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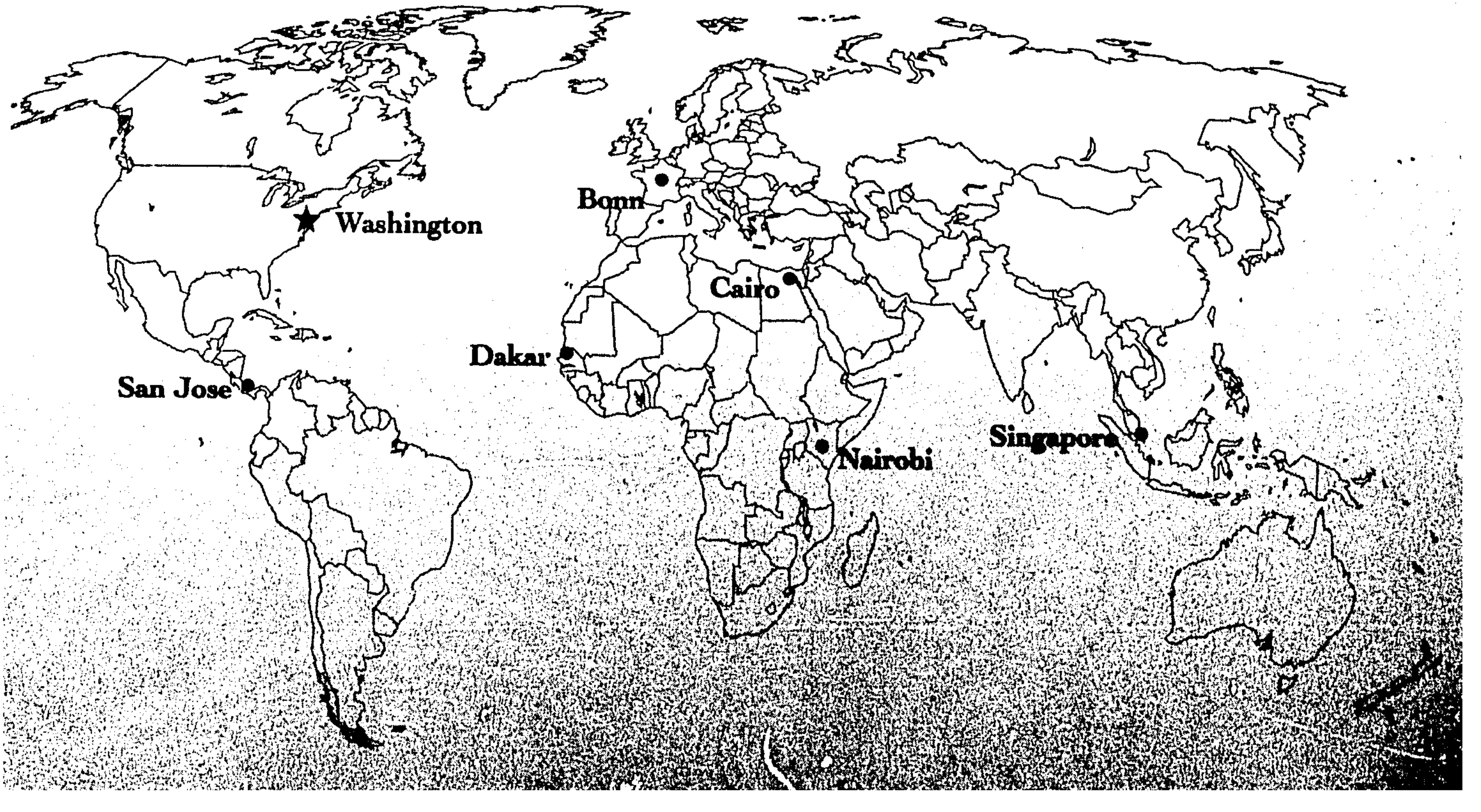
91992

Programs and Systems Audits

AUDIT OF USAID/WASHINGTON'S MANAGEMENT OF CASH ADVANCES TO RECIPIENT ORGANIZATIONS

Report No. 9-000-95-005
December 15, 1994



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

December 15, 1994

MEMORANDUM FOR M/FM, Director of Finance, Donald K. Charney

FROM: IG/A/PSA, Toby L. Jarman Toby L. Jarman

SUBJECT: Audit of USAID/Washington's Management of Cash Advances to Recipient Organizations (Audit Report No. 9-000-95-005)

Enclosed are five copies of the subject audit report. We received written comments on a draft of this report from the Acting Controller, Office of Financial Management, USAID/Washington, and have included the comments as an appendix to the report. The report contains ten recommendations. Based on management's comments, we consider Recommendation No. 4 to be closed. The other recommendations are resolved and will be closed when appropriate actions are completed.

I appreciate the excellent cooperation and numerous courtesies your staff extended to my staff during the audit. Please provide us information within 30 days documenting the actions taken or planned to implement the recommendations.

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

EXECUTIVE SUMMARY

Background

Federal policy endorses advancing cash in reasonable amounts to nonprofit, educational, or research institutions for experimental, developmental or research work. The U.S. Agency for International Development (USAID) extends this policy to all nonprofit organizations, including international private voluntary organizations and international research institutions. The policy ensures that the organizations will not have to use their own working capital or earmarked funds to finance work done under USAID agreements.

To ensure that advances of Federal funds are limited to the minimum amounts necessary for immediate disbursement needs, the U.S. Treasury requires Federal agencies to monitor recipients' cash management practices and to take remedial action when excessive cash is withdrawn.

As part of a worldwide audit, the Inspector General's Office of Programs and Systems Audits reviewed USAID/Washington's management of cash advances to determine if USAID/Washington followed applicable policies and requirements (1) to limit cash advances to recipients' immediate cash needs, (2) to use letters of credit to finance recipients, and (3) to ensure that recipients maintained cash advances in interest-bearing accounts and remitted the interest earnings (See page 2). This was a follow-up audit to our September 1988 report in which we concluded that USAID/Washington had not limited cash advances to recipients' immediate needs, used letters of credit when required to finance recipients, or ensured recipients remitted interest earnings.

According to that report, in September 1987, USAID/Washington's outstanding cash advances--excluding advances to letter-of-credit recipients--totaled about $54 million. By December 1993, this amount had increased to about $81 million; and outstanding advances to letter-of-credit recipients totaled about $456 million (See pages 1 and 2).

Audit Results

The audit reviewed the cash advances paid to 25 Treasury check recipients during the 15 months from October 1, 1992 through December 31, 1993 totaling $41.5 million and the advances paid to 25 letter-of-credit recipients during the 6 months from July 1, 1993 through December 31, 1993 totaling $91.7 million. The audit found that, at the time the advances were paid, 77 percent--$32 million--of the Treasury check payments exceeded the recipients' 30-day cash needs and 44 percent--$40.2 million--of the letter-of-credit payments exceeded the recipients' 7-day cash needs (See pages 3 and 10). In eight Treasury check cases, the full amount of the grant was advanced to the recipient in a single payment. The terms of these grants ranged from 6 to 12 months, and the payments totaled $14 million (See page 5).

The audit also found that (a) 13 Treasury check recipients qualified for and should have been financed by letters of credit, including 9 whose funding should have been consolidated under existing letters of credit (See page 15); (b) USAID does not always require recipients to deposit cash advances in interest-bearing accounts (See page 19); and (c) no one in the Agency's Office of Financial Management (FM) specifically tracks or monitors recipients' interest earnings and remittances (See page 21).

The audit estimates that, for the sample of 50 recipients reviewed, these conditions cost the U.S. Treasury nearly **$3 million in unnecessary interest costs or in unrealized interest income** as follows.

- $432,029 in interest costs for cash advances that exceeded the 25 Treasury check recipients' 30-day cash needs (See page 8).

- $245,460 in interest costs for cash advances that exceeded the 25 letter-of-credit recipients' 7-day cash needs (See page 14).

- $761,214 in interest costs for the excess cash-on-hand balances maintained by 3 letter-of-credit recipients (See page 14).

- $1,480,000 in annual lost interest income for one letter-of-credit recipient with a cash-on-hand balance averaging $37 million during the last half of 1993 (See page 22).

These dollar amounts are all the more significant given that they apply only to the sample of recipients reviewed by the auditors--a relatively small sample derived from a much larger number of recipients with outstanding advances as of December 1993. In fact, the 25 Treasury check recipients were selected from a total of 300 such recipients, while the 25 letter-of-credit recipients were selected from a total of 354 such recipients. (See pages 3 and 10.)

We believe that, unless USAID/Washington corrects certain underlying conditions affecting its cash management practices, the U.S. Treasury will continue to lose millions of dollars in unnecessary borrowing costs and in unrealized interest income each year.

Recommendations

The report recommends that USAID/Washington's Office of Financial Management:

- prepare written guidelines so that office staff can analyze recipients' cash requests to ensure that payments adhere to requirements on the limitation and timing of advances and that recipients submit requests on a schedule and frequency to satisfy U.S. Treasury requirements (See Recommendations Nos. 1 and 6 on pages 8 and 14),

- coordinate with the Office of Procurement (1) to develop mandatory standard payment provisions so that cash advances adhere to requirements and letters of credit are used when required to finance recipients and (2) to issue a directive requiring Agency personnel to obtain the Office of Financial Management's written approval for all exceptions to the mandatory standard provisions (See Recommendations Nos. 2 and 3 on pages 8 and 9),

- rescind the USAID Controller's December 16, 1993 written determination which grants advances for up to 90 days' cash needs to recipients under 215 agreements (See Recommendation No. 4 on page 9),

- develop a strategic action plan to reduce the number and amount of cash advances that exceed recipients' immediate cash needs (See Recommendations Nos. 5 and 7 on pages 9 and 14),

- coordinate with the Bureau for Policy and Program Coordination to revise the standard provisions appendices in Handbook 13 so that recipients are required to maintain cash advances in interest-bearing accounts (See Recommendation No. 8 on page 20),

- consult with the U.S. Treasury, the Office of Management and Budget, and the Department of Health and Human Services to prepare a written statement on the extent of the Office of Financial Management's responsibility to track and monitor recipients' interest earnings and on the way this responsibility will be carried out (See Recommendation No. 9 on page 24), and

- determine the amount of interest income earned on Federal cash advances by recipients that have not remitted interest earnings to USAID in accordance with their agreements with the Agency and seek refunds of the earnings (See Recommendation No. 10 on page 25).

Management Comments and Our Evaluation

Management said it concurred with all but one recommendation and will act to implement the recommendations (See page 26). Appendix II contains management's complete comments.

Office of the Inspector General

Office of the Inspector General
December 15, 1994

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INTRODUCTION

Background

The U.S. Treasury requires Federal agencies to conduct their financial activities cost-effectively so that the maximum amount of cash is made available to the Treasury on a continuing basis. In this way, the Treasury can invest cash reserves and avoid unnecessary borrowing. Since inefficient cash management costs the Federal Government millions of dollars each year and contributes to the mounting national debt, Congress has urged Federal agencies to improve their management of cash advances.

Federal policy endorses advancing cash in reasonable amounts to nonprofit, educational, or research institutions for experimental, developmental or research work. The U.S. Agency for International Development (USAID) extends this policy to all nonprofit organizations, including international private voluntary organizations and international research institutions. In this way, the organizations will not have to use their own working capital or earmarked funds to finance work done under USAID agreements.

The Treasury recognizes two methods for advancing cash to recipients: Treasury checks and letters of credit. With letters of credit, recipients can withdraw cash from the Treasury concurrently with disbursements as frequently as the disbursements are made and need only maintain small balances of Federal cash. Under Treasury policy, recipients must remit the interest earned on Federal cash advances to the Federal Government.

In a previous audit issued in September 1988, we reported that USAID/Washington had not limited cash advances to recipients' immediate cash needs, recovered excessive advances timely, or used letters of credit when required by Treasury policy. (See USAID Inspector General "Audit of Cash Advances to Grantees and Contractors," Audit Report No. 9-000-88-009.) Our report also noted that cash advances were not always deposited in interest-bearing accounts nor were interest earnings remitted as required to the Federal Government. According to the report, as of September 1987, USAID/Washington's outstanding cash advances--excluding advances to letter-of-credit recipients--totaled about $54 million. By the end of December 1993, this amount had increased to about $81 million, and outstanding advances to letter-of-credit recipients totaled about $456 million.

Audit Objectives

As part of a worldwide audit, the Inspector General's Office of Programs and Systems Audits performed an audit of USAID/Washington's management of cash advances to recipient organizations to answer the following questions:

- Does USAID/Washington limit cash advances to the immediate cash needs of recipients in accordance with USAID policy and U.S. Treasury regulations?

- Does USAID/Washington use letters of credit to finance recipients in lieu of cash advances in accordance with USAID policy and U.S. Treasury regulations?

- Does USAID/Washington ensure that recipients maintain cash advances in interest-bearing accounts and remit the interest earned to USAID in accordance with Agency policy and OMB Circular No. A-110 requirements?

To answer these questions, we tested whether USAID/Washington followed applicable policies and procedures designed to limit cash advances to immediate disbursement needs and thereby minimize Federal borrowing costs. Appendix I discusses these tests and the scope of the audit.

REPORT OF AUDIT FINDINGS

Does USAID/Washington limit cash advances to the immediate cash needs of recipients in accordance with USAID policy and U.S. Treasury regulations?

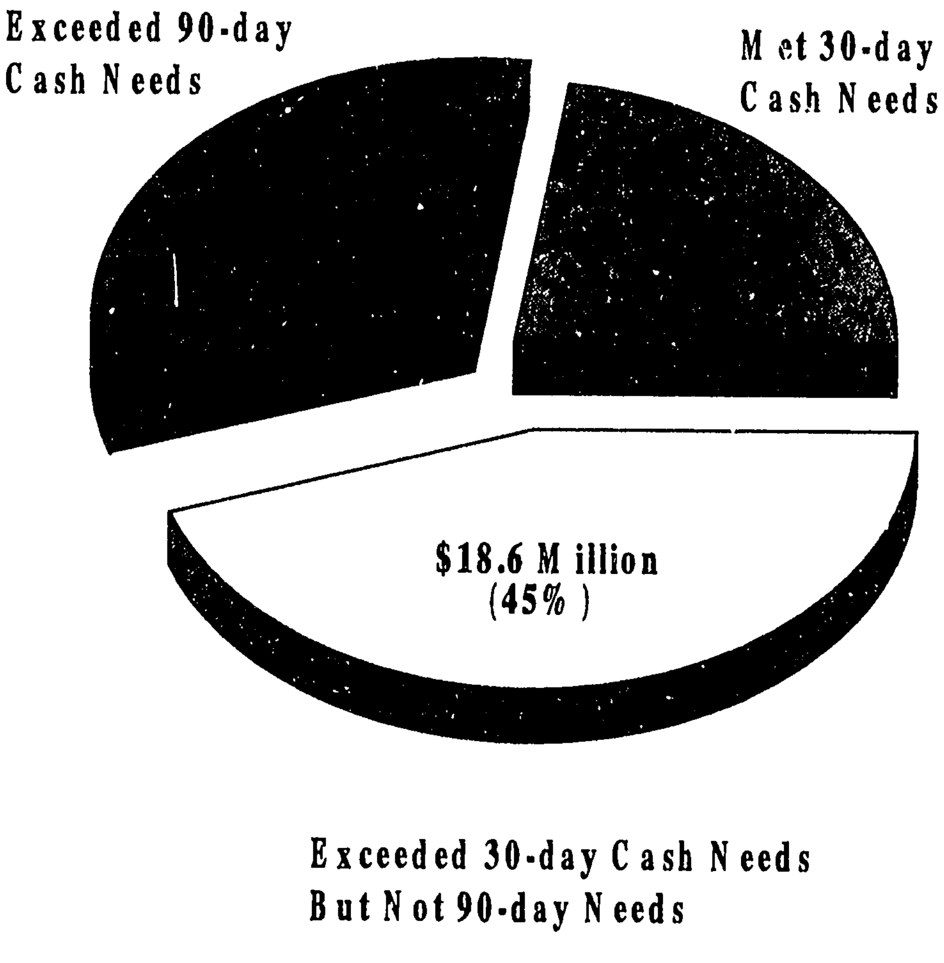
USAID/Washington generally did not limit cash advances to the immediate cash needs of recipients in accordance with Agency policy and U.S. Treasury regulations.

TREASURY CHECK CASH ADVANCES

Advances Regularly Exceeded Recipients' 30-Day Cash Needs

As of December 31, 1993, USAID/Washington's computerized accounting records for Treasury check recipients listed about $81.3 million in unliquidated cash advances paid by USAID/Washington to the recipients under 300 "obligations" or grants. We selected 25 grants (in accordance with the methodology described in Appendix I) to review all advances made under the grants during the 15 months from October 1, 1992 to December 31, 1993. These unliquidated advances totaled about $28.7 million or 35 percent of the $81.3 million total.

We reviewed the information available in USAID/Washington's Office of Financial Management (FM) files on the recipients' requests for cash, cash advances, and expenditures and found that the recipients had received 46 cash advances under the 25 grants, totaling $41.5 million during the 15-month period. Of this amount, at the time the advances were paid, $32 million (77 percent) exceeded the recipients' 30-day cash needs. None of the files, however, contained written justifications extending the period of the advances for more than 30 days. Only 3 of the 46 advances were for 30-day periods; 29 were for periods from 48 days up to 90 days; and the remaining 14 advances exceeded 90-day cash needs. The following chart illustrates these findings. (Appendix III lists all 25 grants and recipients and shows the dates and amounts of the advances.)


Exceeded 90-day Cash Needs
Met 30-day Cash Needs
$18.6 Million (45%)
Exceeded 30-day Cash Needs But Not 90-day Needs

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In 8 of the 14 cases where the advances exceeded recipients' cash needs for 90 days, the full amount of the grant was advanced in a single payment. These grants ranged in length from 6 to 12 months (except for 40 months in one case), and the advance payments totaled $14 million. Four of the grants were for the United Nations' World Food Programme, which received the following full-payment advances:

- $2.6 million (for 12 months),
- $2.1 million (for 12 months),
- $2.5 million (for 12 months), and
- $2 million (for 8 months).

In the case of the $2.6 million advance, the World Food Programme did not use most of the money and remitted the unobligated balance--$1,782,082.88--to USAID more than ten months after having received the cash. However, the Programme did not remit any interest earnings. (See report page 22.) There were four other single-payment grants, as follows:

- two for the U.N.'s Food and Agriculture Organization, which received advances of $1 million (for six months) and $760,000 (for six months);
- one for the Fairfax County Fire and Rescue Department, which received an advance of $94,000 (for over 11 months); and
- one for the World Bank (the International Bank for Reconstruction and Development), which received an advance of $3 million (for 40 months).

Advances Did Not Adhere to U.S. Treasury and USAID Policy

Except for those made to the Fire and Rescue Department and to the World Bank, all the single-payment grants appear to be "contributions to relief programs." In such cases, when quick response is necessary, USAID policy recognizes that it may be appropriate to provide the entire amount of the grant when it is issued. However, the policy states that the "funds would, in any case, be disbursed over a short period of time." Given the length of the grant periods--6 to 12 months--we believe these advances were not made for "short periods of time" and, therefore, did not meet USAID policy.

In all eight of the single-payment cases, the grant agreements themselves stipulated that the total amount of the grant would be paid in one advance. For example, the six grants to the World Food Programme and to the Food and Agriculture Organization specified that steps would be taken "to provide [the recipients] with an advance of the total amount of the Grant." These "letter grants" signed by the Representative to the United States Mission to the United Nations Agencies for Food and Agriculture in Rome did not incorporate the USAID Handbook 13 (Chapter 5) "Standard Provisions for Grants to Public International Organizations," which require grantees to "submit requests for advances...at least monthly." According to the handbook, the provisions are to be used "for all grants to PIOs whether or not the United States is the sole contributor."

The U.S. Treasury requires Federal agencies to limit cash advances to recipient organizations "to the minimum amounts necessary for immediate disbursement needs" and to time the advances "in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of an approved program or project." For international programs, the Treasury requires that dollar outlays be made "as closely as possible to current program expenditure needs" and states that, "Monthly payments are the norm." According to USAID policy (Handbook 19, Chapter 1, Appendix 1B, Section B3.d(2)), "Advances under Treasury Check methods...may be assumed to be cash requirements for as much as 30 days from the date the recipient receives the advance until it is expended." However, this period may be extended "for as long as 90 days when the Bureau [Assistant Administrator], USAID Director or Office head has determined in writing that implementation will be seriously interrupted or impeded by applying the 30 day rule." USAID policy (See Handbook 13, Chapter 5, Section 5H) also states that, for grants funded by the Agency's Office of U.S. Foreign Disaster Assistance, the entire amount of the grant may be provided to a recipient at the time the grant is issued "if the grant is in response to requests for contributions to relief programs, quick response is necessary, and funds would, in any case, be disbursed over a short period of time."

We did not meet with the U.S. personnel in Rome who signed these grants to discuss why the agreements did not include the handbook's standard provisions and why single-payment advances were made for as long as 12 months. However, we believe the problem of excessive advances in such cases can be solved when USAID issues a directive requiring all personnel with authority to sign grants obligating USAID funds to obtain FM's specific written approval on a case-by-case basis for all exceptions to the Agency's standard payment provisions.

However, such a directive alone will not solve the problem of excessive advances since most of the other grants in our sample actually have standard provisions requiring recipients to submit requests for advances "at least monthly." For example, USAID's agreement with the International Crops Research Institute for the Semi-Arid Tropics requires the Institute to "submit requests for advances (SF-270) at least monthly to the paying office specified in the grant letter." During the period of our review, the grantee submitted three requests for advances on October 1, 1992, June 30, 1993 and September 30, 1993--each of which requested cash for a 90-day period. In accordance with the requests, USAID paid the grantee $1,038,000 for the period October 1, 1992 to December 31, 1992, $937,500 for the period July 1, 1993 to September 30, 1993, and $937,500 for the period October 1, 1993 to December 31, 1993.

Why Were Excessive Cash Advances Made?

We believe FM did not limit advances to recipients' immediate needs because:

(1) it has no written guidelines for office personnel to use when reviewing recipients' requests for advances;

(2) it does not require recipients to submit requests for advances monthly; and

(3) Agency personnel sometimes write grants stipulating that the total amount of the grant be paid in one advance--an arrangement that conflicts with U.S. Treasury and USAID requirements on the limitation and timing of advances.

On December 16, 1993, USAID's former Controller signed an Action Memorandum prepared by FM staff authorizing advances for up to 90 days' cash needs for 145 nonprofit organizations under 215 USAID agreements. Because it covered so many recipients and agreements, the memo ostensibly waived the Agency's policy restricting advances to 30-day needs. In our opinion, however, this authorization was not made in accordance with USAID policy (Handbook 19, Chapter 1, Appendix 1B, Section B3.d(2)), which requires that, in order to grant up to 90-day advances, "the Bureau [Assistant Administrator], USAID Director or Office head...[determine] in writing that implementation will be seriously interrupted or impeded by applying the 30 day rule." Since the memo was not prepared or signed by a Bureau head who had made such a determination, we question whether the authorization is valid. Nevertheless, we believe the memo should be rescinded since it casts doubt on USAID's commitment to adhere to its policy limiting advances to recipients' 30-day cash needs.

Excessive Advances Increase U.S. Treasury Borrowing Costs

Of the $41.5 million advanced during the 15 months from October 1, 1992 through December 31, 1993 to the 25 recipients in our sample, at the time the advances were paid, $32 million (77 percent) exceeded the recipients' cash needs for 30 days. We estimate that this excess cash--i.e., the amount exceeding 30-day needs--cost the U.S. Treasury $432,029 in interest costs from the dates of payment through December 1993.[1] Given the size of the programs USAID/Washington funds on a cash-advance basis, we believe that such practices cost the U.S. Treasury millions of dollars in unnecessary borrowing costs each year.

RECOMMENDATIONS

Recommendation No. 1: That USAID/Washington's Office of Financial Management prepare written guidelines for office personnel so that they can analyze recipient organizations' cash needs and requests for cash advances to ensure (1) that approved periodic (Treasury check) advance payments adhere to U.S. Treasury requirements and USAID policy on the limitation and timing of advances and (2) that recipient organizations submit requests for advances at least monthly.

Recommendation No. 2: That USAID/Washington's Office of Financial Management coordinate with USAID's Office of Procurement to jointly develop and promulgate mandatory standard payment provisions. These provisions should be incorporated in all grants and other agreements with recipient organizations to be paid on a cash-advance basis so that such payments adhere to U.S. Treasury and USAID requirements on the limitation and timing of advances. The provisions should clearly describe, among other things, the conditions under which letters of credit must be used and state that periodic (Treasury check) advances cannot be made when such conditions apply.

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[1] To do the estimate, we determined the dollar amount of the advances that exceeded the recipients' 30-day cash needs from the dates of payment month-by-month through December 1993 and multiplied these amounts times the U.S. Treasury's "Current Value of Funds Rate" for the month. For 1992, the rate was six percent per annum; for 1993, it was four percent.

Recommendation No. 3: That USAID/Washington's Office of Financial Management coordinate with USAID's Office of Procurement to jointly develop and issue a directive requiring all personnel with authority to sign grants obligating USAID funds to obtain the Office of Financial Management's specific written approval on a case-by-case basis for all exceptions to the above payment provisions.

Recommendation No. 4: That USAID/Washington's Office of Financial Management rescind the USAID Controller's December 16, 1993 written determination to grant advances for up to 90 days' cash needs--in lieu of the 30-day maximum prescribed by Agency policy--to the nonprofit organizations receiving advances under 215 agreements.

Recommendation No. 5: That USAID/Washington's Office of Financial Management develop a strategic action plan designed to reduce the number and amount of approved periodic (Treasury check) advances that exceed recipients' immediate cash needs. The plan should include measurable performance indicators or targets and establish milestones or time frames to meet the targets. The plan should also designate an official who will be responsible for monitoring the plan's implementation.

LETTER-OF-CREDIT CASH ADVANCES

Advances Often Exceeded Recipients' 7-Day Cash Needs

As of December 29, 1993, USAID/Washington's computerized accounting records listed about $455.7 million in unliquidated advances paid to recipients under 354 letters of credit. We selected 25 letters of credit (in accordance with the methodology described in Appendix I) in order to review all the drawdowns made by the 25 recipients from July 1, 1993 to December 31, 1993. The unliquidated advances for these letters of credit totaled about $143.4 million--31 percent of the $455.7 million total. We found that:

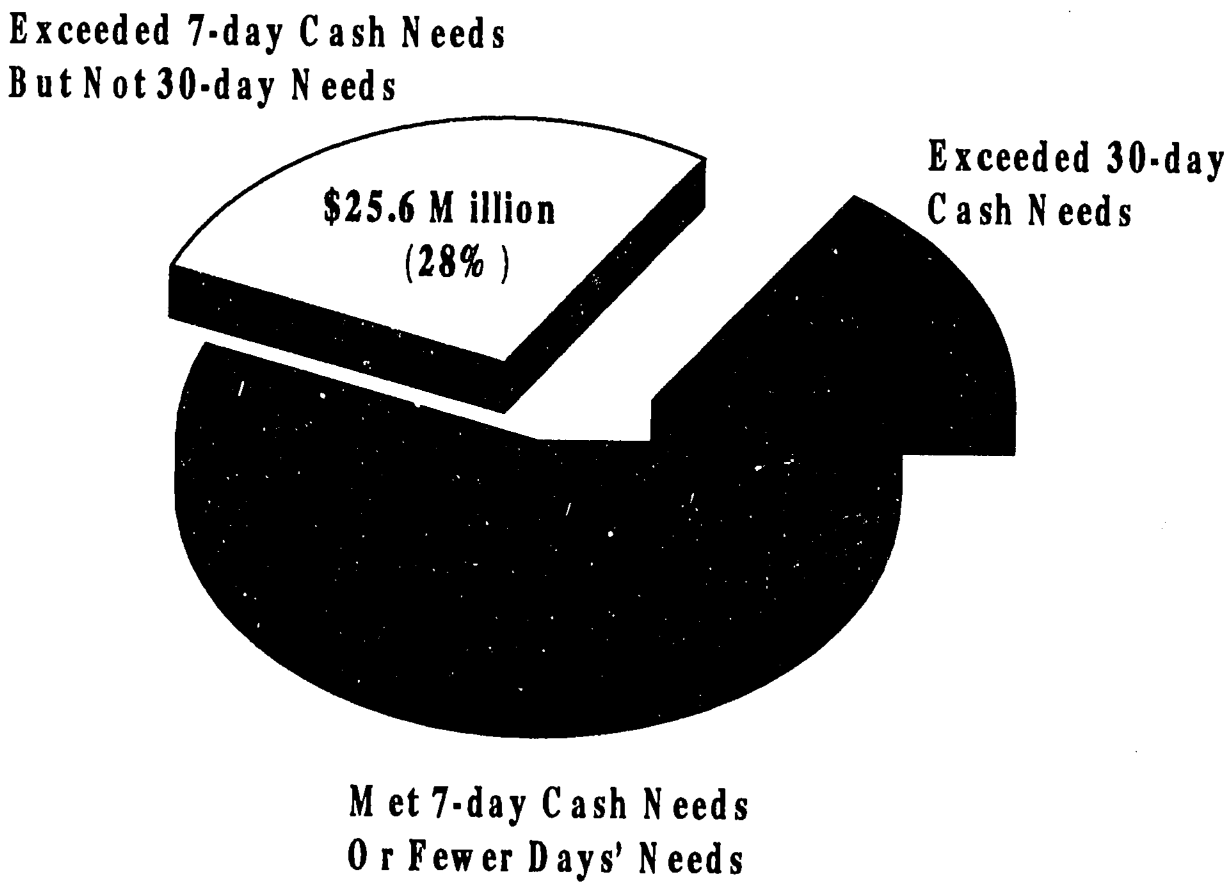
- 9 recipients used their letters of credit during this period to reimburse themselves for program costs--thereby drawing no cash in advance of needs.

- 7 others used the letters of credit both to reimburse themselves and to obtain funds in advance of needs.

- The remaining 9 used the letters exclusively to obtain advances.

Overall, the 16 recipients drawing advances during the six-month period drew 187 advances totaling $91.7 million.

For each of the 187 advances, we determined the number of days' cash needs the advance represented by comparing the amount of the advance with the recipient's daily rate of disbursement for the three months preceding the month in which the advance was drawn. Based on this comparison, we found that, at the time the advances were paid, $40.2 million--44 percent of the $91.7 million total--exceeded the recipients' 7-day cash needs. We also found that the advances ranged from 3.5 days' cash needs on average for one recipient to 623 days' cash needs for the U.N.'s World Food Programme. Only 4 of the 16 recipients drew advances averaging 7 days or less. The following chart illustrates these findings. (Appendix IV lists all 25 letters of credit and recipients, the number and dollar amount of the advances, and the average number of days' cash needs the advances represent for each recipient.)


Exceeded 7-day Cash Needs But Not 30-day Needs
$25.6 Million (28%)
Exceeded 30-day Cash Needs
Met 7-day Cash Needs Or Fewer Days' Needs

We found that, in general, when recipients drew advances more frequently, the number of days' cash needs the advances were for were fewer. For example, the Pathfinder Fund drew 53 advances during the 6-month period (the largest number of advances drawn by a recipient in our sample) and had advances that averaged 3.5 days' cash need, the lowest in the sample. By contrast, the World Food Programme drew only one advance during the 6 months--for $14.1 million--which represented its cash needs when the advance was drawn in July 1993 for 623 days. At that time, the recipient already had Federal cash on hand totaling $32.5 million. However, it disbursed only $11.5 million from July through December 1993. The following table shows the relationship between the number of advances and the average number of days' cash needs for the nine recipients in our sample that used letters of credit exclusively to obtain advances.

Number of Advances Drawn by Nine Letter-of-Credit Recipients Compared With the Average Number of Days' Cash Needs for the Advances

Recipient's Name and Letter of Credit Number	Number of Advances 7/1/93 to 12/31/93	Average Number of Days' Cash Needs for Advances
Pathfinder Fund LOC No. 1347	53	3.5
Catholic Relief Services LOC No. 1302	28	7
Agricultural Cooperative Development International LOC No. 1395	25	7
Foundation for Peoples of the South Pacific LOC No. 1470	17	11.5
Academy for Educational Development LOC No. 1518	17	11.5
South-East Consortium for International Development LOC No. 1354	9	23
IRI Research Institute LOC No. 1479	9	43
TATA Energy & Resources Institute LOC No. 1695	4	39
World Food Programme LOC No. 1600	1	623

We also found that, during the six months from July through December 1993, three recipients maintained cash-on-hand balances that consistently exceeded their cash needs for seven days. One recipient, the World Food Programme, maintained an excess cash-on-hand balance that averaged $32.1 million during this period. Since the Programme's 7-day cash needs for the period averaged only $324,599, the $32.1 million balance was equivalent to its cash needs for 693 days (1 year and 11 months). Similarly, Catholic Relief Services and the Agricultural Cooperative Development International maintained excess cash-on-hand balances that averaged $4.9 million and $1 million, respectively. Since their 7-day cash needs were $905,443 and $285,450, the excess balances represented cash needs for 38 days and 25 days, respectively.

Drawdowns Did Not Always Adhere to U.S. Treasury and USAID Policy

U.S. Treasury policy states that recipient organizations can use letters of credit to "withdraw cash from the Treasury concurrently with disbursements and as frequently as such disbursements are made...and there need be no time lag between the receipt of Federal funds from Treasury and disbursement by the recipient organization." Thus, "recipient organizations do not have to maintain balances of Federal cash other than the small balances necessary to accommodate the minimum limitation on individual drawdowns..." The policy also states that funds erroneously drawn in excess of immediate disbursement needs should be refunded promptly to the funding agency. The funds can be redrawn when needed unless the funds will be disbursed "within seven calendar days" (or are less than $10,000 and will be disbursed within 30 calendar days). USAID policy (Handbook 19, Chapter 1, Appendix 1B, Section B3.d(3)(a)) also states that letters of credit can be used "to withdraw cash from the Treasury...concurrently with disbursements...thereby minimizing the maintenance of Federal cash balances."

Despite this policy, USAID/Washington's letter-of-credit recipients drew funds that often exceeded their cash needs for seven days and, in some cases, maintained cash-on-hand balances that greatly exceeded their seven-day cash needs.

Why Were Excessive Cash Drawdowns Made?

These problems existed, we believe, primarily for two reasons: First, FM did not require the recipients to submit requests for funds at frequent enough intervals to satisfy U.S. Treasury requirements; second, FM has no written guidelines for office personnel to use when reviewing recipients' requests to ensure they adhere to U.S. Treasury and USAID requirements on the limitation and timing of advances.

Excessive Advances Increase U.S. Treasury Borrowing Costs

We estimate that, for the 187 advances in our sample of letter-of-credit recipients, the cash drawn in excess of recipients' 7-day cash needs totaling $40.2 million cost the U.S. Treasury $245,460 in interest from the dates of payment through December 1993.[2] We also estimate that the excess cash-on-hand balances maintained by the three above-noted recipients cost the Treasury $761,214 in interest costs during the last 6 months of 1993.[3]

RECOMMENDATIONS

<u>Recommendation No. 6</u>: That USAID/Washington's Office of Financial Management prepare written guidelines for office personnel to use when analyzing recipient organizations' cash needs, cash-on-hand balances, and requests for cash advances. Such guidelines will ensure (1) that approved letter-of-credit drawdowns adhere to U.S. Treasury requirements and USAID policy on the limitation and timing of advances and (2) that recipient organizations submit requests for funds on a schedule and frequency that satisfy U.S. Treasury requirements.

<u>Recommendation No. 7</u>: That USAID/Washington's Office of Financial Management develop a strategic action plan designed to reduce the number and amount of approved letter-of-credit advances that exceed recipients' immediate cash needs. The plan should include measurable performance indicators or targets and establish milestones or time frames to meet the targets. The plan should also designate an official who will be responsible for monitoring the plan's implementation.

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[2] To do the estimate, we determined the dollar amount of the advances that exceeded the recipients' 7-day cash needs from the dates of payment day-by-day through December 1993 and multiplied these amounts times the U.S. Treasury's "Current Value of Funds Rate" for each day. For 1993, the rate was four percent per annum.

[3] To do this estimate, we first determined each recipients's excess cash-on-hand balance by subtracting the recipient's net receipts and seven-day cash needs from its reported cash-on-hand balance for each reporting period during the six months from July through December 1993. We then calculated an average excess balance for each recipient for the six-month period and multiplied this amount times the U.S. Treasury's "Current Value of Funds Rate," which was four percent per annum for 1993.

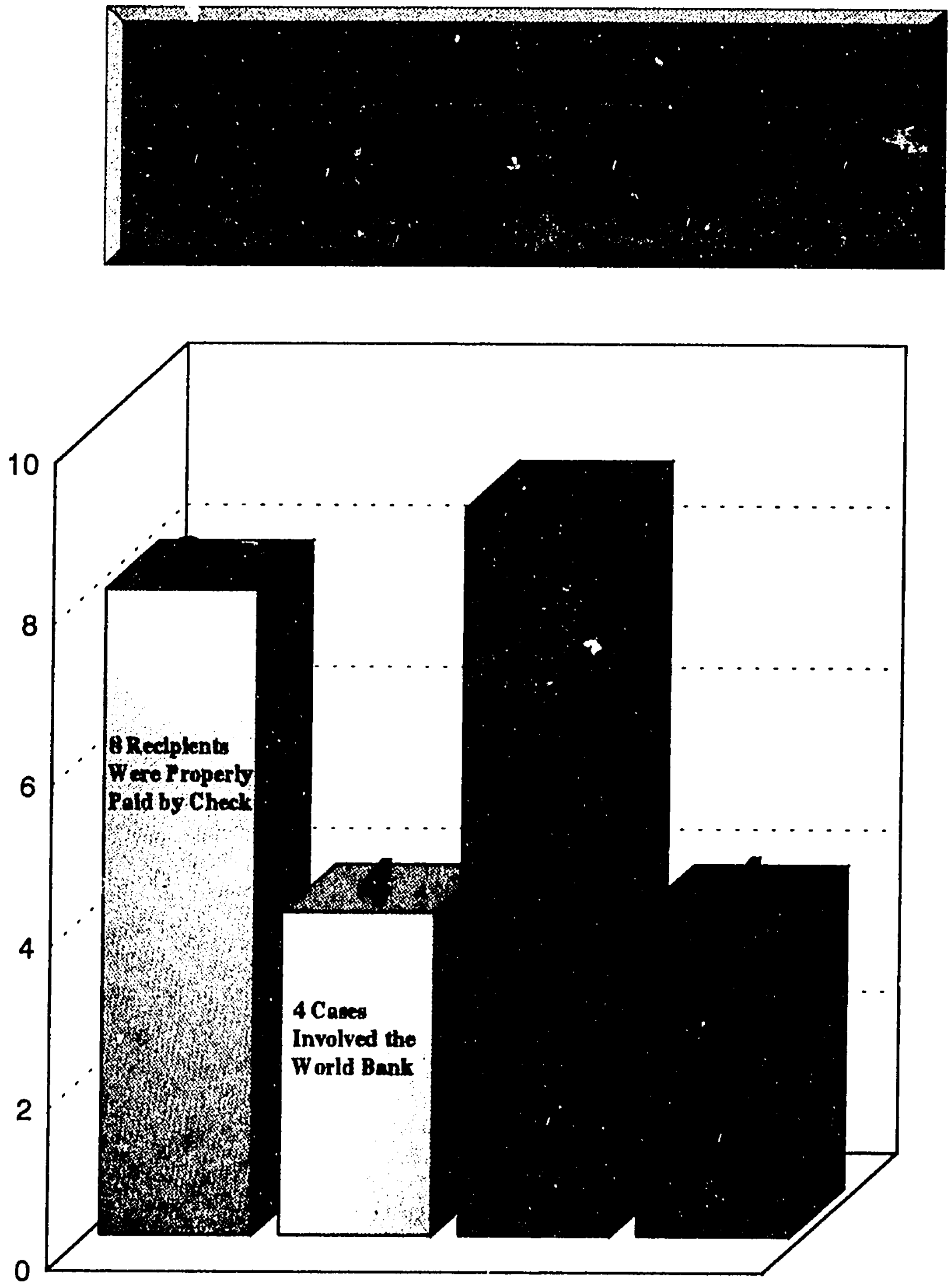
Does USAID/Washington use letters of credit to finance recipients in lieu of cash advances in accordance with USAID policy and U.S. Treasury regulations?

USAID/Washington did not always use letters of credit to finance recipients when prescribed by Agency policy and U.S. Treasury regulations.

13 Recipients Should Have Been Paid with Letters of Credit

We reviewed the same sample of 25 Treasury check recipients examined under the first audit objective to determine if the recipients qualified for financing under letters of credit. We reviewed the recipients' grant agreements with USAID to see if they had a "continuing relationship" with the Agency for at least one year involving annual advances of at least $120,000, as required by the U.S. Treasury, and if they already had letters of credit with the Agency.

We found that in eight cases the recipients did not meet the criteria for letters of credit and were properly paid by check. Four other cases involved the World Bank, which ostensibly met these criteria but may be a "special case." According to Handbook 13, Chapter 5 on "Grants to Public International Organizations," letters of credit "are not issued to international organizations located overseas except for United Nations organizations." Although it is classified by the handbook as an international organization, the World Bank is located (headquartered) in Washington, D.C. Nonetheless, FM staff said they would not like to open a letter of credit with the Bank because of its poor reporting record. In all remaining 13 cases, the recipients met the criteria for letters of credit and should have been paid using this method--including 9 recipients whose funding should have been consolidated under existing letters of credit. The following chart illustrates these findings. (Appendix V lists the 13 cases and the reasons why the recipients qualified for letters of credit.)


10
8
6
4
2
0
8 Recipients Were Properly Paid by Check
4 Cases Involved the World Bank

Five of the nine cases involved the World Food Programme (which has letter of credit No. 1600); two involved the Food and Agriculture Organization (No. 1623); and two others involved the People-to-People Health Foundation (No. 1431) and the U.S. Telecommunications Training Institute (No. 1651).

Over Half of the Cases Did Not Meet U.S. Treasury Requirements

The U.S. Treasury requires Federal agencies to use letters of credit to finance recipients when they have or expect to have a "continuing relationship" with a recipient for at least one year involving annual advances of at least $120,000. The Treasury also requires agencies to combine all advance funding to the same recipient under one letter of credit, including funding "which ordinarily would not qualify because it does not meet the criteria established for the letter-of-credit method."

Under USAID policy (Handbook 1, Supplement B, Chapter 15, Part 15C.1.d), letters of credit are the "preferred method of financing nonprofit recipients." However, the policy also states that letters of credit are "not normally authorized for use with non-U.S. organizations organized, located, and operated outside the United States" (Handbook 13, Chapter 1, Part 10.5.b) or for "international organizations located overseas except for United Nations organizations." (See Handbook 13, Chapter 5, Part 5H.)

Despite these requirements, 13 of the 25 recipients we reviewed who were being paid by Treasury check qualified instead for financing under letters of credit--including 9 recipients whose funding should have been consolidated under existing letters of credit.

Why Weren't Letters of Credit Used to Fund Recipients?

We discussed these findings with FM staff, who explained that Agency personnel who write grants do not always know if recipients already have letters of credit and are not required to "clear" grant payment methods with FM. We did not meet with these personnel to determine if they were aware of applicable financing methods and requirements. However, we believe that the problem of using inappropriate payment methods can be solved when USAID develops, as we have recommended, mandatory standard payment provisions for all grants that clearly describe the conditions when letters of credit must be used and state that periodic (Treasury check) advances can not be made when such conditions apply.

Using Checks Instead of Letters of Credit Increases Recipients' Cash Balances and U.S. Treasury Borrowing Costs

Given the size of the programs USAID/Washington funds on a cash-advance basis, we believe the practices detailed above cost the U.S. Treasury thousands of dollars each year. According to the U.S. Treasury, recipients receiving advances under letters of credit "do not have to maintain balances of Federal cash other than the small balances necessary to accommodate the minimum limitation on individual drawdowns...." Thus, advancing funds by check every 30 days instead of every few days under letters of credit increases recipients' Federal cash balances and thereby increases U.S. Treasury borrowing costs. We estimate that in the 13 cases where letters of credit should have been used, using checks increased the U.S. Treasury's interest costs by $41,716 through December 1993.[4]

RECOMMENDATIONS

We are not making a recommendation under this audit objective because Recommendation No. 2 on page 8 should correct the problems identified in this section. That recommendation asks USAID to develop mandatory standard payment provisions for all grants, provisions which clearly describe the conditions when letters of credit must be used and state that periodic (Treasury check) advances cannot be made when such conditions apply.

Does USAID/Washington ensure that recipients maintain cash advances in interest-bearing accounts and remit the interest earned to USAID in accordance with Agency policy and OMB Circular No. A-110 requirements?

USAID/Washington did not always ensure that recipients maintained cash advances in interest-bearing accounts and remitted the interest earnings to USAID in accordance with Agency policy and OMB Circular No. A-110 requirements.

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[4] To do the estimate, we determined the amount of cash advanced to the recipients from October 1, 1992 to December 31, 1993, calculated a monthly rate of payment for each advance (a methodology which assumes equal payments would be made every 30 days), and multiplied these amounts times the U.S. Treasury's "Current Value of Funds Rate" per month times the number of months the advance was for through December 1993. The funds rate was six percent per annum for 1992 and four percent for 1993.

USING INTEREST-BEARING ACCOUNTS

Only 3 of 25 USAID Agreements Required Treasury Check Recipients to Maintain Cash Advances in Interest-Bearing Accounts

We reviewed the same sample of 25 Treasury check recipients and 25 letter-of-credit recipients examined under the first audit objective to see if FM's files for the recipients contained information on interest earnings and remittances. We found that most files contained no information on earnings or remittances.

In the case of the letter-of-credit recipients, we found that FM instructs them that "...funds shall be deposited to an interest-bearing account." We found that 12 of the letter-of-credit files contained some information on interest earnings or remittances. In the other 13 cases, most recipients either used their letters of credit to obtain reimbursements or to obtain both reimbursements and advances during the 6 months from July through December 1993.

By contrast, only 5 of the 25 Treasury check files contained information on interest earnings and remittances. We contacted 14 of the recipients whose files contained no information on interest earnings to ask them how they had handled the cash advances provided by USAID. Eight reported that they had earned interest or other income on the advances and would either keep the earnings or remit them to USAID (See report page 21.) However, the other six reported that they had not used interest-bearing accounts for the cash advances or had earned no interest on the advances. In these cases, we believe the recipients did not use interest-bearing accounts because their grant agreements did not require them to do so. We found, for example, that only 3 of USAID's 25 agreements with the Treasury check recipients specifically required them to deposit or maintain cash advances in interest-bearing accounts.

The Agreements Do Not Adhere to OMB Requirements

Office of Management and Budget (OMB) Circular No. A-110[5], which establishes Federal policy for grants and agreements with nonprofit organizations, requires the organizations to "maintain advances of Federal funds in interest bearing accounts" and to remit the interest earned to the Federal government. While the Circular is applicable only to U.S. organizations, USAID applies it to non-U.S. organizations "as a matter of

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5 OMB Circular No. A-110 on "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations"

AID policy to the extent practicable." (See Handbook 13, Chapter 1, Part 1B.2.) USAID Handbook 13 (Chapter 1, Part 1O.3.e.), which incorporates these requirements, also states that, "Recipients...shall maintain advances of funds from AID in interest bearing accounts...."

Despite this policy, USAID did not always ensure that recipients maintained cash advances in interest-bearing accounts. For example, only 3 of the 25 grant agreements in our sample of Treasury check recipients specifically required the recipients to deposit or maintain advances in such accounts.

Why Didn't USAID Require Recipients to Use Interest-Bearing Accounts?

In many cases, this problem was due to the agreements's use of USAID Handbook 13's standard provisions appendices, which do not require "non-U.S. nongovernmental grantees" and "public international organizations" to deposit or maintain advances in interest-bearing accounts. One appendix (5C) states that "The grantee is encouraged to utilize interest bearing accounts where feasible..." while the other (4D) only says that, "Interest earned on advances will be remitted to AID." Handbook 13 does not explain why "non-U.S. nongovernmental grantees" and "public international organizations" are not required to deposit Federal cash advances in interest-bearing accounts. Since the handbook otherwise requires all recipients to maintain cash advances in such accounts, we cannot tell if this requirement was intentionally or unintentionally omitted from the appendices. In any case, we believe that USAID should revise the appendices to conform to OMB requirements as we recommend below.

The U.S. Treasury Loses Unrealized Interest Income

Not requiring recipients to use interest-bearing accounts limits the number of recipients earning interest on cash advances. This, in turn, deprives the U.S. Treasury of a potentially significant amount of unrealized interest income, income that may total millions of dollars each year.

RECOMMENDATION

Recommendation No. 8: That USAID/Washington's Office of Financial Management coordinate with USAID's Bureau for Policy and Program Coordination to revise the Standard Provisions Appendices 4D and 5C in USAID Handbook 13 to require "non-U.S. nongovernmental grantees" and "public international organizations" to deposit and maintain cash advances in interest-bearing accounts in accordance with Agency policy and OMB

Circular No. A-110 requirements. The Handbook should specify when waivers of this requirement can be granted and state that, absent a waiver, the recipient must use an interest-bearing account unless its use is specifically prohibited by law.

INTEREST EARNINGS TRACKING SYSTEM

FM Has No System for Tracking Interest Earnings or Remittances

Although almost all USAID agreements we reviewed specifically require recipients to remit interest income, we found that some recipients were not doing so.

In our review of the same sample of 25 Treasury check recipients and 25 letter-of-credit recipients examined under the first audit objective, we checked to see if FM's files for the recipients contained information on interest earnings and remittances. As noted earlier, 12 letter-of-credit files contained some information on interest earnings or remittances, but only 5 Treasury check files contained such information. Although almost all of USAID's agreements with the 25 Treasury check recipients specifically require them to remit interest income, we found that no one in FM is responsible for tracking or monitoring recipients' interest earnings or remittances. According to FM personnel, no one specifically monitors recipients' interest earnings to ensure remittances of earnings are made in accordance with grant terms. Moreover, according to the same sources, when recipients submit payments, they do not always identify interest remittances or distinguish them from other payments, such as refunds.

We contacted 14 of the 20 Treasury check recipients whose files contained no information on interest earnings (that is, we contacted the recipients funded under 14 separate grant agreements, some of whom are the same entities) to determine if they had earned interest income on cash advances and had remitted the income to the Federal government. As noted earlier, six recipients reported that they had not earned interest income. However, eight others reported that they had earned interest or other income and would either remit the income to USAID or would keep it. For example, the World Bank reported that it had earned $53,271 on an advance of $5 million and would remit this income to USAID. Similarly, the U.N.'s Food and Agriculture Organization reported that it had earned $7,131.67 on an advance of $1 million and $7,521.92 on an advance of $760,000. However, it also stated that, "All of the interest earnings credited to USAID projects [are] held in trust by FAO in the absence of any instructions as to its use from USAID." We are perplexed by this statement since FAO's grant agreements with USAID clearly require the FAO to remit any interest earnings to the Agency.

Other recipients responded that they had spent the interest income or, based on their policy, would not remit it to USAID. For example, the American Friends of Sanz Medical Center/Laniado Hospital reported that it had earned $11,177.59 on an advance of $906,769.74 but had used $10,500 of the earnings for administrative expenses despite its agreement with USAID to refund "interest earned on all or any part of the funds disbursed under this grant...." When asked about its earnings on advances under four grants and its letter of credit, the U.N.'s World Food Programme responded that its financial regulations allowed it to remit the interest earnings on funds provided for "bilateral" programs but not for "multilateral" programs. Accordingly, the Programme noted that, while it would "credit" the $11,798 it had earned on an advance of $2.1 million--which was for a "bilateral operation"--on its next financial report to USAID, it would not remit the unspecified amounts of interest it had earned on advances of $2.6 million, $2.5 million and $2 million under three grants and on an advance of $14.1 million under its letter of credit to USAID since these earnings derived from funds provided for "multilateral operations."

Nevertheless, each of the World Food Programme's grant agreements with USAID under which the above-noted advances were made specifically requires the Programme to remit interest earnings to USAID "if the use of funds results in accrual of interest to the Grantee or to any other person or organization to whom the Grantee makes funds available in carrying out the purposes of this Grant...." In October 1992, the chief of FM's Letter of Credit Branch wrote to the Programme informing it that, despite its "large" $32.8 million balance of Federal cash on hand under its letter of credit, the chief saw "no appearance of any interest being paid to [USAID]." The chief reminded the Programme that "interest credited to your account is due to the Agency on a quarterly basis." The World Food Programme later reported that its letter-of-credit Federal cash on hand was $32.5 million at the end of June 1993, $43.6 million at the end of September 1993, and $35 million at the end of December 1993. If we average these amounts to derive a figure of $37 million for the six months from July through December 1993 and multiply this figure times the U.S. Treasury's "Current Value of Funds Rate" for this half year (the annual rate was 4 percent for 1993), we derive a figure of $740,000 in lost interest income or $1,480,000 in lost income for the year.

USAID Does Not Adhere to Current OMB Requirements

Besides requiring recipient organizations to maintain cash advances in interest-bearing accounts, OMB Circular No. A-110 requires the organizations to remit the interest earned on the advances to the Federal government. Similarly, the U.S. Treasury requires recipients to remit such income promptly to the Treasury. For international programs, the Treasury states that "no part" of U.S. government funding for the programs "shall be derived from interest earned on [U.S. government] contributions" and that Federal agencies are "responsible for assuring that any interest earned is promptly deposited" to the appropriate Treasury account. USAID policy, which incorporates these requirements, also requires recipients to remit interest earnings (Handbook 13, Chapter 1, Part 10.3.e.) and states that, "The U.S. Government's share of funding required to support a program will be obtained by appropriation and no part of such funding will be derived from interest earned on U.S. contributions." (See Handbook 19, Chapter 1, Appendix 1B, Section B3.f.(2).)

Despite these requirements, USAID/Washington has not established a system to track recipients' interest earnings to ensure they are remitted promptly to the Treasury.

Why Hasn't FM Established a System for Tracking Interest Earnings?

No one in FM specifically monitors recipients' interest earnings to ensure remittances of earnings are made in accordance with grant terms. We believe a fundamental reason why USAID/Washington has not established a system to track recipients' interest earnings is because neither OMB Circular No. A-110 nor USAID's handbooks specify the procedures needed to implement such a system. Until November 1993, the Circular required recipients to remit interest earnings on Federal cash advances "to the Federal agencies that provided the funds." Since then, however, it has required recipients to remit such earnings to the Department of Health and Human Services. An official in the Department's Payment Management Division told us that, although funding agencies are responsible for monitoring recipients' interest earnings and remittances, the Department has no plans to provide feedback to the agencies on the remittances it collects.

The fiscal year 1995 foreign assistance appropriations act[6] includes a provision stating that, "In order to enhance the continued participation of

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[6] The "Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1995" (Public Law 103-306) of August 23, 1994.

nongovernmental organizations in economic assistance activities under the Foreign Assistance Act of 1961, including endowments, debt-for-development and debt-for-nature exchanges, a nongovernmental organization which is a grantee or contractor of the Agency for International Development may place in interest bearing accounts funds made available under this Act and prior Acts...and any interest earned on such investment may be for the purpose for which the assistance was provided to that organization." This provision allows "nongovernmental organizations" to retain interest income and is apparently inconsistent with, or an exception to, OMB and U.S. Treasury requirements. But the implications and scope of this provision are unclear. The act, for example, does not define "nongovernmental organizations" nor does it clearly state whether interest earnings that derive from funds provided for activities other than "endowments," etc., can also be retained by the organizations. In light of this legislation, as well as the recent change in OMB policy, the new role of the Department of Health and Human Services, and the U.S. Treasury's policy that makes Federal funding agencies "responsible for assuring that any interest earned is promptly deposited" to the appropriate Treasury account, we believe it is essential that FM consult with these agencies. FM can thereby determine the extent of its responsibility to track and monitor recipients' interest earnings and remittances and to implement a system designed to carry out its responsibility.

The U.S. Treasury Loses Unremitted Interest Income

Under Federal policy, interest earned by recipients on advances of Federal funds are Federal earnings. Not remitting these earnings to the U.S. Treasury in accordance with applicable requirements not only improperly subsidizes the programs for which the advances were made but also deprives the U.S. Treasury of income that could help offset the borrowing costs it incurs to make the advances. Based on the above findings, we believe the U.S. Treasury is losing a significant amount of unrealized or unremitted interest income that could total millions of dollars each year.

RECOMMENDATIONS

<u>Recommendation No. 9</u>: That USAID/Washington's Office of Financial Management (1) consult with the U.S. Treasury, the Office of Management and Budget, and the Department of Health and Human Services regarding funding agencies' responsibilities to track and monitor recipient organizations' interest earnings on cash advances and the organizations' remittances of earnings to the Federal Government and (2) based on the consultations, prepare a written statement on the extent of the Office of

Financial Management's responsibility to track and monitor recipients' interest earnings and remittances and on the means the Office will employ to carry out its responsibility.

Recommendation No. 10: That USAID/Washington's Office of Financial Management determine the amount of interest income earned on Federal cash advances by the recipients cited in this report that have not returned interest earnings to the Federal Government. Based on this determination, USAID should seek refunds of the interest earnings unless such refunds are specifically prohibited by law.

MANAGEMENT COMMENTS AND OUR EVALUATION

Management said it concurred with all recommendations except for Recommendation No. 4 and will act to implement them. Based on management's comments, we consider nine recommendations to be resolved and one to be closed as follows. Appendix II contains management's complete comments.

Recommendation No. 1 is resolved. Management said current thinking requires a more limited period for advancing cash to recipient organizations and that procedures are being revised to resolve this issue. We will close this recommendation when management develops and provides us a copy of its office procedures or guidelines for analyzing Treasury check recipients' cash needs and requests for cash advances.

Recommendation No. 2 is resolved. Management said it will consult with the Office of Procurement to jointly develop and promulgate mandatory standard payment provisions for all grants and other agreements with recipient organizations. We will close this recommendation when management provides us a copy of these provisions.

Recommendation No. 3 is resolved. Management said it will coordinate with the Office of Procurement to develop and issue a directive requiring Agency personnel to obtain FM's written approval for all exceptions to the standard payment provisions. We will close this recommendation when management provides a copy of this directive.

Recommendation No. 4 is closed. Management said it did not concur with the recommendation to rescind the USAID Controller's December 16, 1993 determination to grant advances for up to 90 days' cash needs and that this determination met a need dealing with conditions up to a fixed date. Management also stated that "any special conditions" are now to be approved by the U.S. Treasury on an individual basis only, management's decisions of the past should not be an issue, and management intends to move forward to improve the quality of financial management in the future. Based on management's commitment to improve the quality of financial management and based on its application of the December 16, 1993 determination to past conditions rather than to current or future cash management conditions, we consider Recommendation No. 4 to be closed.

Recommendation No. 5 is resolved. Management said new strategies have been incorporated to limit cash advances to recipients' immediate cash needs. We will close this recommendation when management develops a strategic action plan designed to reduce the number and amount of Treasury check advances that exceed immediate needs.

Recommendation No. 6 is resolved. Management said it will prepare written guidelines for office personnel to use when analyzing letter-of-credit recipients' cash needs and will also revise the Request for Funds form to clearly state Treasury guidelines and to have recipients explain any cash advances that exceed immediate needs. We will close this recommendation when management provides a copy of its guidelines for analyzing letter-of-credit recipients' cash requests and a copy of its revised Request for Funds form.

Recommendation No. 7 is resolved. Management said it concurs with the content of this recommendation and that the letter-of-credit area has made, and continues to make, progress in ensuring that recipients adhere to Treasury guidelines on cash advances. We will close this recommendation when management develops a strategic action plan designed to reduce the number and amount of letter-of-credit advances that exceed immediate needs.

Recommendation No. 8 is resolved. Management said that FM is making every effort to ensure all recipients establish interest-bearing accounts to which funds are electronically transferred. We will close this recommendation when management revises Handbook 13's Standard Provisions Appendices for "non-U.S. nongovernmental grantees" and "public international organizations" to require these organizations to deposit and maintain cash advances in interest-bearing accounts.

Recommendation No. 9 is resolved. Management said it will consult with the U.S. Treasury, the Office of Management and Budget, and the Department of Health and Human Services to determine the extent of FM's responsibility to track and monitor recipients' interest earnings and remittances. We will close this recommendation when management prepares a written statement on the extent of this responsibility and on the means FM will employ to carry out its responsibility.

Recommendation No. 10 is resolved. Management said FM intends to audit recipients' Federal Cash Transactions Reports, copies of remitted interest checks, and interest earned on Federal cash advances and will take the necessary steps to recover any lost interest. We will close this recommendation when management provides us information on the actual refunds of interest earnings it seeks or has collected.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Washington's management of cash advances to recipient organizations in accordance with generally accepted government auditing standards. We conducted the audit field work from February through June 1994 in Washington, D.C., and reviewed the management of advances through December 1993.

To do so, we obtained computer-generated lists from USAID/Washington's computerized Financial Accounting and Control System and from its Letter of Credit Computer System showing outstanding (unliquidated) cash advances to recipient organizations (excluding operating expense account advances) as of the end of December 1993, which collectively totaled $537 million. Although we did not verify the overall reliability of this data, we verified the accuracy of the data applicable to our audit objectives for the recipients selected for detailed review. The unliquidated advances were grouped into five dollar categories:

(1) those under $100,000,

(2) those at least $100,000 but less than $500,000,

(3) those at least $500,000 but less than $1,000,000,

(4) those at least $1,000,000 but less than $5,000,000, and

(5) those $5,000,000 or more.

Within each category, we selected larger dollar value advances totaling $172 million for detailed review. We then reviewed all the cash advances that were made from October 1, 1992 through December 31, 1993 to the 25 Treasury check recipients identified in accordance with this methodology and all the advances made from July 1, 1993 through December 31, 1993 to the 25 letter-of-credit recipients so identified--advances that totaled $41.5 million for the Treasury check recipients and $91.7 million for the letter-of-credit recipients.

The following methodology section contains additional information on the kinds and sources of information used during the audit and on audit techniques for each audit objective. In conducting this audit, we examined the internal controls related to each objective and considered prior audit findings applicable to the areas under review.

Methodology

The methodology for each audit objective follows.

Audit Objective One

This audit objective was to determine if USAID/Washington limited cash advances to the immediate cash needs of recipients in accordance with Agency policy and U.S. Treasury regulations. We reviewed the information in USAID/Washington's Office of Financial Management (FM) files on Treasury check recipients' requests for cash, cash advances and expenditures during the 15 months from October 1, 1992 to December 31, 1993 and on letter-of-credit recipients' drawdowns and disbursements during the 6 months from July 1, 1993 to December 31, 1993 to determine if the advances were for "immediate disbursement needs." The Treasury check recipients' requests for cash submitted to FM identified the periods for which the advances were made. For letter-of-credit recipients, we calculated the number of days' cash needs each advance represented by comparing the amount of the advance with the recipients' reported disbursements for the three months preceding the month in which the advance was drawn. We calculated a "daily rate" of disbursement for the three prior months and compared this rate with each advance. We identified advances that exceeded recipients' immediate needs, discussed why they exceeded immediate needs with FM personnel, and estimated the interest cost to the U.S. Treasury for the excess advances.

Audit Objective Two

To determine if USAID/Washington used letters of credit to finance recipients in lieu of cash advances in accordance with Agency policy and U.S. Treasury regulations, we reviewed the Treasury check recipients' grant agreements with USAID to see if the recipients had a "continuing relationship" with the Agency for at least one year involving annual advances of at least $120,000. We also determined if the recipients already had letters of credit with USAID. When letters of credit should have been used, we interviewed FM personnel to determine why the recipients were paid by check and whether Agency personnel were aware of applicable payment methods. We also estimated the additional yearly interest cost to the Treasury when letters of credit should have been used.

Audit Objective Three

To determine if USAID/Washington ensured that recipients maintained cash advances in interest-bearing accounts and remitted interest earnings to USAID in accordance with Agency policy and OMB Circular No. A-110 requirements, we reviewed Treasury check recipients' agreements with the Agency to see if the agreements required the recipients to maintain cash advances in interest-bearing accounts and to remit the interest earnings. We also reviewed FM's files for these recipients and the letter-of-credit recipients in our sample to see if the files contained information on earnings and remittances. When the files contained no information on interest earnings or remittances, we contacted selected recipients directly to ask them if they had deposited the advances in interest-bearing accounts, earned interest on the advances, and retained the earnings or remitted them to USAID or the U.S. Treasury. We also interviewed FM staff to determine if the Agency has a system to track recipients' interest earnings and remittances.

US AGENCY FOR
INTERNATIONAL
DEVELOPMENT

November 22, 1994

Toby L. Jarman, Director
Program and Systems Audits
Office of Inspector General
Washington, DC

Dear Mr. Jarman:

This letter is to provide you a formal response to your draft report on the results of your audit on USAID/Washington's Management of Cash Advances to recipient organizations. Before making comments on the specific findings and recommendations of the report, I would like to offer my praise to your staff for the professional manner in which they handled this audit. I believe we all directly benefited from the candid and constructive conversations with your representatives during the period of this audit. This may be only the draft report, but we have already taken steps to correct and improve advances to recipient organizations.

RECOMMENDATION NO. 1:

We concur with this recommendation and acknowledge a need to clarify and update the guidelines on analyzing recipient organizations' cash needs and request for cash. Current thinking demands a more limited period for advancing cash to recipient organizations. We are in the process of revising advance procedures in order to resolve this issue.

RECOMMENDATION NO. 2:

We concur, and Financial Management will consult with the Office of Procurement to jointly develop and promulgate mandatory standard payment provisions for incorporation in all grants and other agreements with recipient organizations. Modified payment provisions will ensure that such payments adhere to U.S. Treasury and USAID requirements on the limitation and timing of advances. We therefore request resolution of this recommendation.

RECOMMENDATION NO. 3:

We concur and we will coordinate with the Office of Procurement to develop and issue a directive requiring all Agency personnel with authority to sign grants to obtain the Office of Financial Management's specific written approval on a case-by-case basis for all exceptions to the standard payment provisions. We request resolution of this recommendation.

RECOMMENDATION NO. 4:

We do not concur with this recommendation. The USAID Controller's December 16, 1993 determination dealing with advances on cash needs up to 90 days met a need dealing with conditions up to a fixed date. Conditions today clearly spell out that any special conditions needed are to be approved by U.S. Treasury on a individual basis only. The decision of management in the past should not be a issue, but we need to move forward to resolve new issues to improve the quality of Financial Management in the future.

RECOMMENDATION NO 5:

We concur and new strategies have already been incorporated to insure immediate cash needs will not be exceeded by recipient organizations. This responsibility is that of the team leader and will continue to be in the future. Current management views and goals are to improve accountability. We therefore request closure of this recommendation on report issuance.

RECOMMENDATION NO. 6 and 7:

We concur with the content of both recommendations.

A large percentage of Recipient Letter of Credit drawdowns and grant advance requests are on a reimbursement basis or at the end of the month when they pay their bills. The timing of these requests for funds is critical in making an accurate calculation of the number of days of cash on hand. Several of the recipients reviewed by the auditors were funding projects in areas of the world where the cash needs are as volatile as the political unrest. Often, circumstances mandate ready access to emergency funds, and having more than 7 days cash in their overseas bank accounts is sometimes justified. However, the Letter of Credit area has made, and continues to make, progress in insuring the recipients adhere to the Treasury guidelines regarding cash advances. The office of Financial Management will prepare written guidelines for office personnel to use when analyzing recipient organizations' cash needs. The office of Financial Management will issue a revised "Request for Funds" (SF-5805) form to Letter of Credit recipients that clearly states Treasury guidelines and asks for an explanation for any cash advance the exceeds immediate needs. A concerted effort will be made to more closely audit the Federal Cash Transactions Reports to insure that the recipient organizations are adhering to the U.S. Treasury guidelines. We therefore request resolution of recommendation numbers 6 and 7.

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RECOMMENDATIONS 8, 9, and 10: concerning Interest:

We concur, with these recommendations, however, it is important to point out that every effort is made by Financial Management that all recipients establish interest-bearing checking accounts to which funds are electronically transferred. The Office of Financial Management will consult with the U.S. Treasury, the Office of Management and Budget, and the Department of Health and Human Services to determine the extent of the Office of Financial Management's responsibility to track and monitor recipients' interest earnings and remittances. FM intends to audit the Federal Cash Transactions Reports and copies of remitted interest checks, interest earned on Federal cash advances and will take the necessary steps to recover any lost interest. Accordingly, we request resolution of recommendations 8, 9, and 10.

Sincerely,

for Tony Cully,
Acting Controller
Financial Management

CASH ADVANCES PAID BY USAID/WASHINGTON TO 25 TREASURY CHECK RECIPIENTS FROM OCTOBER 1, 1992 TO DECEMBER 31, 1993[1]

Recipient's Name and Obligation (Grant) Number	Cash Advance Amount	Date Paid	Period of Advance
American University of the Caribbean HSH1372G00100100	$60,000 98,176	06/01/93 11/05/93	48 days 62 days
U.S. Environmental Training Institute AEP0015A00303200	$288,563	11/01/93	97 days
Food & Agriculture Organization (of the United Nations) 6980517G00320100	$760,000	06/10/93	6 months
The International Crops Research Institute for the Semi-Arid Tropics DAN4111G00905200	$1,038,000 937,500 937,500	11/27/92 07/26/93 10/28/93	90 days 90 days 90 days
International Development Association (of the World Bank) AFR0213G00615000	$5,000,000	05/24/93	95 days
The World Bank 6980485G00222100	$3,500,000 3,500,000	12/30/92 09/10/93	90 days 12 months
International Bank for Reconstruction and Development (World Bank) 5980784G00201900	$3,000,000	06/02/92	40 months
The U.S. Telecommunications Training Institute TDA3902G0031 1400	$75,000 50,000 80,000 95,000	04/14/93 06/17/93 06/29/93 08/18/93	53 days 30 days 30 days 60 days
World Food Programme (of the United Nations) AOT2018G00208900	$2,600,000	09/24/92	12 months

[1] Included are some advances made before Octob- 1, 1992 that fall into the audit universe because they were not liquidated by December 31, 1993.

CASH ADVANCES PAID BY USAID/WASHINGTON TO 25 TREASURY CHECK RECIPIENTS FROM OCTOBER 1, 1992 TO DECEMBER 31, 1993

Recipient's Name and Obligation (Grant) Number	Cash Advance Amount	Date Paid	Period of Advance
Fairfax County Fire and Rescue Department AOT3340A00307900	$94,000	10/28/93	11 mos/24 days
The American Friends of Kiryat Sanz Laniado Hospital HSH1352G00804100	$906,770	10/06/92	90 days
World Food Programme (of the United Nations) AOT1006G00306100	$2,100,000	07/15/93	12 months
Friends of the American Board Schools in Turkey, Inc. HSH1367G00002400	$154,836	11/13/92	65 days
The People-to-People Health Foundation, Inc. HSH1360G00202300	$930,650	10/22/92	72 days
	422,000	09/29/93	90 days
Food & Agriculture Organization (of the United Nations) 6980517G00320200	$1,000,000	07/22/93	6 months
The International Potato Center DAN4111G00905000	$550,000	12/23/92	90 days
	550,000	06/24/93	90 days
	550,000	06/18/93	90 days
	450,000	06/18/93	90 days
	450,000	11/17/93	90 days
The World Bank LAG4111G00304200	$844,957	11/04/93	30 days
World Food Programme (of the United Nations) AOT3503G00321000	$815,000	10/21/93	15 months
The International Livestock Center for Africa DAN4111G00904900	$725,000	12/23/92	90 days
	556,250	06/18/93	90 days
	562,250	08/05/93	90 days
	562,750	11/17/93	90 days

CASH ADVANCES PAID BY USAID/WASHINGTON TO 25 TREASURY CHECK RECIPIENTS FROM OCTOBER 1, 1992 TO DECEMBER 31, 1993

Recipient's Name and Obligation (Grant) Number	Cash Advance Amount	Date Paid	Period of Advance
International Organization for Migration CCN0001G00302600	$146,000	03/19/93	5 mos/28 days
	300,000	09/20/93	60 days
International Irrigation Management Institute DAN4111G00904500	$105,907	11/27/92	90 days
	86,191	08/06/93	90 days
	87,500	10/28/93	90 days
World Food Programme (of the United Nations) AOT3002G00315900	$2,000,000	09/17/93	8 months
World Food Programme (of the United Nations) AOT2018G00210300	$2,500,000	09/16/92	12 months
Action Internationale Contre La Faim AOT3045G00320900	$83,332	10/28/93	4 months
International Center for Diarrheal Disease Research DPE5986A00100900	$332,523	01/15/93	90 days
	739,545	06/03/93	90 days
	793,319	07/14/93	90 days
	87,585	11/23/93	90 days
TOTAL:	**$41,506,104**		

CASH ADVANCES PAID TO 25 LETTER-OF-CREDIT RECIPIENTS FROM JULY 1, 1993 TO DECEMBER 31, 1993

Recipient's Name and Letter-of-Credit Number	No. of Advances	Total Cash Advanced	Average No. Days' Cash Needs
International Committee of the Red Cross LOC No. 1563	-0-	-0-	N/A
Accion International LOC No. 1301	-0-	-0-	N/A
United Nations Children's Fund LOC No. 1471	-0-	-0-	N/A
American Friends of A.I.C.F. LOC No. 1691	2	$304,730	32.0
Pathfinder Fund LOC No. 1347	53	$10,218,346	3.5
The Foundation for the Peoples of the South Pacific LOC No. 1470	17	$1,080,944	11.5
The South-East Consortium for International Development LOC No. 1354	9	$1,299,000	23.0
TATA Energy and Resources Institute LOC No. 1695	4	$195,342	39.0
World Food Programme LOC No. 1600	1	$14,100,400	623.0
Johns Hopkins University LOC No. 1325	2	$2,366,077	14.5
Academy for Educational Development LOC No. 1518	17	$27,000,000	11.5
The People-to-People Health Foundation, Inc. LOC No. 1431	2	$1,364,465	14.5
IRI Research Institute LOC No. 1479	9	$1,593,037	43.0

**CASH ADVANCES PAID TO 25 LETTER-OF-CREDIT RECIPIENTS
FROM JULY 1, 1993 TO DECEMBER 31, 1993**

Recipient's Name and Letter-of-Credit Number	No. of Advances	Total Cash Advanced	Average No. Days' Cash Needs
The Research Foundation of State University of New York LOC No. 1514	-0-	-0-	N/A
The Latin American Scholarship Program of American Universities LOC No. 1406	-0-	-0-	N/A
Catholic Relief Services LOC No. 1302	28	$22,396,463	7.0
Agricultural Cooperative Development International LOC No. 1395	25	$7,129,300	7.0
Ohio State University Research Foundation LOC No. 1341	-0-	-0-	N/A
Tulane University LOC No. 1386	-0-	-0-	N/A
Mozambique Health Committee LOC No. 1693	8	$158,338	7.5
African Medical & Research Foundation LOC No. 1478	-0-	-0-	N/A
International Foundation for Education and Self-Help LOC No. 1603	2	$243,173	17.5
Education Development Center LOC No. 1388	4	$294,907	6.0
American Institute for Free Labor Development LOC No. 1403	4	$1,922,433	14.5
CARE LOC No. 1483	-0-	-0-	N/A
TOTAL:	187	$91,666,955	

LIST OF 13 TREASURY CHECK RECIPIENTS THAT QUALIFY FOR LETTERS OF CREDIT

Recipients' Funding Under the Following Obligations Should Have Been Consolidated Under Existing Letters of Credit:

Food & Agriculture Organization
Obligation No. 6980517G00320100
Letter-of-Credit No. 1623

U.S. Telecommunications Training Institute
Obligation No. TDA3902G00314400
Letter-of-Credit No. 1651

World Food Programme
Obligation No. AOT2018G00208900
Letter-of-Credit No. 1600

World Food Programme
Obligation No. AOT1006G00306100
Letter-of-Credit No. 1600

People-to-People Health Foundation
Obligation No. HSH1360G00202300
Letter-of-Credit No. 1431

Food & Agriculture Organization
Obligation No. 6980517G00320200
Letter-of-Credit No. 1623

World Food Programme
Obligation No. AOT3503G00321000
Letter-of-Credit No. 1600

World Food Programme
Obligation No. AOT3002G00315900
Letter-of-Credit No. 1600

World Food Programme
Obligation No. AOT2018G00210300
Letter-of-Credit No. 1600

LIST OF 13 TREASURY CHECK RECIPIENTS THAT QUALIFY FOR LETTERS OF CREDIT

The Following Recipients Have a "Continuing Relationship" With USAID for at Least One Year Involving Annual Advances of at Least $120,000:

American University of the Caribbean
Obligation No. HSH1372G00100100
Comment: The grant term is longer than a year, and the grant amount is $850,000.

U.S. Environmental Training Institute
Obligation No. AEP0015A00303200
Comment: The cooperative agreement's term is longer than a year, and the agreement amount is $800,000.

American Friends of Kiryat Sanz Laniado Hospital
Obligation No. HSH1352G00804100
Comment: The grant term is longer than a year, and the (original) grant amount is $300,000.

Friends of the American Board Schools in Turkey, Inc.
Obligation No. HSH1367G00002400
Comment: The grant term is longer than a year, and the (original) grant amount is $400,000.

APPENDIX VI

REPORT DISTRIBUTION

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