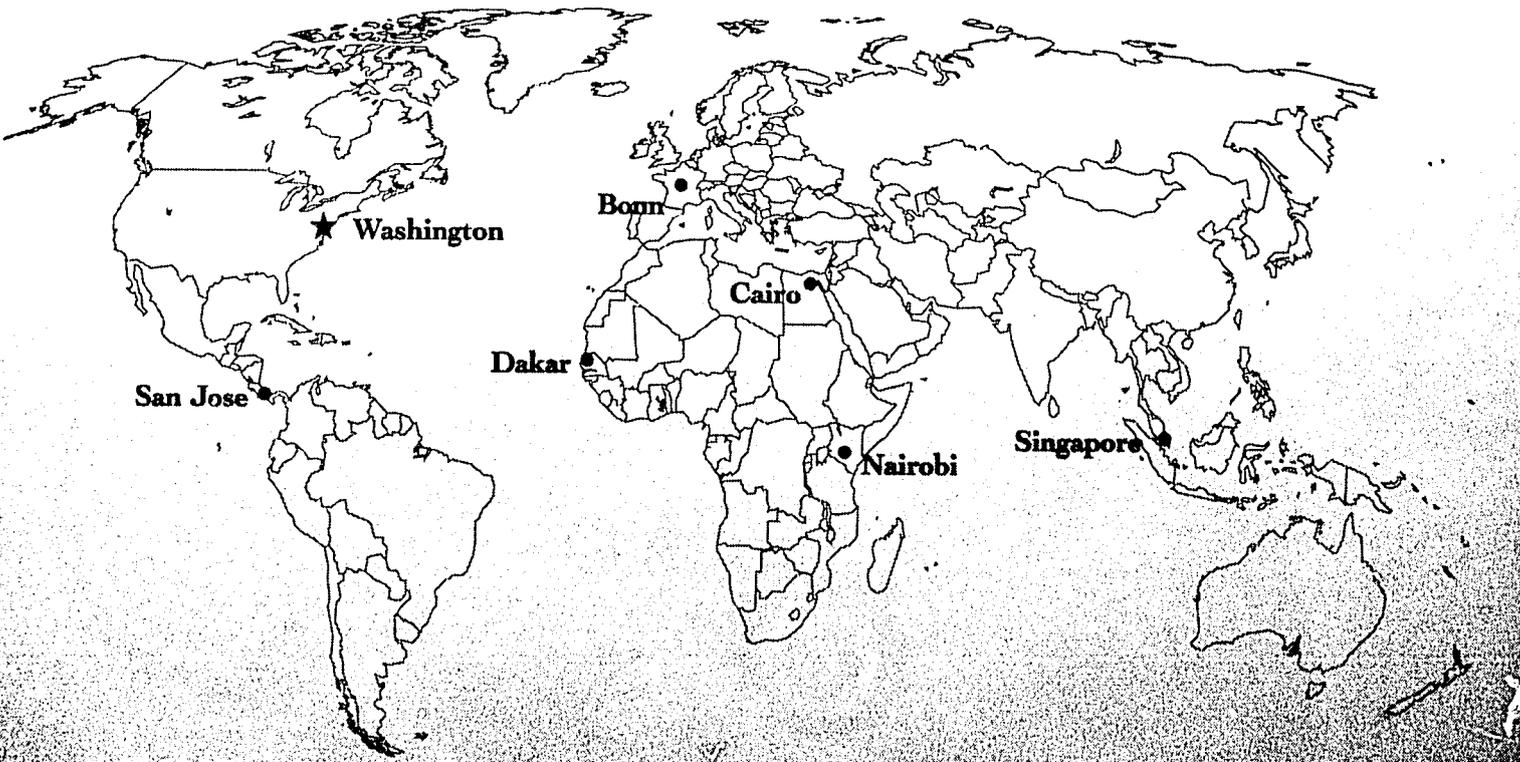


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Regional Inspector General for Audit
Cairo, Egypt

**Audit of
USAID/Egypt's Management of
Cash Advances to Recipient Organizations**

Report No. 6-263-95-002
January 19, 1995



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

January 19, 1995

MEMORANDUM FOR D/USAID/Egypt, John R. Westley

FROM : RIG/A/Cairo, *Philip Darcy*

SUBJECT : Audit of USAID/Egypt's Management of Cash Advances to Recipient Organizations

Following is the subject audit report. In preparing this report, we considered USAID/Egypt's written response to our draft issued December 13, 1994. A copy of that response is included as Appendix II of this report.

This report contains three recommendations, each with two or more subparts. Included in Recommendations 2 and 3 are savings efficiencies totaling \$236,933 and \$2,413, respectively. Based on USAID/Egypt's written response, we consider all three recommendations, with their respective subparts, closed upon report issuance. While we consider Recommendation No. 3 closed, we would like to receive an update on the results of your actions regarding subpart 3.2. Please provide that update 30 days from now.

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

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EXECUTIVE SUMMARY

Background

The Administration and the Congress are sensitive to the impact cash management of federal funds has on U.S. Department of Treasury borrowing costs and the national debt. Inefficient cash management costs taxpayers millions of dollars every year and contributes to increasing the federal debt. Therefore, the U.S. Treasury requires federal agencies to conduct their financial activities in a cost-effective manner so that the maximum amount of cash is made available to the Treasury on a continuing basis for purposes of investing and avoiding unnecessary borrowing. Specifically, the U.S. Treasury requires federal agencies to monitor recipients' cash management practices to ensure that advances of federal funds are limited to the minimum amounts necessary for immediate disbursement needs and to take remedial action when excessive cash is advanced.

On June 30, 1986, USAID/Egypt had 207 project-related outstanding cash advances totaling \$18.6 million. By December 31, 1993, the total had dropped to about \$2 million, due primarily to a change in USAID/Egypt's policy regarding local currency advances to Government of Egypt entities. (page 1)

Audit Objectives

The objectives of the audit were to determine whether USAID/Egypt (1) programmed local currency generated through its programs to provide cash advances to project recipients in lieu of using appropriated dollars to buy local currency, (2) limited cash advances to the immediate cash needs of recipients in accordance with USAID policy and U.S. Treasury regulations, (3) ensured 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, and (4) used letters-of-credit to finance recipients in lieu of cash advances in accordance with USAID policy and U.S. Treasury regulations. (page 2)

Audit Findings

Our answers to the above audit questions are qualified to the extent of the effect of not having received complete written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. Appendix I contains a full discussion of this qualifier.

For local currency advances, USAID/Egypt has reduced the amount of appropriated U.S. dollars used to purchase local currency advances from an average of about \$10.8 million during the late 1980's to about \$78,000 as of December 31, 1993. This was due mainly to USAID/Egypt's policy change, in response to a prior RIG/A/Cairo audit, to provide advances to Government of Egypt implementing agencies from local currency generated through USAID/Egypt's commodity import and cash transfer programs. (page 3)

For advances made in U.S. dollars, we reviewed eight cash advances totaling \$5.1 million issued by USAID/Egypt to four recipients during the audit period (October 1, 1992 through December 31, 1993). U.S. Treasury regulations and USAID policy require that missions limit cash advances to the immediate disbursement needs (defined as 30 days) of the recipient. USAID/Egypt issued all eight of the advances on a quarterly basis without providing required written justification to exceed the 30 day limit. (page 5)

U.S. Treasury regulations stipulate that federal funds drawn in excess of immediate disbursement needs should be promptly refunded by the recipient. For two of the four recipients reviewed, USAID/Egypt did not obtain or deposit refunds promptly after project activities were delayed or suspended. This occurred because the Mission did not have an adequate system to ensure that the recovery and deposit of advanced funds were performed timely. (page 11)

Contrary to federal regulations and USAID policy, USAID/Egypt did not ensure that interest earned on cash advances was remitted to the U.S. Treasury. This occurred because USAID/Egypt did not track recipients' interest earnings or remittances. As a result, no interest earnings had been remitted to the U.S. Treasury for \$5.1 million advanced to four recipients during the 15-month period reviewed. (page 14)

Summary of Recommendations

The report recommends that USAID/Egypt:

- limit all cash advances to 30 days, or provide appropriate written justification to exceed 30 days (page 6),
- revise Mission Order 19-5 to include procedures for managing cash advances extended beyond 30 days (page 6),

- ensure that unliquidated advances totaling \$236,933 for two recipients are returned to the U.S. Treasury (page 11),
- review all unliquidated cash advances and recover unliquidated balances from any recipients experiencing delays in their project activities (page 11),
- develop a system to ensure that cash advances to recipients experiencing delays in their project activities are recovered and deposited immediately by Mission personnel (page 11),
- collect \$2,413 in interest earned on cash advances to two recipients and remit that amount to the U.S. Treasury (page 15),
- review all unliquidated cash advances and recover any unremitted interest earnings (page 15), and
- ensure that all recipients remit interest earned promptly to USAID, as required (page 15).

Mission Comments and Our Evaluation

In its written response to the draft report, USAID/Egypt pointed out that the total amount of cash advances currently provided to grantees is about \$2 million, which USAID/Egypt considers an immaterial amount compared to its total project portfolio pipeline of nearly \$2 billion. Nevertheless, USAID/Egypt agreed with the audit recommendations and has taken actions to close all three recommendations. Accordingly, USAID/Egypt requested that all recommendations be closed upon issuance of the final report. (see pages 17-18)

We agree that USAID/Egypt provides very little in the way of cash advances relative to its total project portfolio. However, as these advances of U.S. appropriated funds are governed by Treasury regulations to help reduce the federal debt, we believe that USAID/Egypt, as a provider of such advances, should have reasonable assurance that it is advancing funds in compliance with those regulations. Based on actions taken by USAID/Egypt in response to the audit recommendations, we consider all recommendations closed upon issuance of this report.

Office of the Inspector General
Office of the Inspector General
January 19, 1995

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INTRODUCTION

Background

The Administration and Congress are sensitive to the impact cash management of federal funds has on U.S. Department of Treasury borrowing costs and the national debt. Both have urged federal agencies to improve management of cash advances given to program recipients. Inefficient cash management costs taxpayers millions of dollars every year and contributes to increasing the federal debt. Therefore, the U.S. Treasury requires federal agencies to conduct their financial activities in a cost-effective manner so that the maximum amount of cash is made available to the Treasury on a continuing basis for purposes of investing and avoiding unnecessary borrowing.

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. USAID policy also recognizes that host government institutions will normally be financed on an advance-of-funds basis.

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

On June 30, 1986, USAID/Egypt had 207 project-related outstanding cash advances totaling \$18.6 million. By December 31, 1993, the total had dropped to about \$2 million. This decrease was due primarily to a change in USAID/Egypt's policy which stopped the issuing of local currency cash advances to Host Country Implementing Agencies. (A full discussion of this policy change and its results is included on pages 3 and 4 of this report.)

Audit Objectives

The Office of the Regional Inspector General for Audit in Cairo audited USAID/Egypt's management of cash advances to recipient organizations to answer the following questions:

- Does USAID program the local currency generated through its programs to provide cash advances to project recipients in lieu of using appropriated dollars to buy local currency?
- Does USAID limit cash advances to the immediate cash needs of recipients in accordance with USAID policy and U.S. Treasury regulations?
- Does USAID 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?
- Does USAID use letters-of-credit to finance recipients in lieu of cash advances in accordance with USAID policy and U.S. Treasury regulations?

To answer these questions, we tested whether USAID/Egypt followed applicable cash management policies and procedures with regard to cash advances in order to minimize federal borrowing costs. This audit was conducted as part of a world-wide audit effort coordinated by the USAID Inspector General's Office of Programs and Systems Audits. Appendix I discusses the scope and methodology of the audit.

REPORT OF AUDIT FINDINGS

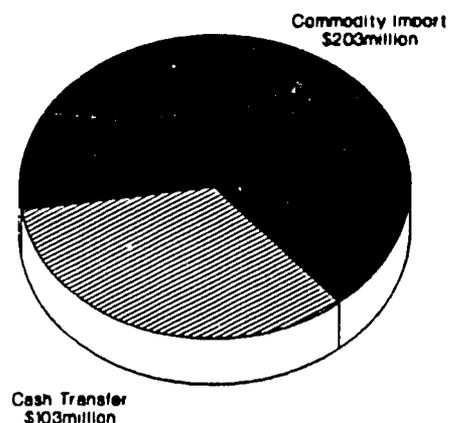
Our answers to the following audit questions are qualified to the extent of the effect of not having received complete written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. Appendix I contains a full discussion of this qualifier.

Does USAID/Egypt program the local currency generated through its programs to provide cash advances to project recipients in lieu of using appropriated dollars to buy local currency?

USAID/Egypt used local currency generated through its programs to provide cash advances to project recipients in lieu of using appropriated dollars to buy local currency. USAID/Egypt generates a considerable amount of local currency through its commodity import and cash transfer programs.

During the period July 1, 1992 through June 30, 1993, these two programs generated over 1 billion Egyptian Pounds (LE)—equivalent to about \$306 million¹. While technically owned by the Government of Egypt, these local currency funds are jointly programmed for purposes mutually agreed to between USAID/Egypt and the Government of Egypt.

In response to a 1990 RIG/A/Cairo audit (Report No. 6-263-90-02), USAID/Egypt changed its policy with regard to providing local currency advances to Government of Egypt organizations participating in USAID projects.



**Local Currency Generated
by USAID/Egypt Programs**
July 1, 1992 - June 30, 1993

¹Official exchange rate \$1 = LE3.39 as of June 1994.

USAID/Egypt, in conjunction with the Government of Egypt, established a mechanism to provide local currency advances to these agencies with funds generated through the commodity import and cash transfer programs, instead of from appropriated U.S. dollars. USAID/Egypt signed an agreement with the Government of Egypt under which the equivalent of about \$19 million in USAID-generated local currency was made available to establish a revolving project advance account. This account was to be administered through Egypt's National Investment Bank in order to provide cash advances to Government of Egypt entities participating in USAID projects.

Thus, USAID/Egypt was able to reduce the amount of appropriated U.S. dollars used to purchase local currency advances from an average of about \$10.8 million during the late 1980's to about \$78,000 as of December 31, 1993. According to the audit report cited above, **this policy change could save nearly \$1 million in annual interest costs to the U.S. Treasury** (assuming a 9% cost-of-funds rate). We believe that USAID/Egypt has done well in this area and that other Missions might be able to similarly reduce the cost of using federal funds for granting local currency cash advances to recipients participating in USAID activities by following this Mission's example.



Through its Commodity Import Program, which provides foreign exchange for importing U. S. commodities, USAID/Egypt has generated local currency used to provide cash advances to Government of Egypt organizations participating in USAID projects. Port of Alexandria, Egypt - November 1994.

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

For each of the advances we reviewed, USAID/Egypt did not limit cash advances to the immediate needs of recipients in accordance with USAID policy and U.S. Treasury regulations. This was in spite of the fact that the Mission, in 1992, had initiated new procedures to help ensure that cash advances would be limited to immediate needs.

While we believe that USAID/Egypt can and should improve its management of cash advances, as detailed in the following sections of this report, we also believe that it should be noted that USAID/Egypt provides very little in the way of cash advances relative to its total project portfolio. For example, as of December 31, 1993, USAID/Egypt had only \$2 million in outstanding cash advances, compared to a total project portfolio pipeline during fiscal year 1993 of nearly \$2 billion.

USAID/Egypt Needs to Justify Cash Advances Which Exceed 30 Days

U.S. Treasury regulations require that federal agencies limit cash advances given to recipient organizations to the minimum amounts necessary for immediate disbursement needs. USAID has defined "immediate disbursement needs" as not to exceed 30 days from the date the recipient receives the advance until it is expended. USAID's policy allows, as an exception, an extension of up to 90 days, provided there is written justification. USAID/Egypt incorporated many of these requirements into its Mission Order 19-5, but did not include procedures for managing advances extended beyond 30 days. Despite these requirements, for the \$5.1 million issued in eight advances during the period audited, USAID/Egypt granted each advance on a quarterly basis, without providing the required written justification. This occurred primarily because Mission officials did not believe that a period of 30 days was sufficient time to allow recipients to effectively utilize cash advances and, for the advances in our sample, they overlooked the requirement for written justification to exceed the 30-day limit. As a result, USAID/Egypt advanced, without the required justification, more cash to recipients than was required for their immediate (30 day) use. Further, we believe that routinely advancing funds on a quarterly basis weakens the USAID/Egypt's management controls over its cash advances.

Recommendation No. 1: We recommend that USAID/Egypt:

- 1.1 limit all cash advances to 30 days, or provide written justification to extend beyond 30 days, in accordance with U.S. Treasury Regulations, USAID Handbooks, and Mission Order 19-5; and**
- 1.2 revise Mission Order 19-5 to include procedures for managing cash advances extended beyond 30 days.**

The rules and principles limiting cash advances to USAID recipients are contained in Volume 1 of the Treasury Financial Manual, USAID Handbooks 1, 13, and 19, and USAID's Financial Management Bulletin Part II. U.S. Treasury regulations limit cash advances to amounts necessary to meet the immediate disbursement needs of the recipient. Section 2025 of Chapter 2000 of the Treasury Financial Manual requires that:

Advances to a recipient organization will be limited to the minimum amounts necessary for immediate disbursement needs and will be timed to be in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of an approved program or project.

USAID Handbook 19, Appendix 1-B, further explains these regulations by stating:

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. As an exception to the rule, the period of an advance...may extend for as long as 90 days when the . . . USAID Director . . . has determined in writing that implementation will be seriously interrupted or impeded by applying the 30 day rule.

USAID/Egypt incorporated many of these rules and principles into its May 6, 1992 Mission Order 19-5, entitled "Cash Management and Advances." This Mission Order states that its purpose is to establish procedures for granting and/or monitoring advances by U.S. Treasury check to qualifying entities under USAID/Egypt programs, operations and activities. This is required by U.S. Treasury regulations which state that "It is the responsibility of Agencies to monitor the cash management practices of their recipient organizations to ensure that federal cash is not maintained by them in excess of immediate disbursing needs." It defines "immediate disbursement needs" as "the cash requirement for as much as thirty (30) days from the date the recipient receives the advance until it is expended."

The Mission Order also outlines specific procedures to follow for managing cash advances on a 30-day basis. However, it does not include any procedures for managing cash advances extended beyond 30 days. It indicates that standard Mission procedures for issuing cash advances are to grant initial advances based on a 90-day projection of cash needs, followed by subsequent **monthly** advances based upon projected cash needs and the liquidation of prior advances. The Mission Order further states, "The Recipient will provide a Cash Needs Projection by month for the initial ninety (90) day period of the grant and three forms SF-1034, one requesting an advance for each of the three months. USAID will advance these funds prior to the beginning of each monthly period."

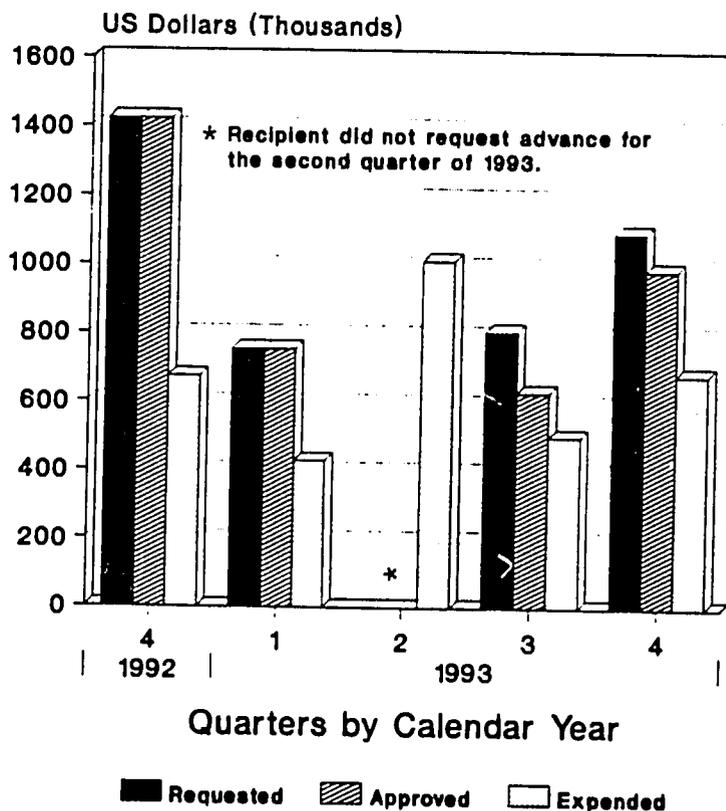
Despite these established procedures, USAID/Egypt did not follow U.S. Treasury or USAID policies and procedures to ensure that cash advances were limited to 30 days' needs, or that required written justifications were obtained for advances exceeding 30 days' needs. Following is a table showing how USAID/Egypt's system of providing cash advances deviated from several of the established procedures in Mission Order 19-5.

Written Procedures in M.O. 19-5	Mission's Actual System
<p>1-Initial Advances: The recipient will provide a cash needs projection by month for the initial 90-day period and three forms SF-1034, one requesting an advance for each of the three months. USAID will advance these funds prior to the beginning of each monthly period.</p>	<p><i>The recipients provided one SF-1034 form for the initial three-month period. USAID/Egypt advanced the funds requested for the initial three months in one check.</i></p>
<p>2-Subsequent Advances: Throughout the remainder of the agreement period, the recipient will be advanced funds for each succeeding 30-day period based upon the projected cash needs and the liquidation of prior advances.</p>	<p><i>For subsequent advances USAID/Egypt continued to provide 90-day advances to the recipients.</i></p>
<p>3-Timing: The recipient is required to simultaneously submit a liquidation report and an advance request for the next month, on the 15th day after the end of the month. USAID shall advance the net amount of cash required for the recipient's operations for the succeeding 30-day period, approximately 10 days before the beginning of the 30-day period. The amount of the advance is based upon reported actual disbursements and projected cash needs.</p>	<p><i>For the recipients receiving subsequent advances, the submission of liquidation reports averaged about four months after the end of reported period. USAID/Egypt routinely provided 90-day advances in one check, usually after the beginning of the 90-day period. Some advances were made before the recipient reported actual disbursements from prior advances.</i></p>

As shown on the preceding page, recipients of cash advances should submit monthly liquidation reports to USAID/Egypt. The project officer is responsible to ensure that the recipient provides monthly reports on the status of funds disbursed and outstanding advances. If such reports are not received, the project officer, according to the Mission Order, should contact the recipient and request them.

As of December 31, 1993, USAID/Egypt's computerized accounting records showed a total of \$2,013,748 in unliquidated cash advances to 12 recipient organizations. We judgmentally selected four of the recipients (comprising about 70 percent of the unliquidated cash advances) and examined their history of advances and liquidations from October 1, 1992 through December 31, 1993. During that 15-month period, USAID/Egypt advanced a total of \$5,118,753 in eight separate advances to the four recipients. Each of the eight advances to the four recipients in our audit sample was on a quarterly, rather than monthly basis. USAID/Egypt did not provide written justification for advancing Treasury funds beyond 30 days for any of the four recipients.

Analysis of Cash Advances For One Recipient In Audit Sample



Because USAID/Egypt issued advances on a **quarterly**, rather than **monthly** basis, all four recipients received cash advances which **exceeded** their immediate (30-day) cash needs. For example, the recipient depicted in the above graph did not even expend its advances within the intended 90-day periods. During the first two quarters of the audit period, this recipient expended only about half of the total cash advances requested and approved. With such a large unexpended balance remaining after the first two quarters, the recipient was able to expend over \$1 million of advanced funds during the following quarter without receiving another advance. This indicates that for the first two quarters, this recipient received more cash than was required for its immediate needs. Similarly, another recipient was able to expend over \$.5 million during the first quarter of the audit period without requesting a cash advance because it had only expended half of its \$1 million advance for the previous quarter.

While the above examples indicate that USAID/Egypt issued cash advances which exceeded the immediate needs of the recipients, we were not able to determine the exact cost to the U.S. Treasury of the recipients' receiving and holding excess advance funds. Although we developed several cost estimates during the audit, the results varied so widely that we do not think it would be useful to cite them. Further, none of the eight advances we reviewed was issued prior to the period for which it was requested. On average, the eight advances in our sample were given two months after the period for which they were requested. For example, a cash advance for over \$790,000, intended to cover a recipient's cash needs for April through June 1993, was not requested until June 30, 1993. Consequently, the recipient did not receive the funds from USAID/Egypt until August 24, 1993, five months after the period for which they were requested.

We believe that granting quarterly advances also weakened USAID/Egypt's ability to control and manage its outstanding advances and their subsequent liquidation. According to Mission Order 19-5, successive cash advances are to be based upon projected cash needs and the liquidation of prior advances. However, because USAID/Egypt used a quarterly cash advance system, they did not always receive current liquidation reports in time to make subsequent advances. For example, USAID/Egypt granted an advance of \$753,981 to cover three months of projected cash needs for one of the recipients in our sample. However, the recipient had not yet submitted expenditure reports for the advance received for the prior quarter. Consequently, USAID/Egypt granted the advance based on estimated expenditures for the prior three months, as well as projected cash needs for the current three months—a combined period of six months of estimated costs.

The two recipients receiving the majority of USAID/Egypt cash advances (six of the eight advances reviewed) took from two to seven months to submit liquidation reports for those advances. For the period audited, these two recipients averaged four months to report expenditures. Following is a table showing the aging of cash advance liquidations for all four recipients selected in our audit sample.

**Number of Days to Fully Liquidate Cash Advances
for Sampled Recipients
(Dollars in Thousands)**

Recipient	Advance Amounts	Under 30 Days	31-90 Days	91-180 Days	181- 365 Days	Over 365 Days
A	\$2,246	\$448	\$415	\$731	\$652	\$0
B	254	0	0	0	0	254
C	2,497	353	302	1,842	0	0
D	121	0	11	0	0	110
Totals	\$5,118	\$801	\$728	\$2,573	\$652	\$364
	100.0%	15.7%	14.2%	50.3%	12.7%	7.1%

While the delayed liquidation of cash advances (based on the date USAID/Egypt receives an advance liquidation voucher) does not necessarily mean that the advanced funds were not promptly expended by the recipients², we believe that delayed liquidation is an indication that such was the case. For example, between October 1, 1992 and December 31, 1993, one recipient received three advances totaling \$2,246,489. Of that amount, only \$447,960 (20%) was liquidated within 30 days, \$415,343 (18.5%) between 31-90 days, and the balance of \$1,383,186 (61.5%) between 91-365 days. On average, this recipient took 203 days to fully liquidate its three advances.

We believe that such delays in receiving expenditure data hamper USAID/Egypt's ability to ensure that recipients did not maintain excessive advances and increase the opportunity for advanced funds to be improperly used. We believe that a monthly system of issuing and accounting for cash advances, as detailed in Mission Order 19-5, would give USAID/Egypt better managerial control over its cash advances than the current quarterly system.

²A recipient may have expended the advance funds in a timely manner but not submitted an expenditure voucher until much later.

During the exit conference, USAID/Egypt officials indicated that they would issue a notification to their staff to follow the appropriate cash management procedures. Project officers would be requested to either justify the need for 90-day cash advances for their grantees, or advise the Mission's Financial Management Office that 30-day cash advances are appropriate. USAID/Egypt officials also stated that they planned to revise Mission Order 19-5 in order to clarify cash management procedures. While it appears that USAID/Egypt is planning to improve its system of issuing cash advances, we believe the Mission would also benefit by improving its system of recovering excess advance funds.

USAID/Egypt Needs to Improve Its Recovery of Excess Cash Advances

U.S. Treasury regulations stipulate that federal funds drawn in excess of immediate disbursement needs should be promptly refunded by the recipient and deposited to the appropriation or fund account initially charged with the advance. USAID/Egypt's Mission Order 19-5 states that advances should be repaid immediately when funded activities are delayed for any reason. For two of the four recipients reviewed, USAID/Egypt did not obtain or deposit refunds promptly for delayed activities as required. This occurred because the Mission did not have an adequate system to ensure that the recovery and deposit of advanced funds were performed timely. Consequently, those two recipients unnecessarily maintained over \$350,000 of unliquidated advanced funds for nearly one year. By promptly recovering and depositing excess advanced funds related to these delayed activities, we estimate that USAID/Egypt could have avoided over \$11,000 in U.S. Treasury borrowing costs.

Recommendation No. 2: We recommend that USAID/Egypt:

- 2.1 ensure that the unliquidated balance of \$236,933 (\$65,285 for Save the Children and \$171,648 for the Foreign Relations Coordination Unit of the Supreme Council of Universities) is promptly returned to the U.S. Treasury;**
- 2.2 review all unliquidated cash advances and recover the unliquidated balance of cash advances from any recipients experiencing delays in their project activities; and**
- 2.3 develop a system to ensure that cash advances to recipients experiencing delays in their project activities are recovered and deposited immediately by Mission personnel.**



An engineer for a nonprofit organization working under a cash advance from USAID/Egypt explains to villagers how to construct, use and maintain a septic tank installed as one of the activities implemented under a cooperative agreement with USAID/Egypt. Hegaza Village in Qena Governorate, Egypt - 1994.



Children display their drawings which demonstrate the hygiene education received through a cooperative agreement funded by USAID/Egypt through a cash advance. Hegaza Village in Qena Governorate, Egypt - 1994.

Chapter 2000 of the U.S. Treasury Financial Manual stipulates that federal funds should be promptly refunded if the funds are erroneously drawn in excess of immediate disbursement needs. Federal agencies are required to deposit refunded amounts to the appropriation or fund account initially charged with the advance. USAID/Egypt's Mission Order 19-5 states that if an advance is provided to a recipient, and the activity/project is delayed for any reason, the Project Officer shall request that the recipient repay the advance immediately.

Two of the recipients in our sample maintained large unliquidated advance balances for nearly one year. This occurred because their planned activities were either delayed or suspended. Despite the fact that advances to these two recipients remained outstanding with little or no liquidation for several months, USAID/Egypt did not recover the excess cash balances as required.

In one case, a recipient received an advance of \$121,378 in September 1993. As of June 9, 1994, the recipient's total liquidations against that advance amounted to only \$12,216. Although the activities to be funded by the advance were not proceeding as planned, USAID/Egypt did not request that the recipient repay the unliquidated amount, as required by USAID/Egypt's Mission Order 19-5. We estimate that the delay (beyond 30 days) in recovering the advance made to this recipient cost the U.S. Treasury about \$2,787, which we believe could have been partially avoided if USAID/Egypt had acted quickly to recall the excess funds when it became apparent that the funds would not be immediately used. USAID/Egypt informed us in the exit conference that, subsequent to the audit, \$40,586 of the funds advanced to this recipient were liquidated, and an additional \$3,291 liquidation was in process. The balance of \$55,285 was then refunded to USAID/Egypt.

The other recipient received an advance of \$254,000 in June 1993, to meet its projected expenditures for the period June through August 1993. As of June 6, 1994, this recipient had not liquidated any of the advance. Although the recipient had submitted two expenditure reports to USAID/Egypt, they were not processed because the project under which the recipient was being funded was being suspended. USAID/Egypt had suspended funding the recipient on March 2, 1994, at the urging of RIG/A/Cairo, based on preliminary findings by contracted non-federal auditors who were conducting a financial audit of the recipient.

The cognizant project officer stated that as a result of his verbal instructions, the recipient issued two checks, written in Arabic, to USAID/Egypt in order to return part of the unliquidated advance. The first check, dated January 1, 1994, was for \$68,811. The second check, dated May 5, 1994, was for \$86,560. The project officer stated that both checks were forwarded to USAID/Egypt's Financial Management Office soon after being received. However, the checks were reportedly misfiled by an employee of that office. The checks were left undeposited until July 1994, more than six months after the first refund check was received. Before depositing them, USAID/Egypt asked the recipient to replace the two checks written in Arabic with new checks written in English.

We estimate that the delay in recovering this advance cost the U.S. Treasury about \$8,892, most of which could have been avoided had USAID/Egypt acted quickly to recover the excess funds and deposit them in a timely manner. During the exit conference, USAID/Egypt officials informed us that liquidation vouchers totaling \$82,352 were either in process or in transit, and that the remaining balance of \$171,648 had been refunded by the recipient to USAID/Egypt.

USAID/Egypt has a system which notifies project officers as to how long cash advances under their jurisdiction have been outstanding. However, this notification system did not result in the immediate recovery of advanced funds subject to delayed or suspended project activities. Nor did it ensure that once funds were recovered, they were promptly deposited by Mission personnel. Consequently, \$363,162 in appropriated U.S. Treasury funds advanced to two of the recipients in our audit sample were not liquidated or returned to the U.S. Treasury for nearly one year. Subsequent to our audit, USAID/Egypt took action to have the recipients liquidate \$126,229 of the advanced funds and refund the remaining \$236,933.

Does USAID/Egypt 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/Egypt did not always ensure that recipients maintain cash advances in interest-bearing accounts and remit the interest earned on those funds to USAID in accordance with Agency policy and OMB Circular No. A-110 requirements.

**USAID/Egypt Needs to Better
Monitor Recipients' Interest
Earnings on Federal Funds**

Contrary to federal regulations and USAID policy, USAID/Egypt did not ensure that interest earned on cash advances was remitted to the U.S. Treasury. Although all four recipients in our sample deposited USAID cash advances in interest-bearing accounts, no interest earned on those funds had been remitted to the U.S. Treasury at the time of our audit fieldwork. This occurred because USAID/Egypt did not monitor recipients' interest earnings on cash advances in order to ensure that earned interest was remitted. (USAID/Egypt did receive \$1,782 in earned interest from one recipient, but misplaced the check so that it was not deposited with the U.S. Treasury until six months later.) As a result of USAID/Egypt's lack of a monitoring system, the U.S. Treasury did not receive any interest earnings to help offset the cost of advancing \$5.1 million to the four sampled recipients during the 15-month period reviewed.

Recommendation No. 3: We recommend that USAID/Egypt:

- 3.1 remit to the U.S. Treasury \$2,413 in interest earned on cash advances to two recipients (\$631 from Save the Children and \$1,782 from the Foreign Relations Coordination Unit);**
- 3.2 review all unliquidated cash advances to recover any unremitted interest earnings; and**
- 3.3 develop a system to ensure that all future recipients of cash advances remit interest earned on advanced funds promptly to USAID, as required.**

According to the U.S. Office of Management and Budget (OMB), interest earned by recipients on advances of federal funds constitutes federal earnings. Remitting these earnings to the U.S. Treasury in accordance with applicable requirements helps to offset the borrowing costs incurred in making the advances.

OMB Circular No. A-110, whose policy USAID extends to all nonprofit organizations, requires recipients to maintain advances of federal funds in interest-bearing accounts and to remit the interest earned to the federal agency providing the funds. USAID's Handbook 13 requires that recipients maintain advances of funds from USAID in interest-bearing accounts and that they remit to USAID, at least quarterly, the interest earned on such advances. According to Handbook 19, USAID missions are required to monitor recipients' cash management practices to ensure that "except where contrary to law, interest earned on federal funds by recipient organizations is promptly paid over to the Treasury."

Despite these requirements, USAID/Egypt did not ensure that recipients' interest earnings were remitted timely. Although all four recipients included in the sample reported maintaining their cash advances in interest-bearing accounts, at the time of our audit fieldwork, no interest earned on funds advanced during the 15-month audit period had been remitted to the U.S. Treasury. One of the four recipients had sent a check, dated January 31, 1994, for \$1,782, to USAID/Egypt, covering interest earned on advanced funds from June through December 1993. However, according to USAID/Egypt officials, the check was misplaced and later had to be reissued in English because it was originally written in Arabic. Consequently, USAID/Egypt did not remit the check to the U.S. Treasury until August 5, 1994, more than six months after the original check was written.

Two of the other three recipients we contacted claimed that they had not earned any interest on USAID funds. They stated that, after receiving an advance they made every effort to disburse the funds "within three banking days." Therefore, they had not remitted any interest earnings to USAID/Egypt.

The fourth recipient stated that it had earned interest on advanced funds and that it would remit the interest to USAID/Egypt. At the end of our audit fieldwork this recipient still had not remitted any interest earnings for the 15-month period under review, despite the fact that it maintained a large balance of unliquidated advance funds during that period. During the exit conference, USAID/Egypt officials indicated that the recipient had remitted \$631 in earned interest subsequent to our audit fieldwork.

USAID/Egypt does not have a system to monitor recipients' interest earned on cash advances to ensure that the earnings are remitted timely. During the exit conference, USAID/Egypt officials stated that they rely on Mission-contracted financial audits by local CPA firms to ensure that interest earned on USAID funds is eventually remitted. We believe that Mission-contracted audits are a useful and necessary means to help ensure the accountability of USAID funds, but that they do not provide for timely monitoring and remittance of interest earned on advanced USAID funds. For example, a recent financial audit of one of the same recipients in our audit sample found that, under a predecessor project, this recipient owed USAID/Egypt nearly \$69,000 in interest earned on advanced USAID funds over a ten-year period.

Because USAID/Egypt did not monitor to ensure that all recipients remitted interest earned on advanced funds, no earned interest funds were deposited with the U.S. Treasury to help offset the cost of providing \$5.1 million in cash advances to the four sampled recipients during the 15-month period we reviewed.

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

According to USAID/Egypt officials, the Mission rarely uses letters-of-credit to finance recipients for project-related activities because most recipients in Egypt do not qualify for that method of financing. Our review confirmed that none of the four recipients in our sample qualified for letter-of-credit financing.

MANAGEMENT COMMENTS AND OUR EVALUATION

In its written response to the draft report, USAID/Egypt pointed out that the total amount of cash advances currently provided to grantees is about \$2 million, which USAID/Egypt considers an immaterial amount compared to its total project portfolio pipeline of nearly \$2 billion. Nevertheless, USAID/Egypt agreed with the audit recommendations and has taken actions to close all three recommendations (see Management's Response to Draft Report in Appendix II). Accordingly, USAID/Egypt requested that all recommendations be closed upon issuance of the final report.

As noted in our report, we agree that USAID/Egypt provides very little in the way of cash advances relative to its total project portfolio. However, as these advances of U.S. appropriated funds are governed by Treasury regulations to reduce the federal debt, we believe it is important that USAID/Egypt, as a provider of such advances, have reasonable assurance that it is advancing funds in compliance with those regulations. Following is a summary of actions taken by USAID/Egypt and our evaluation.

For Recommendation 1.1, USAID/Egypt issued a Staff Notice requesting its employees to comply with applicable cash management regulations. Also, USAID/Egypt prepared and approved justifications for 14 grantees currently receiving cash advances beyond 30 days. For Recommendation 1.2, USAID/Egypt revised Mission Order 19-5 to include the necessary procedures for extensions beyond 30 days. Based on these actions, USAID/Egypt requested closure of both parts of the recommendation.

We consider both parts of Recommendation No. 1 closed.

For Recommendation 2.1, USAID/Egypt received and deposited refunds of \$65,285 from STC and \$171,648 from FRCU. For Recommendation 2.2, USAID/Egypt reviewed all active grants and confirmed that none were experiencing delays in their project activities. For Recommendation 2.3, USAID/Egypt provided evidence of a system to ensure the recovery of advances to recipients experiencing delays. USAID/Egypt requested closure of all three parts of this recommendation.

We consider all three parts of Recommendation No. 2 closed.

For Recommendation 3.1, USAID/Egypt received and deposited refunds of \$631 from STC and \$1,782 from FRCU for interest earned on cash advances. For Recommendation 3.2, USAID/Egypt sent letters to all grantees receiving cash advances, requesting them to report and remit all interest earned on USAID advances. USAID/Egypt indicated that it will issue a bill of collection or deduct such amounts from future liquidations upon receipt of certified statements. For Recommendation 3.3, USAID/Egypt provided evidence that it had developed a system to ensure that grantees report and remit earned interest. USAID/Egypt requested closure of all three parts of this recommendation.

We consider all three parts of Recommendation No. 3 closed.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Egypt's management of cash advances to recipient organizations in accordance with generally accepted government auditing standards, except as noted below regarding the extent of representations made by Mission officials. Government auditing standards require auditors to obtain management's written representations when the auditors deem them useful. The Office of the Inspector General deems such representations necessary to support potentially positive findings. USAID/Egypt's Director provided us a letter of representation for this audit that contained essential assertions about the activities we audited. However, Mission officials directly responsible for the activities did not provide written representations. As a result, our answers to the audit objectives are qualified to the extent of the effect, if any, of not having such representations.

We conducted the audit from February through November 1994 at USAID/Egypt offices in Cairo. The scope of the audit covered USAID/Egypt's cash advances from October 1, 1992 through December 31, 1993.

We obtained computer-generated lists from USAID/Egypt computerized Mission Accounting and Control Systems (MACS) showing its outstanding (unliquidated) cash advances (excluding operating expense account advances) as of December 31, 1993. These totaled \$2,013,748. We did not verify the overall reliability of this data. However, we verified the accuracy of account balances and related data for recipients selected for detailed review. We grouped the unliquidated advances into five 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. We selected larger dollar value advances within each category totaling \$1,420,190, provided to four recipients, for detailed review. This amount represented about 70 percent of the outstanding cash advances as of December 31, 1993. We then reviewed all the cash advances that were made from October 1, 1992 through December 31, 1993 to the four recipients identified in accordance with this methodology—advances that totaled \$5,118,752.

Methodology

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.

Audit Objective One

This audit objective was to determine if USAID/Egypt programmed the local currency generated through its programs to provide cash advances to project recipients in lieu of using appropriated dollars to buy local currency. To accomplish this objective, we determined the amount of local currency generated under USAID/Egypt nonproject assistance programs, i.e. cash transfer and commodity import programs for one year. We also determined if USAID/Egypt uses appropriated dollars to purchase local currency in order to finance project recipients on an advance-of-funds basis. Because we found that USAID/Egypt, in conjunction with the Government of Egypt, had already established a mechanism to finance local currency advances through the generated local currency under its programs, we compared the amount of dollar-purchased local currency advanced to project recipients as of December 31, 1993, with the amount in previous years.

Audit Objective Two

This audit objective was to determine if USAID/Egypt limited cash advances to the immediate cash needs of recipients in accordance with Agency policy and U.S. Treasury regulations. To accomplish this objective, we reviewed USAID/Egypt's accounting records on cash advances and liquidations for each selected recipient from October 1, 1992 through December 31, 1993, and calculated the number of days it took to liquidate the advances. For the purposes of this audit, we agreed with the Mission to define the "advance date" as the date of the check as stated on the Mission's records and the "liquidation date" as the date when the recipient's expenditure reports were received at FM. As a result, the liquidation period would be the number of days between the date of the check and the receiving date stamped by FM on the expenditures report submitted by the recipient. For each of the four recipients, we obtained a MACS report (A07) to determine the advances received during the covered period, and also obtained copies of advance requests and liquidation reports. We then reviewed the data for each of the four recipients to determine the number of days it took the recipient to liquidate each advance received during the period covered.

Audit Objective Three

This audit objective was to determine if USAID/Egypt ensured that recipients maintained cash advances in interest-bearing accounts and remitted the interest earned to USAID/Egypt in accordance with Agency policy and OMB Circular No. A-110 requirements. To accomplish this objective, we reviewed recipients' agreements with USAID/Egypt to see if they required the recipients to deposit cash advances in interest-bearing accounts and to remit interest earnings to USAID/Egypt. We also determined if USAID/Egypt had records showing the recipients' earnings. We interviewed USAID/Egypt personnel to determine how they track recipients' interest earnings and discussed the reasons why recipients did not remit the earnings to USAID/Egypt.

Audit Objective Four

This audit objective was to determine if USAID/Egypt used letters-of-credit to finance recipients in lieu of cash advances in accordance with Agency policy and U.S. Treasury regulations. To accomplish this objective, we reviewed Treasury check recipients' grant agreements or other appropriate agreements with USAID to see if the recipients qualified for this method of financing. Some of the criteria we used in order to determine if they should have used letters-of-credit instead of cash advances in accordance with Agency and Treasury requirements included the percentage of local currency required, whether the recipient had a "continuing relationship" with the Agency for at least one year, and whether the amount advanced was at least \$120,000 per year (or \$50,000 per year for nonprofit organizations). We interviewed Agency personnel to determine why the recipients were paid by check and whether the personnel were aware of applicable payment methods and requirements.



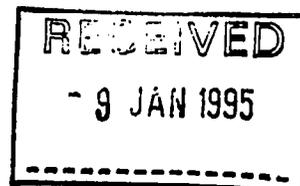
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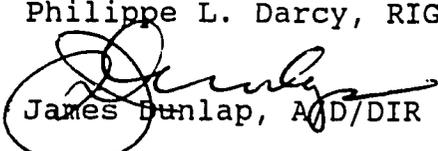
APPENDIX II
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January 9, 1995

MEMORANDUM



TO: Philippe L. Darcy, RIG/A/C

FROM: 
James Dunlap, A/D/DIR

SUBJECT: Audit of USAID/Egypt Management of Cash Advances - Draft Report

As stated in the subject audit, the total amount of the cash advances currently provided to Grantees is about \$2 million, an immaterial amount compared to Mission's total project portfolio pipeline of nearly \$2 billion. This represents less than 0.4 percent of the Mission's annual disbursements and less than 0.1 percent of the pipeline. However, USAID/Egypt agrees with the audit recommendations in this report and has taken immediate actions to close all three recommendations. Accordingly, the Mission requests that all recommendations be closed upon issuance of the final report.

Recommendation No. 1: We recommend that USAID/Egypt take action to ensure that:

- 1.1 All cash advances are limited to 30 days, or extended with written justification in accordance with U.S. Treasury Regulations, USAID Handbooks, and Mission Order 19-5.

USAID/Egypt has issued a Staff Notice requesting all USAID employees to follow the procedures required by the U.S. Treasury, USAID Handbooks, and M.O. 19-5 (see attachment I). The Staff Notice also requires the Project Officers to justify 90 days cash advances for their grantees, or advise FM that 30 days cash advances are appropriate. Additionally, the Mission has prepared and approved justifications for 14 Grantees (see attachment II) currently receiving cash advances beyond 30 days.

Given that all active Grants are now in compliance with the requirements stated in recommendation 1.1, Mission requests the closure of this part of the recommendation.

(Attachments not included)

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1.2 Mission Order 19-5 is revised to include procedures for managing cash advances extended beyond 30 days.

Mission Order 19-5 (attachment III) has been revised to include procedures for managing cash advances extended beyond 30 days.

Based on this action, Mission requests the closure of this part of the recommendation.

Recommendation No. 2: We recommend that the Director of USAID/Egypt:

2.1 Ensure that the unliquidated balance of \$236,933 (\$65,285 for Save the Children and \$171,648 for the Foreign Relations Coordination Unit of the Supreme Council of Universities) is promptly returned to the U.S. Treasury;

Mission has received unliquidated advance refunds of \$65,285 from STC and \$171,648 from FRCU. A copy of both checks and the cashier's deposit receipts are attached for your reference (Attachment IV).

Based on the above, Mission requests the closure of this part of the Recommendation.

2.2 Review all unliquidated cash advances and recover the unliquidated balance of cash advances from any recipients experiencing delays in their project activities; and

USAID/Egypt has reviewed all the active Grants and confirmed that none of them are currently experiencing delays in their project activities (Attachment V).

Based on the above, Mission requests the closure of this part of the recommendation.

2.3 Develop a system to ensure that cash advances to recipients experiencing delays in their project activities are immediately recovered and deposited by Mission personnel.

Attachment I also requires that the Project Officer notify the Grantee to repay or liquidate the outstanding cash advance if the activity/project is

delayed for any reason. A copy of the repayment/liquidation request will be provided to FM and DIR/CS to ensure that appropriate action is taken. FM (Supervisor of Voucher Examination Section) will also review the Voucher Examiners worksheets for all Grantees to ensure that liquidations are submitted on time (Attachment VI).

Based on the above, Mission requests the closure of this part of the recommendation.

Recommendation No. 3: We recommend that USAID/Egypt ensure that:

- 3.1 \$2,413 in interest earned on cash advances to two recipients (\$631 from Save the Children (STC) and \$1,782 from the Foreign Relations Coordination Unit (FRCU)) is remitted to the U.S. Treasury;

Mission received refunds of \$631 from STC and \$1,782 from FRCU for reimbursement of interest earned on cash advances. The copy of the respective check along with the deposit receipt are attached for your reference (Attachment VII).

Based on the above, Mission requests the closure of this part of the Recommendation.

- 3.2 All unliquidated cash advances are reviewed to recover any unremitted interest earnings; and

USAID/Cairo has sent letters to all Grantees receiving cash advances requesting them to report and remit all interest earned on USAID advances (see Attachment VIII). The Mission will issue a bill of collection or deduct this amount from future liquidations upon receipt of the certified statements from the Grantees.

Based on the above, Mission requests the closure of this part of the Recommendation.

- 3.3 Develop a system to ensure that all future recipients of cash advances remit interest earned on advanced funds promptly to USAID, as required.

Attachment VIII also requests the Grantees to report on the SF-272 and remit all interest earned on USAID

advances (less than \$100 per year) each quarter. FM also issued a memo (Attachment VI) to Voucher Examiners requesting them to monitor the SF-272 reports to ensure Grantees are reporting and remitting interest earned on USAID advances (less than \$100 per year) each quarter.

Based on the above, Mission requests the closure of this part of the Recommendation.

Att: a/s



APPENDIX III**REPORT DISTRIBUTION**

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