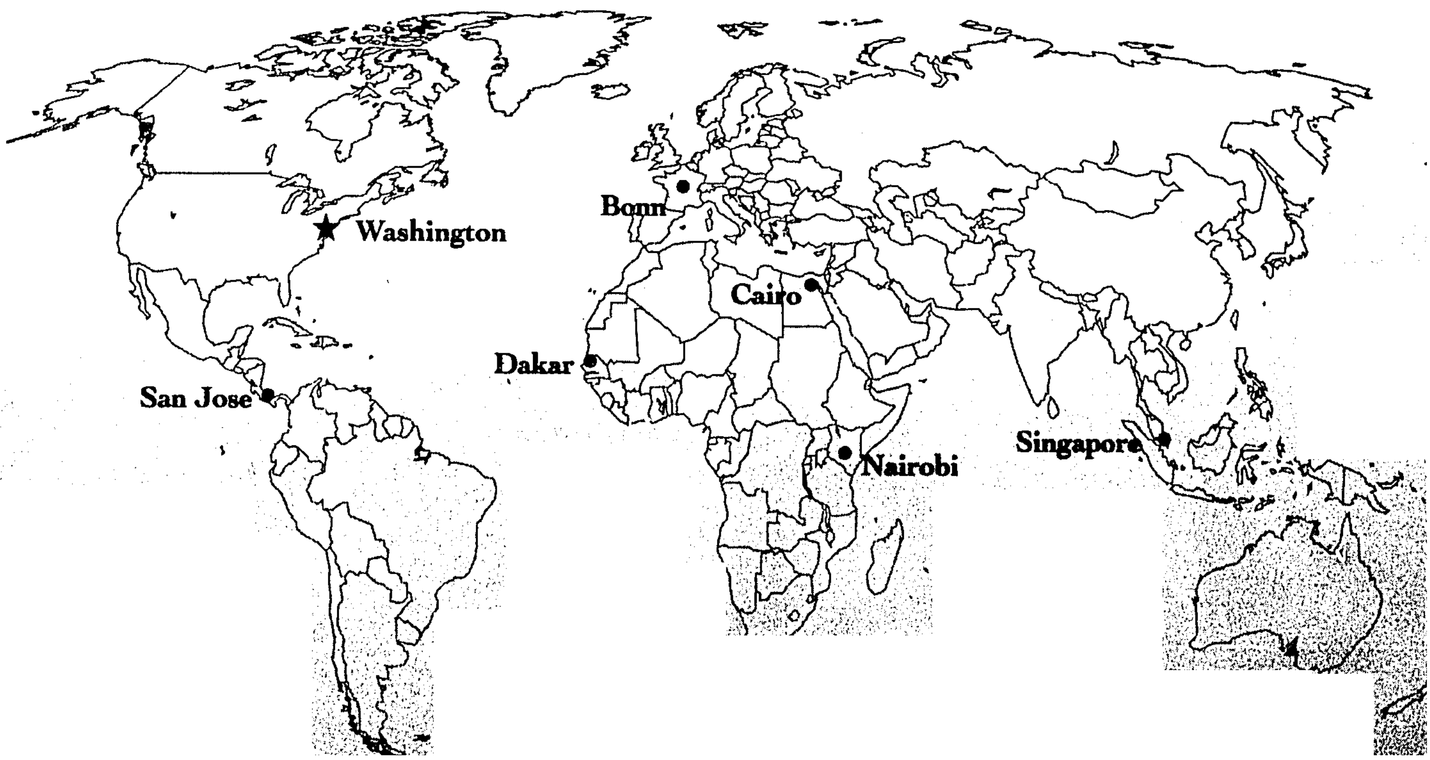
Programs and Systems Audits

WORLDWIDE AUDIT OF USAID's MANAGEMENT OF CASH ADVANCES TO RECIPIENT ORGANIZATIONS

Report No. 9-000-95-009
March 16, 1995



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 16, 1995

MEMORANDUM FOR AA/M, Larry E. Byrne

FROM: AIG/A, James B. Durnil

SUBJECT: Worldwide Audit of USAID's Management of Cash Advances to Recipient Organizations (Audit Report No. 9-000-95-009)

This report summarizes our worldwide audit findings on the U.S. Agency for International Development's (USAID's) management of cash advances at USAID/Washington and at five Agency missions in the Philippines, Egypt, Mali, Zimbabwe, and El Salvador. We found that only USAID/El Salvador limited cash advances to recipient organizations' immediate cash needs and that none of the locations adequately monitored recipients' interest earnings on the advances to ensure the earnings were remitted to the Federal Government. Appendix III lists the six reports in which we reported these findings.

In those reports, we estimated that:

- excess Treasury check cash advances cost the U.S. Treasury over $630,000 in interest costs,

- recipients could have earned over $1.3 million in interest income by using interest-bearing accounts, and

- interest income of over $1.6 million was not reported or promptly remitted to the Federal Government.

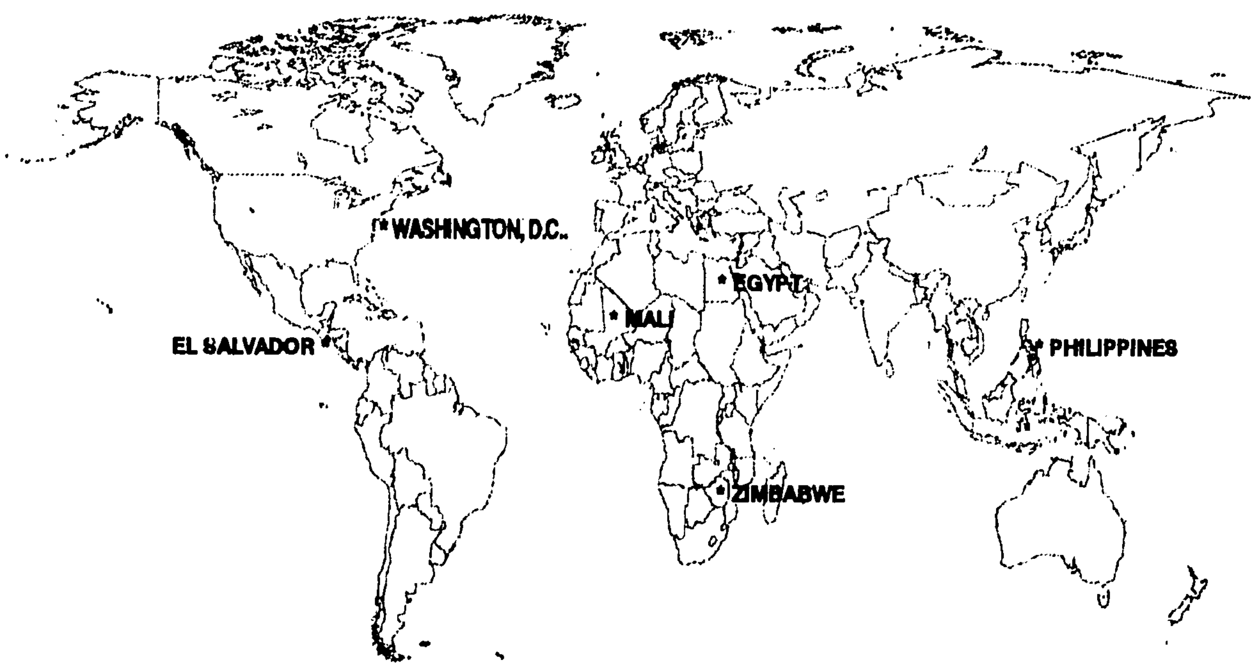
Based on the audit at USAID/Washington, your office took strong, positive actions by identifying the management of cash advances as a material weakness in USAID's fiscal 1994 Federal Managers' Financial Integrity Act Report and developing plans, in that report, to correct deficiencies and implement our report recommendations at USAID/Washington. Our worldwide audit shows that these deficiencies are not limited to Washington but are worldwide in scope. We therefore recommend in this report that USAID/Washington's Office of Financial Management:

- (1) clarify policy for USAID missions' Treasury check cash advances to ensure the advances are limited to recipients' immediate needs and (2) establish a management control system to ensure compliance with the policy (See report page 7.) and

- prepare a written statement (1) on field missions' responsibility to track and monitor recipients' interest earnings and (2) on how the Office of Financial Management will determine whether the missions are carrying out their responsibility. (See report page 11.)

We received written comments on a draft of this report from the Acting Controller, Office of Financial Management, and have included them as Appendix II to the report. Based on the comments, we consider the report's recommendations to be resolved and will close them when appropriate actions are completed. I appreciate the cooperation and numerous courtesies extended to my staff during the audit.

Following is background information on Federal cash advances, the audit objectives, and our worldwide audit findings. The map below shows where the audits were performed.



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.

Federal policy endorses advancing cash in reasonable amounts to nonprofit, educational, or research institutions for experimental, developmental or research work. 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.

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. Under Treasury policy, recipients must remit the interest earned on Federal cash advances to the Federal Government.

Audit Objectives

The Inspector General's Office of Programs and Systems Audits and five Regional Inspectors General in Singapore, Cairo, Dakar, Nairobi, and San Jose performed audits of USAID's management of cash advances to recipient organizations to answer the following questions:

- 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?

Appendix I discusses the audits' scope and methodology.

Audit Findings

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

USAID generally did not limit cash advances to the immediate cash needs of recipients in accordance with Agency policy and U.S. Treasury regulations at five of six locations reviewed.

Advances Regularly Exceeded Recipients' Immediate Cash Needs

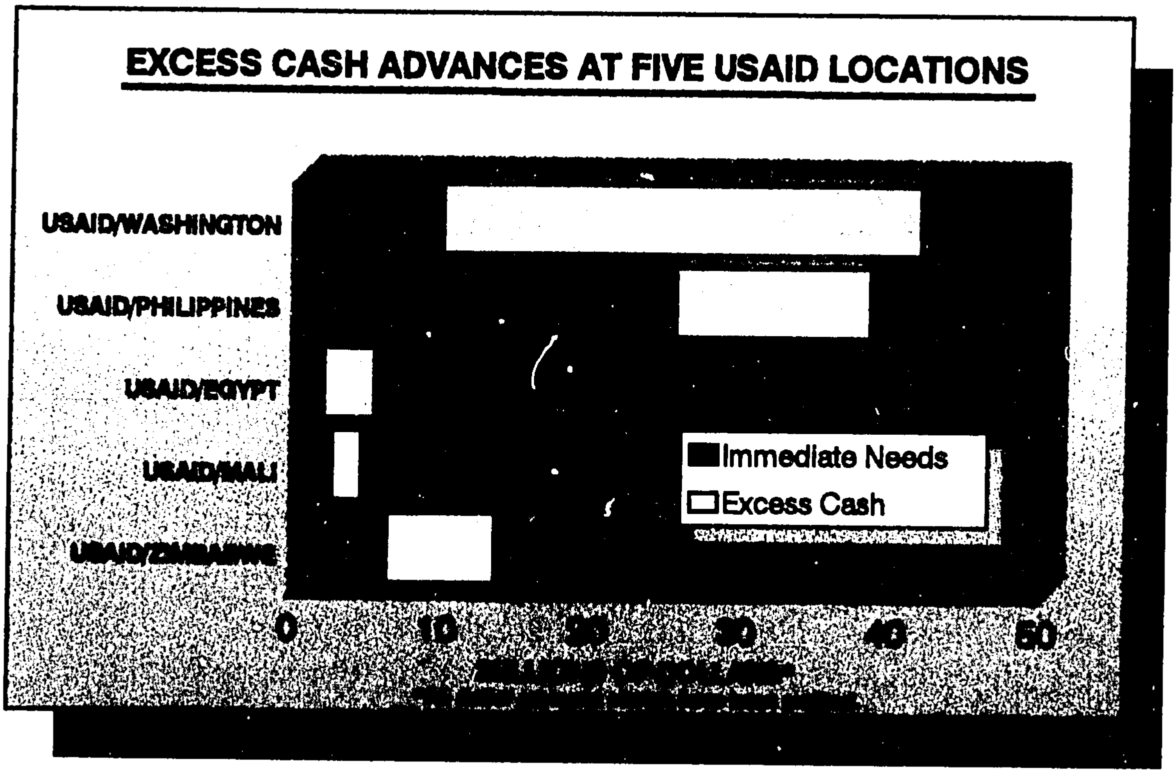
We selected a sample of 95 Treasury check recipients at six locations—USAID/Washington and the missions in the Philippines, Egypt, Mali, Zimbabwe, and El Salvador—and reviewed all the advances made to the recipients from October 1, 1992 to December 31, 1993.[1] We found that, except for USAID/El Salvador, the locations generally did not limit cash advances to recipients' immediate needs or have written justifications for advances exceeding 30 days. We found, for example, that:

- $32 million (77 percent) of the $41.5 million advanced to 25 recipients at USAID/Washington exceeded 30-day cash needs;[2]
- $13.1 million (34 percent) of the $38.2 million advanced to 38 recipients at USAID/Philippines exceeded 30-day needs;
- USAID/Egypt advanced $5.1 million to 4 recipients on a quarterly (90-day) rather than a monthly basis;
- $2.04 million (47 percent) of the $4.3 million advanced to 16 recipients at USAID/Mali exceeded "immediate cash needs" (defined there as 120 days); and
- $7.2 million (55 percent) of the $13.2 million advanced by USAID/Zimbabwe to 7 recipients exceeded immediate needs (defined there as 90 days).

The following chart illustrates these findings.

[1] At USAID/El Salvador, we reviewed the cash advances made from October 1, 1992 through April 20, 1994.

[2] We also found that 44 percent ($40.2 million) of the $91.7 million advanced to 16 letter-of-credit recipients exceeded the recipients' 7-day cash needs. Only USAID/Washington issues letters of credit.



In 8 of the 25 cases at USAID/Washington, the full amount of the grant was advanced to recipients 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. The United Nations' World Food Programme, for example, received full-payment advances of $2.6 million, $2.1 million, and $2.5 million (each for 12 months) and an advance of $2 million (for 8 months); while the U.N.'s Food and Agriculture Organization received advances of $1 million and $760,000 (each for 6 months).

In Zimbabwe, the mission advanced $2 million to the World Food Programme, most of which—over $1.3 million—exceeded the Programme's 90-day cash needs (and helped cover disbursements for 319 days), and $200,000 to the Southern Africa Development Community Secretariat, of which $165,787 exceeded 90-day needs (and helped cover disbursements for 387 days).

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

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, "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 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." All of the single-payment grants discussed above at USAID/Washington appear to be "contributions to relief programs." However, given the length of the grant periods in these cases—6 to 12 months—we believe the advances were not made for "short periods of time" and, therefore, did not meet USAID policy.

Why Were Excessive Cash Advances Made?

The missions in the Philippines, Mali and Zimbabwe gave low or insufficient priority to monitoring cash advances and recipients' cash needs; while mission officials in Egypt and the Philippines believed it was impractical to restrict cash advances to 30-day needs. At USAID/Washington, there were no written guidelines for office staff to use when reviewing recipients' requests for advances, and recipients were not required to submit such requests monthly. Also, Agency personnel sometimes wrote 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.

Excessive Advances Increase U.S. Treasury Borrowing Costs

We estimated that the excess cash advances identified at USAID/Washington and at the above-noted missions cost the U.S. Treasury $630,251 in interest costs.[3] Given the size of the programs USAID funds worldwide on a cash-advance basis, we believe such practices cost the U.S. Treasury millions of dollars in unnecessary borrowing costs each year.

RECOMMENDATION

> **<u>Recommendation No. 1</u>: USAID/Washington's Office of Financial Management should (1) clarify policy for USAID missions' U.S. Treasury check cash advances to ensure the advances are limited to recipients' immediate needs and (2) establish a management control system to ensure that the missions are complying with the policy.**

Management Comments and Our Evaluation

Management said it fully concurred with Recommendation No. 1 and has already initiated corrective action to improve recipient advance policies. Management said it is formulating revised policy and procedures to reduce the number and amount of excess periodic cash advances. The revised procedures will consist of quarterly reviews of a stratified sample of recipients. In addition, each mission will assess recipient advances as part of its Management Control Plan.

We believe these measures, when implemented, should significantly improve USAID's cash management practices. Based on the above comments, we consider Recommendation No. 1 to be resolved. We will close the recommendation when management provides us its revised policy and procedures. Appendix II contains management's complete comments.

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[3] $432,029 at USAID/Washington, $66,000 in the Philippines, $11,000 in Egypt, $22,000 in Mali, and $99,222 in Zimbabwe. In our report on USAID/Washington, we also estimated that (1) the excess cash advanced to 16 letter-of-credit recipients cost the U.S. Treasury $245,460 in interest costs, and (2) the excess cash-on-hand balances maintained by three such recipients cost the Treasury an additional $761,214 in interest costs.

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?

Although most recipients at three of the six locations we reviewed deposited cash advances in interest-bearing accounts, none of the locations adequately monitored or tracked recipients' interest earnings to ensure the earnings were remitted in accordance with USAID policy and OMB Circular No. A-110 requirements.

USAID Has No System for Tracking Interest Earnings

We reviewed a sample of 110 recipients and subrecipients and found that most recipients at three locations—36 of 38 in the Philippines, all 4 in Egypt, and 6 of 8 in Zimbabwe—deposited cash advances in interest-bearing accounts. By contrast, only 2 of 24 recipients in El Salvador and 4 of 11 recipients in Mali used such accounts. At USAID/Washington, 6 of 14 recipients we contacted said they had not used interest-bearing accounts or had earned no interest on the advances, and only 3 of 25 agreements with recipients required them to use such accounts.

Although many recipients maintained cash advances in interest-bearing accounts, none of the six locations adequately monitored or tracked the interest earnings. In fact, two recipients we contacted said they would keep the interest income. For example, the World Food Programme said it would not remit interest income on funds provided for "multilateral" programs, including the unspecified interest earnings 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, despite agreements with USAID requiring such remittances. We estimated that the Programme could have earned and remitted over $1.4 million on its letter-of-credit cash-on-hand balance during 1993.

In the Philippines, mission records showed that recipients' interest earnings were $189,000 from October 1992 through December 1993. But we estimated that about $70,000 more should have been remitted to USAID. In Egypt, recipients did not return interest income earned over a 15-month period and finally remitted $2,413. In Mali, two recipients did not promptly remit interest earnings of $5,231; and two others in El Salvador did not remit earnings of $24,072. Also, five recipients in Zimbabwe did not report or remit an estimated $31,459 in interest earnings.

Federal Policy Requires Recipients to Remit Interest Earnings

Besides requiring recipient organizations to maintain cash advances in interest-bearing accounts, OMB Circular No. A-110[4] 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 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."

Despite these requirements, none of the locations we reviewed adequately tracked recipients' interest earnings to ensure they were remitted promptly to the Treasury.

Why Hasn't USAID Established a System to Track Interest Earnings?

The missions in Mali and Zimbabwe gave low priority to monitoring recipients' interest earnings. In Zimbabwe, this was due to understaffing in the controller's office. In the Philippines, the controller's office did not have procedures for tracking interest earnings, and voucher examiners were not required to track the earnings. Similarly, USAID/Washington and the missions in Egypt and El Salvador also lacked systems to monitor interest earnings.

We believe a fundamental reason why USAID/Washington and the other locations reviewed have not established systems 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

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[4] Office of Management and Budget Circular No. A-110 on "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations." While the Circular is applicable only to U.S. organizations, USAID applies it to non-U.S. organizations "as a matter of AID policy to the extent practicable." See Handbook 13, Chapter 1, Part 1B.2.

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.

In our report on USAID/Washington, we recommended that its Office of Financial Management 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's responsibility to track and monitor recipients' interest earnings and on the way this responsibility will be carried out. Based on our worldwide audit findings, we also recommend that the Office prepare such a statement for USAID field locations.

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.

We estimated that the recipients and subrecipients at the missions in El Salvador, Mali and Zimbabwe that did not deposit cash advances in interest-bearing accounts could have earned interest income totaling $1,373,178.[5] We also estimated that recipients at USAID/Washington and at the missions in El Salvador, the Philippines, Egypt, Mali and Zimbabwe did not report or promptly remit interest income totaling $1,613,175.[6] Given the size of the programs USAID funds worldwide on a cash advance basis, we believe the U.S. Treasury could be losing millions of dollars more in unrealized or unremitted interest income.

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[5] $1,200,000 in El Salvador, $79,000 in Mali and $94,178 in Zimbabwe.

[6] $1,480,000 at USAID/Washington, $24,072 in El Salvador, $70,000 in the Philippines, $2,413 in Egypt, $5,231 in Mali and $31,459 in Zimbabwe.

RECOMMENDATION

Recommendation No. 2: USAID/Washington's Office of Financial Management should prepare a written statement (1) on the extent of USAID missions' responsibility to track and monitor recipients' interest earnings and (2) on how it will determine whether the missions are carrying out their responsibility.

Management Comments and Our Evaluation

Management said it fully concurred with Recommendation No. 2 and will advise mission controllers to include detailed examinations of recipients' advances, interest earnings and refunds as an element in the annual recipient audit program.

Based on management's comments, we consider Recommendation No. 2 to be resolved. We will close the recommendation when management provides us its advice to mission controllers. Appendix II contains management's complete comments.

SCOPE AND METHODOLOGY

Scope

We audited USAID's management of cash advances to recipient organizations in accordance with generally accepted government auditing standards. We conducted the audit from February through November 1994 at USAID/Washington and at Agency missions in the Philippines, Egypt, Mali, Zimbabwe, and El Salvador and reviewed the management of advances through December 1993.[7]

To do so, we obtained computer-generated lists from USAID/Washington's computerized Financial Accounting and Control System and from the above-noted missions' computerized Mission Accounting and Control System showing outstanding (unliquidated) cash advances to recipient organizations (excluding operating expense account advances) as of the end of December 1993, which collectively totaled $172.7 million.[8] 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. We grouped the advances into dollar categories and selected larger dollar advances within each category for detailed review. We then reviewed all the cash advances that were made from October 1, 1992 through December 31, 1993 to the 95 recipients identified in accordance with this methodology—advances that totaled $161.1 million.

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[7] At USAID/El Salvador, we reviewed the management of cash advances through April 20, 1994 and the advances made to selected recipients through that date.

[8] This figure excludes $455.7 million in unliquidated advances paid to letter-of-credit recipients as recorded by USAID/Washington's Letter of Credit Computer System as of the end of December 1993.

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.

Methodology

Audit Objective One

This audit objective was to determine if USAID limited cash advances to the immediate cash needs of recipients in accordance with Agency policy and U.S. Treasury regulations. We reviewed the records on cash advances and liquidations at the five above-noted missions and USAID/Washington for selected recipients for the period October 1, 1992 through December 31, 1993 and determined if the advances were for immediate disbursement needs, as defined by applicable U.S. Treasury and USAID requirements. When the advances exceeded immediate needs, we discussed the reasons why with Agency personnel and estimated the interest cost to the Treasury for the excess advances.

Audit Objective Two

This audit objective was to determine if USAID 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 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 determined if USAID had records showing recipients' interest earnings. We contacted selected recipients directly to find out how they had handled the advances and the disposition of any earnings. We also interviewed USAID staff to determine how the Agency tracks recipients' earnings and remittances. When recipients did not use interest-bearing accounts, we estimated the amount of interest they could have earned on advances. We also estimated the amount of interest recipients earned but did not report or remit.

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

MEMORANDUM March 8, 1995

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

From: Tony L. Cully, Acting Controller

Subject: Response to Draft Worldwide Audit of USAID's Management of Cash Advances to Recipient Organizations

We have reviewed the subject draft audit report and fully concur with the two recommendations. As you know, we have already initiated corrective action to improve our overall recipient advance policies. I want to take this opportunity to thank you and your staff for the manner in which this audit was conducted. I believe all parties concerned derived significant benefits from the constructive findings and recommendations contained in this report. The following are our formal comments with respect to the specific recommendations.

Recommendation No. 1

USAID/Washington's Office of Financial Management is formulating revised policy and procedures to be implemented regarding periodic advance payments to recipient organizations. Adherence to these procedures will reduce the number and amount of approved periodic advance payments in excess of immediate cash needs. The procedure to monitor both the reduction in the number and amount of excess recipient advances and their respective cash requirements will consist of reviewing a stratified sample of recipients on a quarterly basis. Additionally, each mission will include, as part of their Management Control Plan, an assessment of recipient advances. Also, the accounts payable module of the AWACS design includes a detailed advance analysis feature which will further reinforce compliance with respect to recipient advances.

Recommendation No. 2

It is the responsibility of the Mission Controller, when appropriate, to ensure that Federal funds advanced to recipients be deposited in an interest bearing account. Mission Controllers will

320 Twenty-First Street, N.W., Washington, D.C. 20523

be advised to include, as an element of their annual recipient audit program, a detailed examination of advances received and interest earned. This examination, conducted by an independent auditor, will include a detailed review of interest earned by the respective recipient and refunds made to the U. S. Government, currently through the Department of Health and Human Services.

cc: Henry Barret
William Sklarski

OFFICE OF INSPECTOR GENERAL REPORTS ON USAID'S MANAGEMENT OF CASH ADVANCES TO RECIPIENT ORGANIZATIONS[9]

- Audit of USAID/Washington's Management of Cash Advances to Recipient Organizations (Report No. 9-000-95-005, December 15, 1994)
- Audit of USAID/Philippines' Management of Cash Advances to Recipient Organizations (Report No. 5-492-94-017, August 31, 1994)
- Audit of USAID/Egypt's Management of Cash Advances to Recipient Organizations (Report No. 6-263-95-002, January 19, 1995)
- Audit of USAID/Mali's Management of Cash Advances Issued to Recipient Organizations (Report No. 7-688-94-011, August 25, 1994)
- Audit of USAID/Zimbabwe's Management of Cash Advances to Recipient Organizations (Report No. 3-613-95-006, January 13, 1995)
- Audit of USAID/El Salvador's Management of Cash Advances to Recipient Organizations (Report No. 1-519-95-003, December 21, 1994)

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[9] We also audited USAID/Madagascar's management of cash advances to recipient organizations and reported the findings in our "Audit of USAID/Madagascar's Cash Management Procedures" (Report No. 3-687-94-008, May 18, 1994). We did not include this audit in our summary because the total amount of advances audited at that location—$182,885—was not material to our worldwide audit findings. That audit also found that cash advances were not limited to recipients' immediate cash needs.