

PD-AY-077

UN-57202

AUDIT OF
CASH ADVANCES TO PROJECTS
BY THE
REGIONAL ECONOMIC DEVELOPMENT SERVICES
OFFICE/EASTERN AND SOUTHERN AFRICA

AUDIT REPORT NO. 3-698-88-18
July 28, 1988

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

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09875

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

July 28, 1988

MEMORANDUM FOR DIRECTOR, REDSO/ESA, Satish P. Shah

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

SUBJECT: Audit of Cash Advances to Projects by REDSO/ESA

The Office of the Regional Inspector General for Audit, Nairobi has completed its audit of A.I.D. cash advances to projects by the Regional Economic Development Services Office/East and Southern Africa (REDSO/ESA). Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains one recommendation. The recommendation is considered closed and requires no further action since REDSO/ESA implemented recommended actions.

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

Background

The Regional Economic Development Services Office/Eastern and Southern Africa (REDSO/ESA) acted as a service organization responding to Mission requests for specialized skills in project development, legal matters, supply and procurement, engineering, environmental analysis, agronomy, energy, forestry, economics, health, and social science analysis as well as population and family planning. The Office assisted A.I.D. Missions or representatives in 14 different countries of eastern and southern Africa and acted as the A.I.D. Mission for another 6 countries which did not have resident staff. The REDSO/ESA staff included project officers with responsibility for monitoring project activities.

REDSO/ESA did not have a financial staff. All financial services were provided by the Regional Financial Management Center (RFMC/Nairobi) jointly located in Nairobi, Kenya with REDSO/ESA. However, REDSO/ESA did have responsibility for monitoring the implementation of A.I.D. projects; and accordingly, REDSO/ESA had responsibility for initiating and approving certain financial transactions.

Among the various financial transactions initiated by REDSO/ESA were cash advances to A.I.D. funded development projects located throughout REDSO/ESA's region. These funds were advanced on the basis that various African governments could not afford to underwrite project costs and then be reimbursed by A.I.D.. Periodically, RFMC/Nairobi provided financial reports to REDSO/ESA to reflect the status of cash advances to projects since RFMC/Nairobi maintained the official accounting records. These reports were intended to facilitate REDSO/ESA monitoring..

Audit Objectives and Scope

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

The audit was made at RFMC/Nairobi and at REDSO/ESA, both located in Nairobi, Kenya (see Exhibit 1), during the period October 16, 1987 to January 30, 1988. RFMC/Nairobi and REDSO/ESA officials were interviewed, project files and financial reports were reviewed, and related internal controls were tested. The audit scope included \$840,410 of cash advances outstanding to nine projects as of September 11, 1987, of which \$746,519 outstanding to four projects was tested. The audit scope and testing did not include cash advances totalling \$85,270 for self-help and human rights projects in the Seychelles, the Comoros and Mauritius. Those projects were managed by the respective U.S. Embassy staffs and RFMC/Nairobi officials. Tests of internal controls were limited to the findings discussed in this report. The audit was conducted in accordance with generally accepted government auditing standards.

Results of Audit

REDSO/ESA's procedures for making cash advances was inappropriate since the practice was to make advances to cover 90-day disbursement needs rather than 30-day disbursement needs as required by regulations; some project officials were not effectively monitoring cash advances; and related internal controls were not being followed. These practices could result in additional costs to the U.S. Government and/or disrupt project implementation. Therefore, we recommended that cash advances, other than the initial advance, be limited to cover 30 days of disbursement needs, and that monitoring responsibilities and procedures be established.

Over the past year, REDSO/ESA had made improvements in the management of cash advances. These improvements were prompted by a special RFMC/Nairobi initiative which began in May 1987 to liquidate some long outstanding advances and to correct errors in the accounting records.

Additional Improvement in the Management of Cash Advances Can Be Made - A.I.D. and U.S. Treasury regulations required that cash advances be limited to immediate disbursing needs (i.e., not more than 30 days) unless a longer period was justified. In addition, A.I.D. regulations required that cash advances be monitored. The intent of those requirements was to minimize U.S. Government costs, and to allow orderly project implementation. However, REDSO/ESA's practice was to give advances to cover 90-day disbursement requirements and monitoring was not effective. This occurred because some officials did not know the requirements. As a result, unnecessary costs could result and project implementation could be threatened.

Discussion - U.S. Treasury regulations and A.I.D. Handbook 19, Chapter 1, page 1B-8 required that cash advances be provided in minimum amounts required to meet recipients' immediate disbursing needs. Immediate disbursing need was defined to mean cash requirements of up to 30 days.

The Handbook also provided that if project implementation would be seriously interrupted or impeded by the 30-day rule, then advances could be provided to cover up to 90 days; however, written justification for any period beyond 30 days had to be approved by the appropriate Bureau Assistant Administrator in AID/Washington or the overseas A.I.D. representative. In addition, page 1B-7 of this Chapter required the cash management practices of recipient organizations be monitored to ensure that excessive cash balances were promptly returned to the U.S. Treasury. The intent of those requirements was to minimize U.S. Treasury costs associated with cash advances, and also to allow orderly project implementation.

The audit determined that a lengthy processing time of up to 65 days was involved before a cash advance was actually received by project recipients. Up to 14 days was required for an advance request to be prepared by the recipient, including preparation of the disbursement schedule justifying the need for the funds. The advance request was then forwarded to the REDSO/ESA project officer for administrative approval which took up to seven days more. After project officer approval, the request was forwarded to RFMC/Nairobi where processing took up to 30 days.

After RFMC/Nairobi processing, a cable was sent to the Regional Administrative Management Center in Paris, France which issued the check and forwarded it to the recipient - another 14 days. On this basis, the processing took up to 65 days before the recipient actually got the funds. According to RFMC officials, the costs to the U.S. Government for processing an advance was about \$90.

Because of the lengthy processing time, and associated processing costs, the audit determined that an initial advance to cover up to 90 days was often appropriate. Subsequent advances however should have been limited to 30-day disbursement requirements. This method would have allowed project officials sufficient time to determine the processing time necessary for a particular recipient, to establish a disbursement history which could have been used to analyze future advances, and would have minimized U.S. Government costs.

The audit revealed that REDSO/ESA was approving and granting advances based on a 90-day disbursement requirement for the initial and subsequent advances. According to some REDSO/ESA officials, they believed that approving cash advances to cover 90 days of disbursement needs was the standard operating practice. Some officials were also unaware of the requirement to justify cash advances exceeding 30 days of cash disbursement needs and their responsibilities for monitoring cash advances.

Some REDSO/ESA officials questioned how giving 30-day advances would work and the associated savings. Accordingly, the following illustration was developed. First, assume the recipient was given an initial 90-day advance at the beginning of the project. During the first 30 days of that period, the recipient would have established a disbursement history which could be considered in submitting replenishment voucher. In addition, in submitting the original advance request, the recipient and the REDSO/ESA project officer would have established a reasonable estimate of the time necessary to process the vouchers for a particular recipient. With this information, the recipient was in a position to submit its next voucher. Assuming it actually took 60 days to process the voucher for that recipient, the recipient then started processing the next voucher 30 days after he received the initial advance or 60 days before he needed the additional funds. Subsequent voucher would also have been processed every 30 days. This procedure would have ensured the recipient had the advance funds when needed and REDSO/ESA could have been in compliance with advance criteria. Exhibit 2 illustrates this process and shows the cost savings of this method versus consecutive 90-day advances.

In actual practice, the audit determined that cash advance recipients usually received the advances after reported disbursements were made. A voucher review found this occurred because requests for advances were not submitted and processed in time for advances to be received before the project made disbursements. The audit did not determine the effect of this practice on project implementation. However, the audit did note that reported disbursements were not actually made, or recipients had sufficient working capital of their own to finance the project until disbursements were reimbursed by A.I.D., or project implementation was delayed until advance funds were received. In any case, REDSO/ESA project officers should have been aware of the situation and the potential implications.

Overall, REDSO/ESA practices for giving and monitoring cash advances needs additional improvements. Otherwise, excess costs can be incurred and/or project implementation can be disrupted.

Recommendation No. 1

We recommend that the Director, Regional Economic Development Services Office/Eastern and Southern Africa:

- a. approve future project cash advance requests limited to 90-day disbursement needs for the initial advance and 30-day disbursement needs for subsequent replenishments unless a waiver is justified, and
- b. issue an Administrative Notice which clearly establishes the role and responsibilities of project officers in monitoring cash advances.

In commenting on the draft report (see Appendix 1), REDSO/ESA officials generally agreed with the report findings and recommendations. REDSO/ESA officials commented however that limiting subsequent advances to a 30-day period may be impractical relative to International Agricultural Research Centers located in South and Central America. This is due to poor communications systems linking the Centers' headquarters in those countries to their field offices in East and Southern Africa. Thus, the officials stated that REDSO/ESA's current procedures for advances to such centers may not be inappropriate.

The Office of the Inspector General acknowledges that 90-day initial advances followed by 30-day subsequent advances may not be appropriate for all cash advance recipients. However, the processing time and problems related to each individual recipient's circumstances should be individually analyzed to determine the most cost effective method. Based on such analysis a deviation from policy, appropriately waived, may be warranted.

The Office of the Inspector General considers the report's recommendation to be resolved and closed upon report issuance. REDSO/ESA officials implemented the recommendation prior to final report issuance.

AUDIT OF
CASH ADVANCES TO PROJECTS
BY THE
REGIONAL ECONOMIC DEVELOPMENT SERVICES
OFFICE/EASTERN AND SOUTHERN AFRICA

EXHIBITS AND APPENDICES

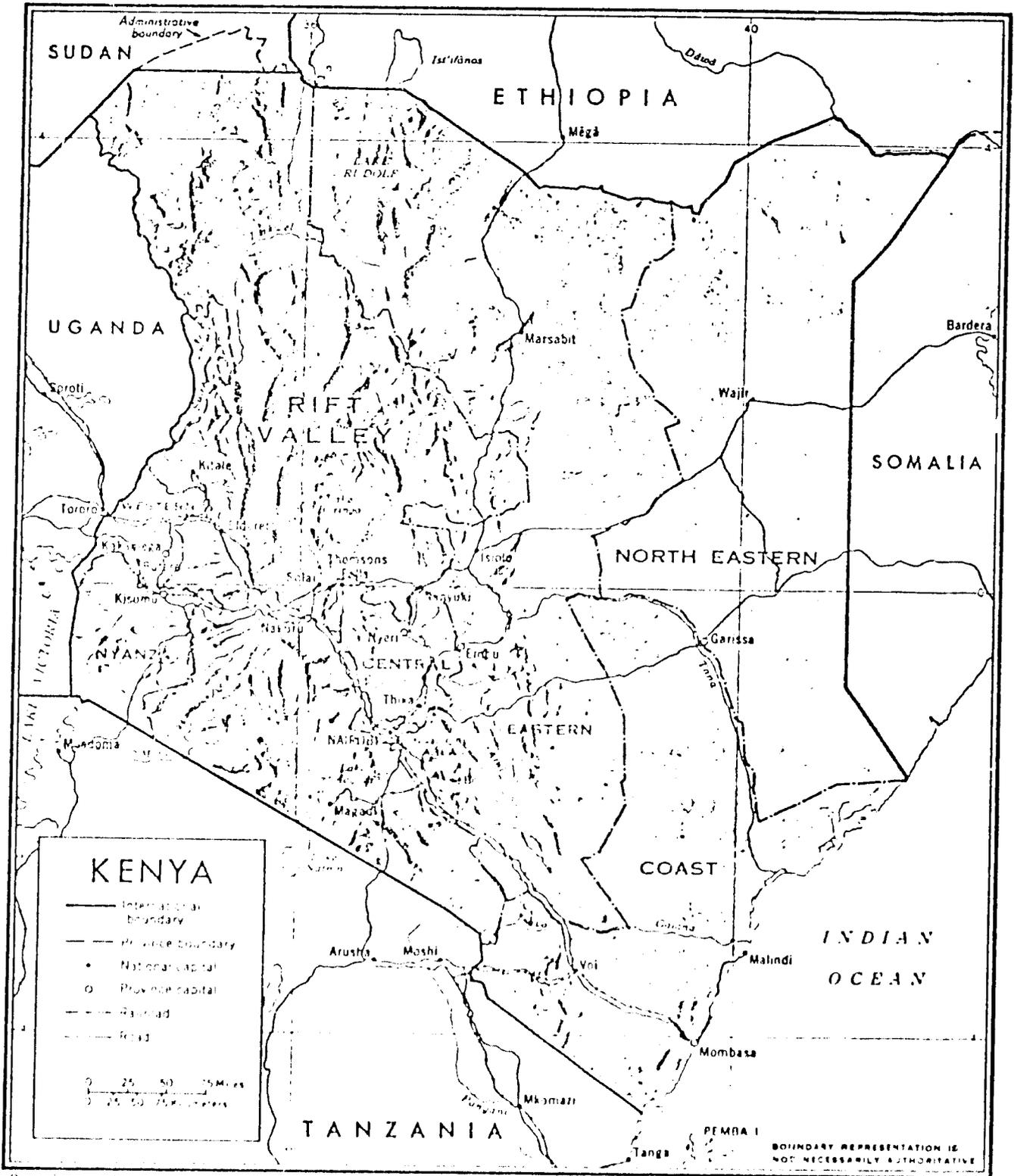
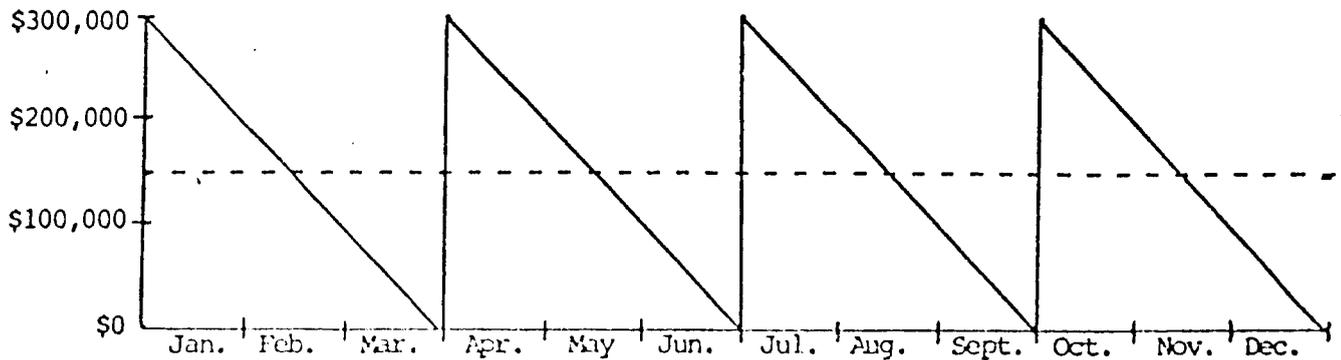
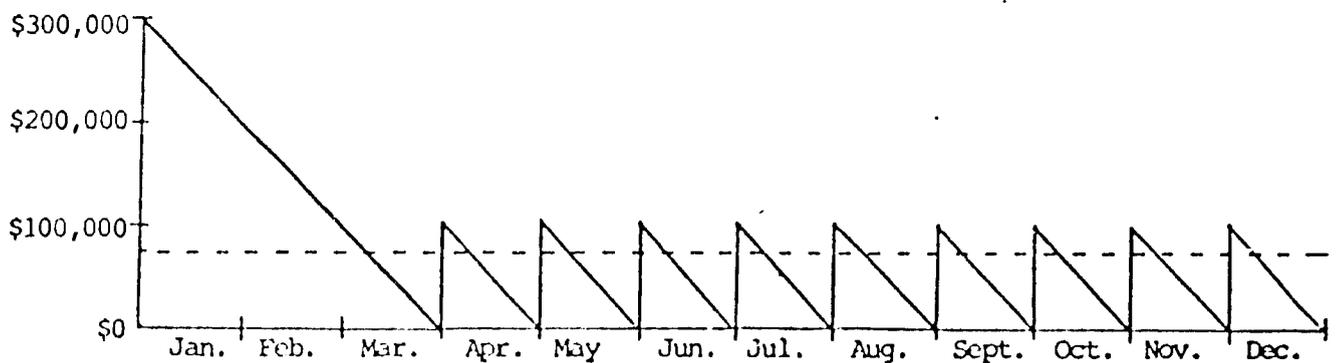


Illustration of Interest Savings
Associated With 30 day V. 90 Day Advances
Based on \$100,000 Monthly Cash Needs

Current Practice - 90-Day Advances



Proposed Practice - 90-Day Initial Advance, 30-Day Subsequent Advances



LEGEND

————— Cash on Hand
 - - - - - Average Cash Balance

ASSUMPTIONS

- (1) Equal monthly cash needs of \$100,000.
- (2) Recipient cash disbursements are level throughout each month.

RESULTS

- (1) Current practice results in recipient having \$150,000 average cash balance during first year. U.S. Government interest cost is \$12,000 based on 8 percent current value of funds rate.
- (2) Proposed practice results recipient having \$75,000 average cash balance. U.S. Government interest cost is \$6,000.
- (3) Interest cost during subsequent years would be the same for current practice (assuming same current value of funds rate); however, cost drops to \$4,000 under proposed practice since initial advance of \$300,000 would not be required.
- (4) Processing costs would increase from \$360 (\$90 transaction cost x 4 months) to \$1080 (\$90 transaction cost x 12 months).
- (5) Overall savings to U.S. Government would be \$5,400 (6,000 interest savings minus \$540 additional processing costs) during first year and \$7,200 during subsequent years.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE
FOR EAST AND SOUTHERN AFRICA (REDSO/ESA)

United States Postal Address

USAID
BOX 221
APO NEW YORK 09675

July 1, 1988

International Postal Address

POST OFFICE BOX 30261
NAIROBI, KENYA

MEMORANDUM

FOR: David M. Conner, RIG/A/N

FROM: Satish P. Shah, Director, REDSO/ESA 

SUBJECT: Draft Audit Report of Cash Advances to Projects
by REDSO/ESA

The Agricultural Division staff and I appreciate the opportunity to review the subject report and are pleased to note substantial changes in the report based on our earlier discussion. I have already issued a REDSO/ESA Administrative Notice clarifying responsibilities of Project Managers in implementing projects, including approval of cash advances. I am glad to note that you consider the action taken by me as sufficient to close the recommendation.

The report correctly points out the potential savings in interest charges if subsequent advances were limited to a 30-day period instead of a 90-day period. However, it may not be practical to implement the 30-day advance policy for International Agricultural Research Centers (IARC) because of the lack of a reliable communication system linking South and Central American countries, where most of the IARCs are headquartered, and their field offices in East and Southern Africa. Therefore, all current REDSO grants to IARCs allow for 90-day cash advances. In light of this, I am not sure the "REDSO/ESA's procedures for making cash advances was inappropriate". (See section under "Results of Audit")

The report correctly states that "in actual practice, the audit determined that cash advance recipients usually received the advances after reported disbursements were made". In such cases, I believe the more appropriate term would be "pre-positioning" instead of "cash advance".

REPORT DISTRIBUTION

Director, REDSO/ESA	5
AA/AFR	1
AA/M	1
AFR/CONT	2
AFR/EA/KUTRB	1
AA/XA	1
LEG	2
GC	1
XA/PR	1
M/FM/ASD	1
M/SER/MO	2
M/SER/EOMS	1
SAA/S&T	1
PPC/CDIE	1
RFMC/Nairobi	3
IG	1
DIG	1
IG/PPO	1
IG/LC	2
IG/ADM/C&R	1
AIG/I	12
RIG/I/N	1
IG/PSA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1
RIG/A/W	1
	1