Those weakness resulted in unnecessary cash advances to project recipients and unnecessary interest costs to the U.S. Government. Therefore, we recommended that cash advances be limited to cover 30 days of disbursement needs and monitoring responsibilities and procedures be established.

Additional Improvement in the Management of Cash Advances Can Be Made - 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. In addition, A.I.D. regulations required that unused funds be promptly returned to the U.S. Treasury. However, USAID/Malawi had given excessive cash advances to project recipients and some unused balances remained outstanding for long periods. This occurred because USAID/Malawi officials were unaware of the requirement to justify advances beyond the 30-day needs requirement and monitoring of cash advances was inconsistent. As a result, more than \$513,023 had been unnecessarily advanced and unnecessary interest costs were incurred.

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 Mission Director. In addition, page 1B-7 of this Chapter required the cash management practices of recipient organizations be monitored by A.I.D. to ensure that excessive cash balances are promptly returned to the U.S. Treasury. The intent of those requirements was to minimize U.S. Treasury costs associated with cash advances.

On June 1, 1987, USAID/Malawi's system for making cash advances to project recipients was changed. The change, facilitated by the arrival of a Financial Management Officer, resulted in cash advance requests being forwarded directly to the Regional Accounting Management Center in Paris, France which shortened the time between the requests for advances and the receipt of the checks. Prior to this time, the requests for advances had to be processed through RFMC/Nairobi, before going to the Paris, France for check issuance.

The audit revealed that even though the new process had shortened the time between the request for advance and issuance of the check, USAID/Malawi was still approving advances based on a 90-day requirement. According to USAID/Malawi officials, it was believed that a cash advance to cover 90 days of disbursement needs was the standard operating practice in eastern Africa. Similarly, the officials were unaware of the requirement to justify cash advances exceeding 30 days of cash disbursement needs. Accordingly, the officials had taken no action to reduce the amount of cash advances from a 90-day disbursement level to a 30-day level.

The audit also revealed that some USAID/Malawi project officers were not actively monitoring the use of cash advances. Consequently, advances had remained outstanding for as long as two years before action was taken to recover used funds or to correct accounting records to reflect the use of those funds. For example, the Mission took no action to follow-up on a \$102,551 of advances to an agriculture research project given in late 1985. The audit found that there was no established system for monitoring cash advances to projects that identified the specific monitoring responsibilities for the project officers and the Mission's financial office. In some instances the project officers did not understand all the aspects of their monitoring responsibilities.

As of September 11, 1987, USAID/Malawi's official accounting records showed that cash advances totalling \$796,534 were outstanding. Assuming a constant cash advance level of \$796,534, this amount could have been reduced by about \$531,023 if Mission officials had adjusted cash advances to a 30-day level, rather than a 90-day level, and if Mission officials had monitored the use of advances more closely. However, since this was not done, unnecessary annual interest costs to the U.S. Government of about \$18,600 were accruing.

Recommendation No. 1

We recommend that the Director, USAID/Malawi approve future project cash advance requests limited to 30-day cash disbursement needs.

Recommendation No. 2

We recommend that the Director, USAID/Malawi issue a Mission Order which clearly delineates the responsibilities of project officers and the Financial Management Officer for reviewing, approving and monitoring cash advances to projects.

In responding to the draft report, USAID/Malawi generally agreed with the report's finding and recommendations. The Mission, however, expressed concerns that the draft report contained some factual errors and misleading and/or overstated conclusions. USAID/Malawi disagreed with the statement that the project officers were not adequately monitoring the project cash advances.

Regarding the specific case of \$102,551 of advances to an agriculture research project given in late 1985 the Mission stated that the matter had been pursued verbally as well as personally with appropriate GOM officials. USAID/Malawi further stated that there was a clear understanding throughout

RFMC client Missions that the 30 day rule would seriously impede project implementation because of the lengthy processing time involved. The Mission assumed that RFMC used this basis as a general justification for all its client Missions for advances beyond 30-days need. The Mission, therefore, did not prepare any further justification.

Finally, the Mission stated that they had taken the necessary actions to limit future cash advances to 30-day requirement unless a written justification had been approved by the Mission Director.

The Mission's comments were carefully considered and certain changes suggested by the Mission's comments were made to the draft report. Regarding the Mission's position that there was verbal and personal follow-ups, RIG/A/N's experience does show that documented follow-up procedures are more productive. Further, the A.I.D. regulations required that a written justification for any advance beyond 30 days be approved by the appropriate Bureau Assistant Administrator or Mission Director. RIG/A/N does not consider an assumption of a general justification as constituting the required justification.

AUDIT OF
CASH ADVANCES TO PROJECTS
IN MALAWI

APPENDICES

ACTION: RTMC - 5

24-MAR-88 ICR: 08:37
CN: 05219
CHRG: RTMC
DIST: RTMC
ADD:

A :GVZCZCNA0516
PP RUEHR
DE RUEHLG #1572/01 0830829
ZNR UUUUU ZZH
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AIDAC

FOR R.THABET, RIG/A AND RTMC

I.C. 12356: N/A

SUBJECT: AUDIT OF CASH ADVANCES TO PROJECTS IN MALAWI

REF: (A) THABET/FICKS MEMO OF 3/8/88 (B) LILONGWE 5625

1. MISSION REVIEWED THE RIG REPORT ON SUBJECT AUDIT, AND BELIEVES THAT IT STILL HAS SOME FACTUAL ERRORS AND MISLEADING AND/OR OVERSTATED CONCLUSIONS. MISSION ALSO EXPRESSSES SERIOUS CONCERNS ABOUT THE IMPLICATIONS OF SOME OF THE STATEMENTS MADE IN THE REPORT. IN ADDITION, IT WAS NOTED THAT THE REPORT DOES NOT REFLECT ACCURATELY OUR PREVIOUS COMMENTS PROVIDED IN REF (B), NOR WERE THESE COMMENTS ATTACHED TO THE REPORT AS STATED IN SECOND PARAGRAPH OF THE REPORT.

2. COMMENTS AND/OR SUGGESTED CHANGES AS FOLLOWS:

(A) CHANGE WHEREVER IT READS QUOTE FINANCE AND MANAGEMENT OFFICER UNQUOTE TO READ QUOTE FINANCIAL MANAGEMENT OFFICER UNQUOTE.

(B) BACKGROUND, FIRST PARA, THIRD SENTENCE, TO READ QUOTE AT USAID/MALAWI, THERE WAS NO CONTROLLER; RATHER THE FINANCIAL STAFF CONSISTED OF A FINANCIAL MANAGEMENT OFFICER WHO ARRIVED AT POST IN OCTOBER, 1986 AND ONE PSN ACCOUNTING TECHNICIAN AND TWO PSN VOUCHER EXAMINERS. THE FINANCIAL MANAGEMENT OFFICER BEGAN IN JUNE, 1987 CERTIFYING ALL FINANCIAL VOUCHERS FOR PAYMENT AND FORWARDING THEM TO REGIONAL ADMINISTRATION MANAGEMENT CENTER IN PARIS, FRANCE WHICH ISSUED THE CHECKS. UNQUOTE.

(C) MISSION IS MUCH CONCERNED ABOUT SOME OF THE CATEGORICAL STATEMENTS MADE IN THE REPORT, PARTICULARLY QUOTE MISSION OFFICIALS WERE NOT MONITORING THE USE OF CASH ADVANCES UNQUOTE (PAGE 4) AND QUOTE GENERALLY, THE AUDIT FOUND THAT PROJECT OFFICERS DID NOT UNDERSTAND THEIR RESPONSIBILITY IN MONITORING THE ADVANCES UNQUOTE (PAGE 7). PROJECT OFFICERS HAVE BEEN CLOSELY MONITORING THE USE OF ADVANCES AND APPROVING FURTHER ADVANCES ONLY AFTER THE PREVIOUS ADVANCES ARE LIQUIDATED AND/OR ACCOUNTED FOR; AND ON THE BASIS OF DETAILED REVIEW/ANALYSIS OF ADDITIONAL CASH REQUIREMENTS. THIS

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IS EVIDENCED BY THE FACT THAT AT THE TIME OF THE SUBJECT AUDIT, THERE WERE ONLY TWO LONG OUTSTANDING ADVANCES FOR WHICH THE VOUCHERS WERE ALREADY SUBMITTED AND WHICH WERE LIQUIDATED SOON AFTER THE AUDIT. WITH THE EXCEPTION OF THE FAR-BASED CONSTRUCTION ACTIVITY IN ONE PROJECT, THE MISSION'S ADVANCE SYSTEM HAS OPERATED SMOOTHLY, INCLUDING CONSTRUCTION ADVANCES UNDER THE POLYTECHNIC EXPANSION (612-0201) AND THE HEALTH INSTITUTIONS DEVELOPMENT (612-0211) PROJECTS AND OPERATING EXPENSE ADVANCES FOR THE READI (612-0214) AND MALAWI AG RESEARCH AND EXTENSION (612-0215) PROJECTS. REGARDING THE SPECIFIC CASE OF THE NOW COMPLETED AGRICULTURAL RESEARCH PROJECT (612-0202), WHICH SEEMS TO BE THE BASIS FOR THE GENERAL CONCLUSIONS DRAWN, MISSION OFFICIALS HAD BEEN PURSUING THIS MATTER FOR ABOUT 18 MONTHS BUT THESE ADVANCES REMAINED OUTSTANDING BECAUSE OF THE INABILITY OF THE GOVERNMENT OF MALAWI TO LOCATE, MAINLY DUE TO FREQUENT MOVEMENTS OF GOVERNMENT PERSONNEL RESPONSIBLE FOR IMPLEMENTATION OF THE PROJECT, COPIES OF REQUIRED DOCUMENTS FOR SUBMISSION OF VOUCHERS TO LIQUIDATE THESE ADVANCES AND NOT BECAUSE OF LACK OF ANY FOLLOW-UP BY THE PROJECT OFFICERS. ALTHOUGH THERE WERE NO WRITTEN FOLLOW-UPS SENT ON THESE ADVANCES, THE MATTER WAS BEING PURSUED VERBALLY AS WELL AS PERSONALLY WITH THE APPROPRIATE GOVERNMENT OFFICIALS FOR A LONG TIME. PROJECT OFFICERS HAVE NORMALLY FOUND SUCH AN APPROACH VERY EFFECTIVE IN RESOLVING EXPEDITIOUSLY SUCH OPERATIONAL MATTERS.

(D) REGARDING THE ADVANCES EXCEEDING 30 DAYS OF CASH REQUIREMENTS, PLEASE NOTE THAT MISSION OFFICIALS WERE AWARE OF THE REQUIREMENT TO JUSTIFY THE ADVANCES BEYOND 30 DAY NEEDS. HOWEVER, DUE TO LONG (6-8) WEEKS TURNAROUND TIME INVOLVED IN THE PAST FROM THE DAY A REQUEST FOR ADVANCE IS SUBMITTED TO RFMC/NAIROBI FOR PROCESSING FOR PAYMENT TO THE DAY THE CHECK IS RECEIVED FROM RFMC/PARIS, SUCH ADVANCES WERE APPROVED WITH THE CLEAR UNDERSTANDING WITH AND CONCURRENCE BY RFMC THAT THIS LONG TURNAROUND TIME WOULD SERIOUSLY INTERRUPT OR IMPEDE THE PROJECT IMPLEMENTATION. AS THIS WAS BEYOND THE MISSION CONTROL AND WITH ASSUMPTION THAT RFMC USED THIS BASIS OR CRITERIA AS A GENERAL JUSTIFICATION FOR ALL ITS CLIENT MISSIONS FOR CERTIFYING ADVANCES BEYOND 30 DAYS' PERIOD, MISSION DID NOT PREPARE OR APPROVE ANY

FURTHER WRITTEN JUSTIFICATION AND/OR DETERMINATION FOR USAID/MALAWI.

AFTER JUNE 1, 1987, WHEN USAID/MALAWI BEGAN PROCESSING VOUCHERS FOR PAYMENT DIRECTLY THROUGH RAMC/PARIS, THE TURNAROUND TIME BETWEEN THE REQUEST FOR ADVANCE AND ISSUANCE OF THE CHECA WAS CONSIDERABLY REDUCED. SINCE THIS CHANGE, MISSION APPROVED TWO ADVANCES BASED ON A 90 DAY REQUIREMENT FOR ONLY ONE PROJECT (612-0214), DUE TO ITS NATURE, THE NUMBER OF RECIPIENT PRIVATE SECTOR INSTITUTIONS AND UNUSUALLY LENGTHY PROCEDURES NECESSARY TO DISBURSE THE FUNDS TO THE RECIPIENTS. SINCE THIS 90-DAY ADVANCE PERIOD WAS PREVIOUSLY REVIEWED BY THE MISSION AND APPROVED BY THE RFMC DIRECTOR DURING HIS VISIT TO THE MISSION IN EARLY 1986, NO ADDITIONAL WRITTEN JUSTIFICATION WAS PREPARED FOR THIS PROJECT. MISSION NOW HAS ON FILE, HOWEVER, A WRITTEN JUSTIFICATION APPROVED BY THE MISSION DIRECTOR FOR THE RWALI PROJECT. FOR ALL OTHER PROJECTS, MISSION HAS ALREADY CHANGED ITS POLICY OF ADVANCING FUNDS FOR NOT MORE THAN 30 DAYS' CASH REQUIREMENTS.

(E) MISSION HAS NO MAJOR DIFFERENCES WITH THE AUDIT RECOMMENDATIONS BUT OFFERS THE FOLLOWING COMMENTS. ON RECOMMENDATION NO. 1 NECESSARY ACTIONS HAVE ALREADY BEEN TAKEN BY THE MISSION TO LIMIT FUTURE ADVANCES TO 30-DAY CASH REQUIREMENTS UNLESS A WRITTEN JUSTIFICATION IS APPROVED BY THE MISSION DIRECTOR. IN VIEW OF OUR COMMENTS IN PARA (C) ABOVE, WE DO NOT BELIEVE RECOMMENDATION NO. 2 IS REQUIRED FOR CORRECTIVE ACTION BUT WOULD AGREE TO THE UTILITY OF SUCH A MISSION ORDER TO FORMALIZE THIS ASPECT OF PROJECT MONITORING RESPONSIBILITIES.

2. IN VIEW OF THE MISSION COMMENTS IN PARA 1 ABOVE, PIC IS REQUESTED TO REVISE THE REPORT TO REFLECT THESE COMMENTS IN THE REPORT, AND TO SUBMIT IT FOR OUR FINAL REVIEW.

JETT
BT
#1572

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AIG/I	1
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IG/PSA	1
RIG/A/C	1
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RIG/A/M	1
RIG/A/S	1
RIG/A/T	1
RIG/A/W	1
RFMC/Nairobi	1