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AUDIT OF CASH ADVANCES
TO GRANTEES AND CONTRACTORS

AUDIT REPORT NO: 9-000-88-009

SEPTEMBER 8, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

Deputy
Inspector General

September 8, 1988

MEMORANDUM FOR AA/PFM, Robert Halligan

FROM: D/IG, James B. Durnil

SUBJECT: Audit of Cash Advances to Grantees and Contractors

The Inspector General's Office of Programs and Systems Audits has completed the subject audit. A draft report was provided to the Office of Financial Management for review and comments. A copy of the comments are attached to the report as Appendix 1. Five copies of the report are attached for your action. The report contains 3 recommendations which are considered resolved. Please provide to the Office of Programs and Systems Audits within 30 days the actions planned or taken to implement the recommendations.

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

EXECUTIVE SUMMARY

The Administration and Congress have been very sensitive to the impact that cash management of Federal funds has had on the national debt. U.S. Government agencies have been urged to carry out steps to improve the management of cash advances provided for Federal programs. Inefficiency in cash management costs the taxpayers millions of dollars every year and contributes to the increase in Federal debt. Federal policy endorses extending advances in reasonable amounts to nonprofit educational or research institutions for experimental, developmental or research work. A.I.D. extends this policy to all nonprofit organizations, including U.S. and international private voluntary organizations, U.S. educational institutions and U.S. and international research institutions. This policy ensures that nonprofit organizations will not have to use their own working capital or earmarked funds to finance work carried out under A.I.D. agreements. Department of the Treasury policy requires A.I.D. to monitor the cash management practices of these institutions to ensure that Federal cash is not maintained in excess of that required for their immediate needs.

The audit covered A.I.D./Washington cash advances to nonprofit organizations and funds advanced to personal service and other contractors. It did not cover Letter of Credit advances. The audit universe included outstanding cash advances for 268 grantees and contractors amounting to approximately $54.1 million as of September 30, 1987. The audit work was conducted during the period October 1987 through May 1988.

This audit was limited to cash advances made to nonprofit organizations and contractors. The specific objectives were to determine: (1) the adequacy of management controls over cash advances; (2) whether the required method of financing advances was being used; and (3) whether advances were being put in interest bearing accounts and interest remitted as required by Federal regulations.

The audit disclosed serious weaknesses in the Office of Financial Management's administration of cash advances to grantees and contractors. A.I.D. officials were not effectively monitoring the use of cash advances, and related internal controls were not properly implemented. The appropriate method of financing advances was not necessarily used. Office of Management and Budget requirements regarding the deposit of cash advances in interest bearing accounts and subsequent remittances of interest earned were not enforced.

Cash advance procedures are incorporated in appropriate A.I.D. Handbooks. Also, A.I.D./Washington had converted its manual payment system to an automated process as part of the new accounting system, the Financial Accounting and Control System.

This new system when fully implemented will include many controls which should improve the Office of Financial Management administration of cash advances.

The review showed that controls were lacking over cash advances. Advances were not limited to the immediate cash needs of recipients; recoveries of cash advances were not made in a timely manner; and advance records were poorly maintained. The letter-of-credit method of financing advances was not used where required by U.S. Treasury regulations, thereby reducing the time lag between the receipt of Federal funds from Treasury and disbursement by the recipient organization. Also, advances were not always put in interest bearing accounts nor was interest remitted as required by Office of Management and Budget Circular A-110.

A.I.D. and Treasury regulations require that cash advances be limited to immediate disbursing needs (i.e., not more than 30 days) unless a longer period is justified. Also, A.I.D. regulations require that unused funds be promptly returned to the U.S. Treasury. This review disclosed that cash advance balances were not minimized. Advances were not limited to the immediate cash needs of the recipients; recoveries of cash advances were not made in a timely manner; and advance records were poorly maintained. Because of major deficiencies in the Agency's accounting records, the auditors were not able to determine the magnitude of unrecovered advances and the resulting effect. The amount could be substantial because $15.0 million of outstanding advances had not been liquidated for at least a year, $2.2 million of duplicate payments were made, and there was $12.3 million of advances in excess of reported expenditures. In addition, there were a number of erroneous recordings of accounting transactions resulting in an over-or-understatement of advance balances. The effect was increased Federal borrowing and associated interest costs. This resulted because Financial Management personnel were not adequately managing cash advances to grantees and contractors, the Financial Accounting Control System after almost ten years of effort had not been fully implemented, and A.I.D. advance regulations and procedures were contained in numerous handbooks making it difficult for voucher examiners to be totally cognizant of all cash advance regulations and procedures. We recommended that steps be taken to develop appropriate reports using the Financial Accounting Control System; detailed internal instructions be developed to assist voucher examiners in processing cash advances; and the performance of voucher examiners and their supervisors be evaluated to ensure that they adhere to U.S. Treasury and A.I.D. cash advance regulations and procedures.

U.S. Treasury and A.I.D. regulations require that the Letter of Credit method of financing be used for a recipient organization when a continuing relationship for at least one year is expected

and annual advances will aggregate at least $120,000. This reduces the time lag between the receipt of Federal funds from the Treasury and disbursement by the recipient organization. Accordingly, recipient organizations need only maintain small balances of Federal cash, thus reducing the need for Federal borrowings and resulting interest expense. The review disclosed that as of September 30, 1987 at least 55 grants with advances totaling over $30 million should have been financed under Letters of Credit. This resulted primarily because of unfamiliarity with the requirement as well as disregarding the U.S. Treasury and A.I.D. regulations. We recommended that action be taken to comply with U.S. Treasury and A.I.D. regulations requiring use of the letter-of-credit method of financing advances.

A February 10, 1987 revision to Office of Management and Budget Circular A-110 requires that recipients maintain advances of Federal funds in interest bearing accounts and that interest earned on those advances be promptly remitted to the Federal agency providing the funds. A.I.D., one year later, had not sent instructions to its recipients, implementing the A-110 provisions. The audit disclosed that, in general, interest on advances was not being earned and remitted and that, at any point in time, there were substantial unliquidated cash advance balances in recipient bank accounts that should have been earning interest. Consequently, millions of dollars in potential earnings to the U.S. Treasury have been lost, and will continue to be lost until A.I.D. notifies its recipients of their responsibilities regarding interest on advances. Additionally, A.I.D. had not been monitoring or tracking those recipients that were earning interest. This resulted in interest not being remitted. We recommended that action be taken to expedite revision of A.I.D. policy and guidance regarding the placement of cash advances into interest bearing accounts and to establish controls that ensure the tracking and collection of interest.

The Office of Financial Management is in agreement with the findings and recommendations contained in this report. See Appendix 1 for a copy of their response.

Office of the Inspector General

AUDIT OF CASH ADVANCES TO
GRANTEES AND CONTRACTORS

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AUDIT OF CASH ADVANCES TO GRANTEES AND CONTRACTORS

PART I - INTRODUCTION

A. Background

The Administration and the Congress have been very sensitive to the impact that cash management of Federal funds has had on the national debt. U.S. Government agencies have been urged to carry out steps to improve the management of cash advances provided for Federal programs. Inefficiency in cash management costs the taxpayers millions of dollars every year and contributes to the increase in Federal debt. On October 22, 1982, the Office of Management and Budget issued Bulletin No. 83-6 which required each agency to designate a cash management officer with responsibility and authority for cash management. A.I.D. designated the Controller as its cash management officer. The work of the cash management officer is to ensure the achievement of three major objectives: (1) expediting the billing, collecting, processing, and depositing of monies due to the U.S. Government, (2) better scheduling and control over disbursements, and (3) reducing excess or idle cash balances in the hands of recipients.

Federal policy endorses extending advances in reasonable amounts to nonprofit educational or research institutions for experimental, developmental or research work. A.I.D. extends this policy to all nonprofit organizations, including U.S. and international private voluntary organizations, U.S. educational institutions and U.S. and international research institutions. This policy ensures that nonprofit organizations will not have to use their own working capital or earmarked funds to finance work carried out under agreement with A.I.D. Department of the Treasury policy requires A.I.D. to monitor cash management practices of these institutions to ensure that Federal cash balances are not in excess of that required for their immediate needs.

Two methods of financing A.I.D. activities with nonprofit recipients, in order of declining priority, are:

- Letter of Credit (LOC) - A LOC is an instrument certified by an authorized official of A.I.D. that allows a recipient to draw funds when needed from the Treasury through the recipient's commercial bank.

- Cash Advance - A cash advance is a payment made by Treasury check or wire transfer to a recipient upon request before outlays are made by the recipient, or by use of predetermined payment schedules.

B. Audit Objectives And Scope

This was an audit of cash advances. The specific objectives were to determine: (1) the adequacy of management controls over cash advances; (2) whether the required method of financing advances was being used; and (3) whether advances were being put in interest bearing accounts and interest remitted as required by Federal regulations.

The audit covered A.I.D./Washington cash advances to nonprofit organizations and funds advanced to personal service and other contractors. It did not cover Letter of Credit advances. The audit universe included outstanding cash advances for 268 grants and contracts amounting to approximately $54.1 million as of September 30, 1987. The audit was performed primarily at the A.I.D. Office of Financial Management, Program Accounting and Finance Division. The number of advances selected for testing depended upon the specific purpose of the audit step, availability and reliability of relevant data, and the dollar value. (See exhibits for amounts tested.)

The audit included (1) reviewing practices for issuing and monitoring advances; (2) comparing subsequent expenditures reported by advancees with the cash advanced; (3) verifying the accuracy of records; (4) ascertaining whether advances were outstanding for unreasonable periods and (5) determining that the advances were made in accordance with applicable regulations and procedures. Questionnaires were sent to recipient organizations to determine whether advances were being put in interest bearing accounts and subsequent interest reported to A.I.D. Discussions were held with project officers, Office of Financial Management and Directorate for Program and Management Services officials.

The audit was conducted from October 1987 through May 1988 and was performed in accordance with generally accepted government auditing standards. The review of internal controls tested methods, procedures and records established to administer and account for cash advances as discussed in this report.

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PART II - RESULTS OF AUDIT

The audit disclosed serious weaknesses in the Office of Financial Management's (FM) administration of cash advances to grantees and contractors. A.I.D. officials were not effectively monitoring the use of cash advances, and related internal controls were not effectively implemented. The appropriate method of financing advances was not necessarily used. The Office of Management and Budget (OMB) requirements regarding the deposit of cash advances in interest bearing accounts and subsequent remittances of interest earned were not enforced.

Cash advance procedures were developed and incorporated in appropriate A.I.D. Handbooks. Also, A.I.D./Washington had converted its manual payment process to an automated process as part of the new accounting system, the Financial Accounting and Control System. This new system when fully implemented will include many controls which should improve FM's administration of cash advances.

The review showed that controls were lacking over cash advances. Advances were not limited to the immediate cash needs of recipients; recoveries of cash advances were not made in a timely manner; and advance records were poorly maintained. The letter-of-credit method of financing advances was not used where required by U.S. Treasury regulations, which would reduce the time lag between the receipt of Federal funds from the Treasury and disbursement by the recipient organization. Also, advances were not put into interest bearing accounts nor was interest remitted as required by OMB Circular A-110.

To improve FM's control over cash advances, we recommended that (1) steps be taken to accelerate full implementation of the Financial Accounting Control System to include appropriate reports to control cash advances; (2) detailed internal instructions be developed to assist voucher examiners in processing cash advances; and (3) the performance of voucher examiners and their supervisors be evaluated to ensure that they adhere to U.S. Treasury and A.I.D. cash advance regulations and procedures. We also recommended that action be taken to comply with U.S. Treasury and A.I.D. regulations relating to the use of the letter-of-credit method of financing advances. In addition, we recommended that action be taken to expedite revision of A.I.D. policy and guidance regarding the placement of cash advances into interest bearing accounts and to establish controls that ensure the tracking and collection of interest.

A. Findings and Recommendations

1. Controls Were Lacking Over Cash Advances

A.I.D. and Treasury regulations require that cash advances be limited to immediate disbursing needs (i.e., not more than 30 days) unless a longer period is justified. Also, A.I.D. regulations require that unneeded funds be promptly returned to the U.S. Treasury. This review disclosed that cash advance balances were not minimized. Advances were not limited to the immediate cash needs of the recipients; recoveries of cash advances were not made in a timely manner; and advance records were poorly maintained. Because of major deficiencies in the Agency's accounting records, the auditors were not able to determine the magnitude of unrecovered advances and the resulting effect. The amount could be substantial because $15.0 million of outstanding advances had not been liquidated for at least a year, $2.2 million of duplicate payments were made, and there was $12.3 million of advances in excess of reported expenditures. The effect was increased Federal borrowing and associated interest costs. This resulted because FM personnel were not adequately managing cash advances to grantees and contractors; the Financial Accounting Control System (FACS) after almost ten years of effort had not been fully implemented; and A.I.D. advance regulations and procedures were contained in numerous handbooks thereby making it difficult for voucher examiners to be totally cognizant of all cash advance regulations and procedures.

Recommendation No. 1

We recommend that the Office of Financial Management:

a. supplement U.S. Treasury and A.I.D. cash advance regulations and procedures with detailed instructions to be used by voucher examiners;

b. review the capability of voucher examiners and their supervisors to ensure that qualified staff have been provided and that effective supervision is being performed; and

c. develop appropriate reports using the Financial Accounting Control System that will ensure compliance with U.S. Treasury and A.I.D. cash advance regulations and procedures.

Discussion

OMB Bulletin No. 83-6 dated October 22, 1982 requires each major Federal agency to institute an aggressive program for strengthening its cash management process. OMB, along with the U.S. Department of the Treasury (Treasury) promoted a policy to

improve control over disbursements and minimize the need for cash balances in the Treasury, thereby reducing Federal borrowing and concurrent interest expense. OMB prescribed that an Agency should ensure that cash advance functions such as accounting, reporting, collecting, and disbursing are accomplished expeditiously, effectively, and in accordance with regulations to reduce excess or idle cash balances in the hands of recipients. Treasury also prescribed amounts and time limitations for cash advances.

The Agency's Cash Management Policy Guidelines require that A.I.D.'s cash management techniques be consistent with Executive Branch objectives, Treasury Department regulations and Agency policy guidelines. Several A.I.D. Handbooks establish policies, regulations, and procedures containing essentially all of the Treasury provisions.

The review disclosed that FM was not adequately managing cash advances to grantees and contractors. Excess and/or idle cash balances in the hands of recipients were not being minimized. Specifically, (1) advances were not limited to the immediate cash needs of the recipients; (2) recoveries of cash advances were not made in a timely manner; and (3) advance records were poorly maintained. Because of major deficiencies in the Agency's accounting records, the auditors were unable to determine the precise amount of excess advances and the resulting effect on Federal borrowing and interest costs.

Advances Were Not Limited to Immediate Cash Needs - A.I.D.'s Financial Management Handbook stipulates that advances may be made to recipients for up to 30 days of expenditures. As an exception to this rule, the period of an advance under the Treasury check method of disbursement may be extended for up to 90 days when the 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.

A.I.D. Handbook 1, Supplement B, Chapter 15, dated May 3, 1984, sets forth the A.I.D. policy on advance payments for Grants and Cooperative Agreements to all nonprofit organizations:

> "a. . . . Department of the Treasury policy, however, requires AID to monitor the cash management practices of these institutions to insure that Federal cash is not maintained in excess of that required for their immediate disbursement needs."
>
> "b. Advance payments should be based upon an analysis of the working capital (e.g., cash) required under the grant or cooperative agreement taking into consideration the reimbursement cycle. Advances to a nonprofit organization shall be limited to the minimum amounts needed at any given time. . . . "

The Financial Management Handbook requires that requests for advances be approved by project officers. It stresses that the involvement of the project officer in the payment process strengthens the Agency's management system. Since post voucher audits do not include a 100 percent review of each transaction, a primary control in the financial review process is validation by project officers of the advance payment and the processing of "NO-PAY" vouchers to recover advances.

The Financial Management Handbook requires that following the project officer's approval, a fiscal review is to be performed by the certifying officer to permit him to certify the payment. Federal law places ultimate personal financial responsibility on U.S. Government (USG) certifying officers for ascertaining the validity and correctness of USG payments. The Financial Management Handbook emphasizes that the project officer's approval does not relieve the certifying officer of his responsibility, but only serves to strengthen the internal control process. Before approval and certification, voucher examiners when processing the payments, are required to determine if (1) funds are sufficient, (2) the reporting requirements have been met, and (3) the amount requested appears to be reasonable.

The examination of FM grant files for six grantees disclosed that 46 cash advances were made for over 30 days of expenditures and for as many as 180 days. The auditors found no evidence that a written determination had been made to justify exceeding the 30 day limit. Two project officers who were responsible for approving 90-day periodic advances, were not familiar with the requirement. For example, one project officer presumed that his predecessors had obtained the proper authority, but could not find the authorizing document. Furthermore, in all of the files examined, the auditors found no instances where the voucher examiner had questioned the need for advances exceeding 30 days.

Although A.I.D. regulations specify that advances by Treasury check are to be based on an analysis of the working capital (e.g. cash) requirements of the recipient, the auditors found no evidence that this was being done. Some project officers were not aware of the requirement; one contract officer, who was familiar with the requirement, told the auditors that he was not sure that such financial analyses were documented.

The review of FM's cash advance control records disclosed cash advances for 50 or more days ranging from $27,000 to $3,500,000. Several of these advances were provided even though the grantees had outstanding advances of over $1 million. One grantee had between $5 million and $6.4 million in outstanding advances from March to June 1986. An analysis of advances made to 14 grantees as shown in Exhibit I showed that over $12 million in excess

advances had been made to the grantees. While U.S. Treasury policy requires A.I.D. to monitor the cash management practices of recipient organizations to insure that cash is not maintained in excess of that required for their immediate needs, this was not being done.

Reviews of advances are to be made periodically but not less frequently than each calendar quarter. There are various reporting requirements which recipients of cash advances are to adhere to which could be used by FM to carry out it's monitoring function. These include the following:

- the Federal Cash Transactions Report (W-272) which requires recipients to forecast Federal cash requirements in the remarks section of the report. This includes the amount of cash advances in excess of three days' requirements in the hands of U.S. subrecipients and the amount of cash advances in excess of 30 days requirements in the hands of non-U.S. subrecipients. The report is to be submitted to FM within 15 working days following the end of each quarter;

- the Federal Cash Advance Status Report (W-245) which is required to be submitted by non-U.S., non-Governmental grantees. This report requires the recipient to provide data on cash advances and interest earned; and

- the Standardized Financial Status Report (SF-269) which is required to be submitted by schools, hospitals and other nonprofit organizations under grants and cooperative agreements. This report requires the status of cash advanced and expenditures for all non-construction programs. American Schools and Hospitals Abroad (ASHA) and foreign government grantees are exempt from the reporting requirement. The report is to be submitted no later than 30 days after the end of each specified reporting period for quarterly reports and 90 days for final reports. Extensions to reporting due dates may be granted upon the request of recipients. A.I.D. has followed a policy that the specified report period, at the recipient's election, may be either its fiscal year, the Government's fiscal year, or the yearly period commencing and ending on the last day of the month of the grant's anniversary.

In addition to the reporting requirements, A.I.D.'s standard provisions for U.S. non-governmental or international organization grantees except grants under the ASHA program and Section 301 of the Foreign Assistance Act (FAA) states that the A.I.D. Controller should advise the grant officer if he determines that a recipient has demonstrated an unwillingness or inability to timely report cash disbursements and balances as required by the terms of the grant. The review of FM's advance control records disclosed that several grantees were not submitting the required reports on time, but were, nevertheless,

continuously given advances. The advance records showed that periods covered by the reports varied from one to six months. FM, in many cases, continued to authorize advances even though the grantee had failed to account for relatively large existing advance balances. Accordingly, large amounts of cash advances were left in the hands of recipients for lengthy periods of time.

In response to a previous IG audit 1/ on the same subject, FM stated that they

> "... will provide written instructions, to those employees responsible for monitoring cash advances, outlining the procedures to be followed to ensure that maximum control is exerercised (sic) over advances made to recipients."

Clearly, monitoring of cash advances was still lacking. The prior audit found that follow-up, to some degree was made, but that it could only be categorized as occasional, i.e., when time permitted. This audit disclosed a similar ad hoc follow-up system.

Other factors contributing to excess advances were that (1) requests for advances were not always sent by FM to project offices for approval; (2) certifying officers, due to heavy workload approved only schedules of payment without the benefit of seeing supporting documents; (3) certifying officers were not assuring themselves that all A.I.D. requirements were considered by the voucher examiners; and (4) A.I.D. advance regulations and procedures were contained in numerous handbooks making it difficult for voucher examiners to be totally cognizant of all cash advance regulations and procedures.

Cash Advances Were Not Being Liquidated In A Timely Manner - When closing out a grant or cooperative agreement, the recipient is required to immediately refund any balance of unobligated cash that A.I.D. has advanced or paid that was not authorized to be retained by the recipient for use in other grants or cooperative agreements. For U.S. non-governmental grantees, it is required that the grantee shall within 30 calendar days after the effective termination date repay all unexpended funds applicable to the grant. A.I.D. shall obtain from the recipient within 90 calendar days after the date of completion of the grant or cooperative agreement all financial, performance, and other reports required as a condition of the agreement.

Specifically, the Financial Management Handbook requires that:

- if the final voucher has not been received within 30 days before the expiration of the specified period (usually 90

1/ Controls Over Cash Advances to Grantees and Contractors Are Lax, Audit Report No. 0-000-82-68, dated April 30, 1982.

days after grant/contract expiry date), FM should by letter remind the recipient of the expiration date for submission of the final voucher, requesting repayment of the advance, advising that failure to submit by that date will result in issuance of a Bill for Collection and imposing of late payment and penalty charges on the outstanding advance; and

- if the final voucher is received within the specified period, the voucher examiner will audit the voucher in the usual manner to determine the amount of advance outstanding after applying the approved expenditures as verified by the audit.

An analysis of the advance control cards of FM disclosed that as of September 30, 1987, 110 grants and contracts with advance balances aggregating over $14 million showed no advance recoveries for at least a year and some for over 10 years as shown in Exhibit 2. Further, 131 out of the 268 grants and contracts with cash advances outstanding as of September 30, 1987, amounting to over $28.3 million, had expired at least 100 days prior to this date. Finally, FM records show that eleven advances were made after the expiration of the agreements.

FM did not have an adequate system to recover excess as well as unused advances. For example, some of the files for expired grants or contracts which had outstanding advances could not be located and may have already been sent to storage. A listing of these items was provided to FM for follow-up. Inadequate staff was repeatedly mentioned as the reason FM was not executing its responsibilities. Another factor contributing to the problem was the delay in implementing the new FACS. When FACS is fully on line, it will provide aged advance reports that will assist in identifying old outstanding advances that should be liquidated.

Advance Records Poorly Maintained - Pursuant to Federal policies for accounting for financial operations of Federal agencies set forth in the Budget and Accounting Procedures Act of 1950, A.I.D.'s accounting system is to provide for effective control and accountability over all A.I.D. funds, property and other assets.

Accordingly, A.I.D. Handbook 19, Chapter 1 prescribes standards for internal control which require:

- an accounting system that provides a complete and reliable record of A.I.D.'s resources and operations;

- all transactions to be supported by adequate documentation and recorded so that they may be readily traced by auditors or others from the originating documents to summary records and to the financial reports; and

- accounting and physical control safeguards to be established for all funds, property and other resources of the Agency.

FM's advance control records did not comply with the three prescribed financial management standards. The accounting system did not provide complete and reliable data, transactions were not adequately documented and in some cases could not be located and there was a lack of accounting and physical safeguards.

As part of the review, the auditors compared cash advance balances as of September 30, 1987, recorded by FM in the automated financial data base FACS, the manual accounting records which included the advance cards and the Financial Management Control Sheets maintained with the grant and contract files. The results disclosed that several advance balances were not recorded in the FACS data base; and one or more of the control documents disagreed on the amount of advance outstanding for 23 of 47 grants. The differences ranged from $735 to $1.3 million (see Exhibit 3).

In addition, FM's treatment of like transactions was not always consistent. For example:

- advances were recorded as reimbursement of expenditures and vice versa. Ten advances to three grantees aggregating over $8 million were recorded as reimbursements not advances and three reimbursements of expenditures to two grantees aggregating over $2.3 million were recorded as advances not reimbursements; and

- payments of over $200 thousand which should have been applied to outstanding advances were treated as reimbursements of expenditures. This in combination with previous advances resulted in excess cash in the hands of the recipient of over $1.4 million.

Further, there were transactions that were not recorded, understated, overstated, or did not have supporting documents. For instance:

- advances to one grantee of over $3.5 million were not recorded;

- liquidations were not recorded or were just partially recorded resulting in an overstatement of unliquidated advances to three grantees by over $6.8 million;

- liquidations recorded in excess of the amount advanced resulting in an understatement of unliquidated advances to three grantees by over $1 million; and

- liquidations recorded for over $5 million did not have supporting expenditure reports and over $3 million of this amount were liquidations previously recorded.

As a result of the manner in which transactions were being handled, four duplicate cash advances were made totalling $2.2 million as shown in Exhibit 4.

The audit showed that practices recognized by FM as necessary were not being consistently followed. FM officials responsible for control of advances indicated that the General Ledger advance account should be reconciled once a month. However, as of January, 1988, the General Ledger had not been reconciled against the subsidiary accounts for over nine months. Also, because of a lack of personnel, the advance cards had not always been updated and properly reconciled.

When reviewing FM's records, the auditors were unable to locate several control records for several grants, i.e., the advance cards and the grant/contract folders with their financial management control sheets. A list of 40 missing project folders, was submitted to FM prior to December 10, 1987, but had not been located by the conclusion of our audit in May 1988.

The auditors found that no controls were established to safeguard cash advance control records. The grant/contract files were often out of the file drawers for several days at a time, were frequently misfiled, or were bunched at a front desk waiting for processing. The advance cards were placed where they were accessible to anyone. No checkout system had been developed for advance control records. The auditors were also told that many documents had been lost in transit to and from offices.

Consequently, the auditors were unable to examine all documents selected for testing. In response to the previous IG audit in 1982, FM stated that it had required all users to sign out folders taken from the files and would continue this practice. The auditors did not observe this to be the case during this review.

In conclusion, FM had not effectively implemented cash advance controls which has resulted in excess cash advances augmenting Federal borrowings and interest payments.

The Chief of PFM/FM/PAFD stated that FACS, when fully operational, will automatically reconcile the advance account, will maintain advance balances for each grantee and project, will determine advance needs for each project, and will age the advances. However, FACS will only be as reliable as the information entered which is where the current problem lies. It is doubtful that FACS will make much difference unless controls are established that will result in proper data entry.

2. Letter of Credit Method of Financing Advances Was Not Being Used Where Required by U.S. Treasury Regulations

U.S. Treasury and A.I.D. regulations require that the Letter of Credit (LOC) method of financing be used with a recipient organization when a continuing relationship for at least one year is expected and annual advances will aggregate at least $120,000. This reduces the time lag between the receipt of Federal funds from the Treasury and disbursement by the recipient organization. Accordingly, recipient organizations need only maintain small balances of Federal cash, thus reducing the need for Federal borrowings and resulting interest expense. The audit disclosed that as of September 30, 1987 at least 55 grants with advances totaling over $30 million should have been financed under LOCs. This resulted primarily from unfamiliarity with the requirement as well as disregarding the U.S. Treasury and A.I.D. regulations.

Recommendation No. 2

We recommend that the Office of Financial Management in consultation with the Directorate for Program and Management Services initiate action to comply with U.S. Treasury regulations on use of Letters of Credit.

Discussion

The Treasury Financial Manual states in Part 6, Chapter 2000, that a Federal program agency shall use the LOC financing method with a recipient organization, such as an educational institution, international organization, or any other public or private organization, when a continuing relationship for at least one year is expected with such recipient and annual advances will aggregate at least $120,000. A.I.D.'s implementing procedures for grants for this Treasury requirement are stated in Handbook 13, Chapter 1, Part O.

According to the Treasury, the LOC enables recipient organizations to withdraw cash from the Treasury concurrently with disbursements and as frequently as such disbursements are made by the recipient organization. The Treasury ensured that with the letter of credit method, there would not be any time lag between the receipt of Federal funds from the Treasury and disbursement by the recipient organization; therefore, recipient organizations need only to maintain small balances of Federal cash.

Advances by Treasury checks were provided to grantees with whom A.I.D. had a continuing grant or contract arrangement for at least a year and amounted annually to at least $120,000.

Examples as of September 30, 1987, were as follows:

Number of Grants And Contracts	Advance Outstanding
33	$ 120,000 - $ 300,000
12	over 300,000 - 600,000
1	over 600,000 - 1,000,000
9	over 1,000,000 - 3,020,000

All these grants and contracts had terms of 1 to over 5 years. The amount of advances outstanding for these recipients were over $30 million.

Several current A.I.D. practices contributed to the lack of noncompliance with Treasury regulations. Whereas, handbooks for financial management, grants, and contracts contained the subject Treasury provisions, grant officers responsible for determining the method of financing with the concurrence of FM/PAFD approved periodic advance provisions for several grants without regard to the U.S. Treasury and A.I.D. regulations. Some officers believed that the Foreign Assistance Act (FAA) gave them some flexibility, while others did not know that the Treasury regulations were applicable to the contracts and grants they negotiated. FM essentially concurred with such practice by processing the payments. One project officer responsible for many grants explained that the advance procedures they followed were necessary to allow for the slow payment processing at FM.

U.S. Treasury regulations state that international programs should consider, whenever possible, each participating country or international organization's fiscal needs and policy considerations for funding these programs provided the U.S. Government's cash management policies are not compromised. Treasury policies regarding advance financing of Federal programs were established to minimize the impact of such payments on the level of the public debt and related financing costs.

Requests for waivers to specific provisions of Treasury regulations will be considered by Treasury if presented in writing to the Director, Special Financing Staff, Financial Management Service. A.I.D.'s requests for waivers are to be submitted through FM.

However, without a waiver, the Agency prescribed the following policy for grants (Handbook 13) which is not consistent with the use of LOCs as required by Treasury regulations:

> "The letter of credit - Treasury Financial Communication System (LOC-TFCS) method of financing is not authorized for use with non-US organizations organized, located, and operated outside the United States."

This policy does not comply with Treasury requirements, therefore, a waiver should have been requested from Treasury if compliance is not feasible. However, in our opinion, the LOC procedures should be used whenever possible negating the need for a blanket waiver.

3. A.I.D. Did Not Require Advances To Be Put Into Interest Bearing Accounts

A February 10, 1987, revision to Office of Management and Budget (OMB) Circular A-110 requires that recipients maintain advances of Federal funds in interest bearing accounts and that interest earned on those advances be promptly remitted to the Federal agency providing the funds. A.I.D., one year later, had not yet sent instructions to its recipients, implementing the A-110 provisions. The audit disclosed that, in general, interest on advances was not being earned and remitted and that, at any point in time, there were substantial unliquidated cash advance balances in recipient bank accounts that should have been earning interest. Consequently, millions of dollars in potential earnings to the U.S. Treasury have been lost, and will continue to be lost until A.I.D. notifies its recipients of their responsibilities regarding interest on advances. Additionally, A.I.D. had not been monitoring or tracking those recipients that were earning interest. This resulted in interest not being remitted.

Recommendation No. 3

We recommend that the Office of Financial Management in consultation with the Directorate for Program and Management Services:

a. immediately send instructions to all advance recipients to ensure compliance with OMB requirements;

b. establish procedure to ensure that future advance recipients are provided instructions regarding OMB requirements on cash advances and interest prior to their receipt of an advance;

c. notify recipients with existing advances to refund interest already earned; and

d. establish a system to monitor/track interest being earned and to ensure that it is being periodically refunded as required.

Discussion

The Federal Register, on February 10, 1987, provided notice that OMB Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations" was being revised "effective immediately." The revision provided that:

"recipients shall maintain advances of Federal funds in interest bearing accounts. Interest earned on Federal advances deposited in such accounts shall be remitted promptly to the Federal agencies that provided the funds."

OMB Circular A-110 had previously provided that Federal cash made available to recipients of grants would be timed to coincide with their cash needs. This revision does not change that policy nor does it encourage grantees to maintain unnecessary balances of Federal funds. The revision merely recognizes that all Federal cash will not always be disbursed immediately upon receipt. Therefore, when cash is available it should be deposited in interest bearing accounts.

The revision was based on a recommendation made by the Inspector General, Department of Health and Human Services (IG/HHS). The IG/HHS made an audit to determine what percentage of grantees were using interest bearing accounts for deposits of Federal funds. They reviewed about 4,000 nonprofit grantees of the Office of Human Development Services and the Public Health Service. The review disclosed that 80 percent of the grantees did not earn interest on Federal funds kept in banks, 16 percent earned interest but did not report or return any of it to the Federal Government and only 4 percent earned and returned interest. From a limited test, the IG/HHS estimated that the Federal Government lost about $15 million in potential interest income.

A.I.D. did not implement the February 10, 1987 revision to OMB Circular A-110. One year has passed since A.I.D. was put on notice that it must require placement of cash advances into interest bearing accounts by its recipients. However, A.I.D. had not yet sent implementing instructions to their numerous recipients. During the same time a sister agency, the U.S. Information Agency, had already sent letters of instruction to its recipients by March 18, 1987, or approximately one month after the OMB revision appeared in the Federal Register.

Within the Bureau for Management, a Procurement Policy, Planning and Evaluation (PPE) staff had sent the following memorandum to Financial Management (FM) on July 27, 1987.

"Attached are draft changes to Handbook 13 to implement the revision of OMB Circular A-110 that requires recipients to maintain advances in interest bearing accounts. I would appreciate your comments and clearance.

There are two areas in particular that I have questions about. One concerns the Refunds clause. Since

interest earned is now required to be refunded quarterly, is it appropriate to specify in the clause how to make refund, or should this be covered in the grant schedule, or some other way. What do we need to say?

Secondly, you will note that I have not made any changes to the Letter of Credit (LOC) payment clause. I assume that the LOC terms and conditions will specify that advances must be maintained in interest bearing accounts. If that is not the case, please let me know.

Also, let me know if any other changes need to be made in the payment/financing provisions."

FM did not respond.

Another note was sent to FM at the end of December 1987, which stated that if a response was not forthcoming by January 19, 1988 the changes to Handbook 13 would be published as drafted.

Again, there was no response and the draft changes were sent to the Office of Information Resources Management for publication. PPE personnel estimated it would take one to two months before the changes would appear in the Handbook and had no idea when the revision would be implemented. The new requirement was finally incorporated in Handbook 13 effective January 4, 1988.

When asked about how they would actually implement this guidance, PPE personnel stated they had thought only about a "prospective approach;" i.e., that new grant agreements would contain the above clause requiring recipients to deposit cash advances into interest bearing accounts. Specifically, they said instructions had not been given to current recipients. They believed that the OMB revision did not apply to those grants in effect prior to the date of the revision. The auditors disagree.

While the Agency has been slow in implementing the revision, the IG office has taken the initiative to include the new requirement as part of its A-110 audit process. This includes a proforma letter which is sent to grantees informing them of the requirements of OMB Circular A-110 including paragraph 8.a. relative to maintaining advance of Federal funds in interest bearing accounts.

Since the effective date of the OMB revision, the Federal Government has lost millions of dollars of interest income because agencies, like A.I.D., have taken far too long in implementing the new requirements (as noted in the previous section). Readily available records showed that during 1986 and 1987, A.I.D.'s unliquidated cash advance balances averaged over $50 million. Therefore, even at a nominal rate, a considerable amount of interest may have already been lost.

There is documented evidence that some recipients have already earned interest on A.I.D. advances. However, A.I.D. has no idea which recipients these are, except for the few that occasionally refund, to A.I.D., the interest they received. Based on 68 responses to a questionnaire sent to recipients with outstanding (unliquidated) cash advances as of September 30, 1987, the auditors found that 49 had not, while 14 had put their advance in an interest bearing account. Five recipients did not indicate in their response whether they had or had not put their advance in an interest bearing account.

The 14 cash advances that were placed in interest bearing accounts were reported by 12 recipients; i.e., 2 recipients had 2 advances each. Of these 12 recipients, only 3 stated that they had refunded some interest to A.I.D. The remaining 9 were contacted and stated they, had not refunded any interest. One recipient (Grant No. HSH 1372G00603400) stated that the A.I.D. Project/Grant Officer told them they could "keep it." The auditors informed the recipient that even if the Project Officer had told them to keep the interest it would still require a written amendment authorizing such action. In addition, the Project Officer denied having given the recipient permission to keep the interest. The recipient acquiesced and on January 28, 1988, refunded the $9,006 in interest to A.I.D.

Another recipient was holding over $26,000. A finance officer for that organization stated that they were waiting for an audit to tell them what to do with the accumulated interest. Included in this amount was over $15,000 which had been earned on advances issued as early as September 1983 on two grants which had expired on June 30, 1984, and December 31, 1985. In all, the above 12 recipients were holding approximately $50,000 in accumulated interest which had not yet been refunded as of the date of the audit questionnaire.

Accordingly, actions are needed to require the placement of cash advances into interest bearing accounts by all recipients and to establish the internal controls necessary to ensure the tracking and collection of that interest.

Management and Office of Inspector General Comments

FM stated it will implement Recommendations 3a through 3d, but is not sure how to address 3e. FM suggests an audit as a possible solution to 3e to insure interest earned on cash advances is paid. Audit is a good verification factor, but should not substitute for management control because an audit may never be made. We suggest several solutions. One is to record a receivable with no value establishing the need to monitor the collection of interest. Another may be to contact Treasury to see if they have a recommended solution for Government agencies which A.I.D. might adopt. Another might be to monitor interest earned by using the W245 report that requires the recipient to provide data on cash advances and interest earned.

B. Compliance and Internal Control

Compliance

The audit showed that the Office of Financial Management was not in compliance with A.I.D. cash advance regulations requiring that qualified and continuous supervision be provided to ensure that: (a) advances were limited to the minimum amounts needed for immediate disbursing needs; (b) excess cash balances were promptly returned to the Agency; and (3) advance control records complied with A.I.D.'s financial management standards. Also, the LOC method of financing advances was not being used when required by U.S. Treasury regulations. In addition, advances were not being put in interest bearing accounts nor was interest being remitted as required by OMB Circular A-110. These conditions are discussed in the appropriate sections of this report. The compliance tests were limited to compliance issues related to cash advances. Because of the numerous instances of noncompliance, no assurance relative to compliance can be given for the items not tested.

Internal Control

Noncompliance issues included in this report resulted from weaknesses in internal controls. The auditors found that controls had not been integrated into the new Financial Accounting Control System to ensure compliance with U.S. Treasury and A.I.D. cash management regulations and procedures. Voucher examiners were not provided with detailed internal instructions on performance of their duties nor were they receiving adequate supervision. The review of internal controls was limited to the methods, procedures and records related to the cash advance function.

C. Other Pertinent Matters

The lack of controls was not disclosed to A.I.D. management as stipulated by the Federal Managers' Financial Integrity Act (FMFIA). Through the FMFIA process, Financial Management (FM) should have surfaced the need for management assistance to resolve the weaknesses in the cash advance system. FM did not make good use of the process. Instead, in 1987, FM reported in its internal control assessment report that satisfactory (1) review procedures had been established to ensure that advances were made only for the immediate disbursing needs of the recipient organizations, (2) written procedures had been established to control and monitor advances made to organizations, and (3) procedures had been implemented to ensure that unauthorized advances were not made to profit making organizations. The report submitted by A.I.D. was inaccurate.

As required by the FMFIA, heads of each agency are required to submit annual statements on the status of their internal control systems. By December 31 of each year, the head of an agency shall submit a statement to the President and to Congress indicating among others, whether the evaluation of internal controls was conducted in accordance with OMB Circular A-123, the material weaknesses were identified, and that a plan for correcting material weaknesses on a timely basis was developed. The evaluations and the annual reports serve as the primary mechanisms for ensuring the financial integrity of Federal programs. Heads of each agency component are responsible for establishing controls to ensure the accuracy of reports to the agency head.

AUDIT OF CASH ADVANCES
TO GRANTEES AND CONTRACTORS

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

AUDIT OF CASH ADVANCES TO GRANTEES AND CONTRACTORS
COMPARISON OF ADVANCES TO EXPENDITURES FOR SELECTED ADVANCE RECIPIENTS
(AS OF SEPTEMBER 30, 1987)

NAME OF ADVANCE RECIPIENTS	GRANT NO.	ADVANCES	EXPENDITURES	EXCESS OF ADVANCES OVER EXPENDITURES	RATIO OF ADVANCES TO EXPENDITURES
1) American University of Les Cayes	HSH1372600603400	$358,073.00	$109,913.00	$248,160.00	3.26
2) Foundation Francisco Marroquin	HSH1332600700500	$3,676,846.00	$3,042,746.00	$634,100.00	1.21
3) Int'l. Center for Tropical Agriculture	DAN0865EIN302000	$27,392,000.00	$24,550,000.00	$2,842,000.00	1.12
4) Int'l. Center for Diarrheal Disease Research	DPE592BA00600200	$2,720,000.00	$2,441,925.00	$278,075.00	1.11
5) Int'l. Crops Research Inst for Semi-Arid Tropics	DAN0972GIN302100	$20,054,148.00	$18,415,000.00	$1,639,148.00	1.09
6) Int'l. Institute of Tropical Agriculture	DAN0309GIN302800	$27,757,500.00	$26,197,500.00	$1,560,000.00	1.06
7) Int'l. Laboratory for Research on Animal Diseases	DAN0310GIN301700	$11,092,800.00	$9,868,404.00	$1,224,396.00	1.12
8) Jesuit Seminary & Mission Bureau	HSH1330600309500	$700,000.00	$229,040.00	$470,960.00	3.06
9) People to People Health Foundation, Inc.	HSH1335600306700	$1,078,792.00	$1,093,843.00	($15,051.00)	0.99
10) United Schools of America, Inc.	LAC0640C00608300	$3,764,684.48	$1,038,159.03	$2,726,525.45	3.63
11) Escuela Agricola Panamericana	HSH1338600307000	$1,635,000.00	$1,534,295.56	$100,704.44	1.07
12) Jesuit Seminary & Mission Bureau	HSH1365655601100	$430,000.00	$144,937.87	$285,062.13	2.97
13) American-Thai Foundation for Education	HSH1370500603000	$489,252.48	$311,352.48	$177,900.00	1.57
14) Medical Benevolence Foundation	HSH1359600309300	$515,687.34	$415,233.56	$100,453.78	1.24
TOTALS		$101,664,783.30	$89,392,349.50	$12,272,433.80	1.14

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AUDIT OF CASH ADVANCES TO GRANTEES AND CONTRACTORS
SCHEDULE OF ADVANCES UNLIQUIDATED FOR AT LEAST A YEAR PER ADVANCE CARDS

(AS OF SEPTEMBER 30, 1987)

NAME OF GRANTEE OR CONTRACTOR	OBLIGATION NUMBER 1/	LAST VOUCHER NUMBER	DATE OF LAST ENTRY	DATE EXPIRED	UNLIQUIDATED ADVANCE
1) AA Bolivia Flood	not available	51100003	01-May-84		$ 24,160
2) AA Bolivia Drought	not available	51100030	01-May-84		6,745
3) Abdulaziz Asakkfaff	not available	279069	23-Jul-84		1,500
4) Afghanaid	ASB0290G00513000	6400829	18-Nov-85	9/30/87	120,000
5) American Agriculture Assn.	not available	3600079	01-Jan-83		22,000
6) Amer Consor for Intl Pub Ad	DAN1096GSS307900	6403584	01-Jun-86	9/30/85	5,000
7) Amer Consor for Intl Pub Ad	PDC0092GSS616400	6405377	09-Sep-86	9/7/87	45,000
8) Amer Enterprise Inst	OTR0086GSS445800	6401593	10-Jan-86	12/31/85	74,269
9) Amer Friends of Maru A Pula	HSH1323GSS303000	7401565	06-Dec-86	6/30/86	89,575
10) Amer Hospital Supply Corp	not available	6600310	29-Aug-86		40,000
11) Amer Israeli Civil Liber Cltn	NEB0201G00519000	6404980	08-Aug-86	6/30/88	68,765
12) Amer Plywood Assn	not available	6600287	12-Aug-86		25,000
13) Amer School of Oriental Res	HSH1313GSS308800	6403147	18-Apr-86	12/31/86	27,000
14) Amer University	TDP 7425043	3600030	02-Nov-82		12,102
15) Americares Foundation	not available	6401780	06-Feb-86		779
16) Asian Institute of Technology	not available	493076	01-Aug-85		19,500
17) Atchison, Joseph E.	not available	6600307	27-Aug-86		15,000
18) Atelier d'Architecture	not available	681000020	01-Mar-84		1,267
19) Baier, Kraig G.	OTR-2139	5270038	01-Apr-83		15,101
20) BDT (Bank of Chad)	6770388G14PIL1	677005	01-Jan-79		33,000
21) Beirut University College	ILB0200G00301200	26800002	01-Jun-84	7/28/85	90,000
22) Bethlehem Tech Foundation	not available	391065	01-Sep-86		1,250
23) Beauchamp, George	ASH 5180	520002	01-Nov-85		759
24) BLK Group Inc.	AFRC11992	7551612	05-Oct-76		6,558
25) BLK Group Inc.	AFRC1199W05	7553077	23-Feb-77		4,000
26) Bonwer Afghanistan Komitee	ANE0290G00603700	6404890	07-Aug-86	9/30/87	250,000
27) Booker Washington Foundation	PDC0230G00413700	5403408	01-Apr-85	9/30/87	17,455
28) Boomgard, James	not available	497-057	01-Jun-84		320
29) Boulos Kefageh	not available	278-004	01-Dec-84		500
30) Cafrad	698-0397	861003	31-Jul-86		1,413
31) Care	663-5702	6439605	01-Apr-86		161,000
32) Caribbean Conservation Assoc	MD5651365	538377	01-Sep-85	11/15/85	9,000
33) Caribbean Council	LAC-1014	3404269	17-Nov-82		14,976
34) Charles R Drew Postgraduate	DAN5053GSS507600	6402919	01-Mar-86	8/31/86	53,751
35) Charles R Drew Postgraduate	DAN5057GSS509100	6403184	18-Apr-86	9/30/86	59,407
36) Commerce, Department of	BST5811PCT217500	831106	16-Aug-83	9/30/86	31,760

1/ Advance cards did not always provide an obligation number. In those instances, "not available" is indicated.

AUDIT OF CASH ADVANCES TO GRANTEES AND CONTRACTORS
SCHEDULE OF ADVANCES UNLIQUIDATED FOR AT LEAST A YEAR PER ADVANCE CARDS

(AS OF SEPTEMBER 30, 1987)

37)	Devoy, Robert S.	493-0284	493000027	01-May-83		500
38)	Dias, James	AFR0929S00203800	2405163	12-Apr-82		2,800
39)	Ebasco Service Inc.	TDPG7425053	98830339	01-Mar-83		125,000
40)	Energy, Department of	not available	3600205	23-Aug-83		10,000
41)	Florida Assn Voluntary	LAC0630GSS304700	6405134	18-Sep-86	9/30/86	74,712
42)	Food and Agriculture Org	OTR0000GSS612900	6405192	22-Aug-86	12/31/86	770,000
43)	Food and Agriculture Org	OTR0000GSS613600	6405265	01-Aug-86	12/31/86	494,000
44)	Food and Agriculture Org	AFR0135G00107000	6402383	01-Apr-86	9/30/85	1,352
45)	Food and Agriculture Org	OTR0000GIC612200	6405302	05-Sep-86	12/31/86	906,000
46)	Food and Agriculture Org	OTR0000G00611200	6404905	01-Jul-86	3/15/87	75,000
47)	Gomez, Armando	AID525406T	2403464	01-Mar-82		2,356
48)	Hampden Intl. Ltd.	not available	6600039	01-Dec-85		20,000
49)	Hendopronoto Suselo	497-4040	4970054	01-Jun-84		1,418
50)	Inter Amer Com of Women Org	LAC0600G00901100	6400161	21-Nov-85	9/30/85	79,656
51)	Inter Amer Inst of Human Rts	LAC0591G00206100	6405108	20-Sep-86	12/30/85	95
52)	Inter Amer Inst of Human Rts	LAC0591GSS306800	6405240	04-Sep-86	12/31/87	133,268
53)	Intl Center for Agri Res	DAN-3022	6404168	11-Aug-86		11,337
54)	Intl Human Rights Law Grp	OTR0086GSS348700	4404502	07-May-84	3/31/84	38,331
55)	Intl Human Rights Law Grp	OTR0086GSS508300	not avail	20-Jan-87	12/31/85	12,650
56)	Intl Inst for Energy Conser	TDP0000G00608000	6600100	01-Jan-86	12/31/86	50,000
57)	Intl Inst of Trop Agri	DAN1406G00502400	5404482	05-Jun-85	6/30/85	36,000
58)	Int'l Maize & Wheat Imprvmt	DAN1406G00505300	5401175	11-Sep-85	11/30/85	75,000
59)	Int'l Maize & Wheat Imprvmt	DAN1406G00507300	5406174	12-Sep-85	5/31/86	30,000
60)	Jordan Family Planning Prot	MD6237014	27800015	01-Jun-83	4/20/83	2,000
61)	Kenton, Jeffery	not available	641014	01-Sep-86		4,190
62)	Kojan, Eugene Dr.	OFD0000C00305200	527000063	01-Jul-83	9/30/83	300
63)	Labor, Department of	IID0249PDL220300	497070	01-Sep-84	9/30/82	741
64)	Landis, Maurice	not available	386000057	01-Aug-83		3,186
65)	League of Red Cross Societies	OTR0000GIN349900	6401862	04-Feb-86	12/31/84	130,696
66)	League of Red Cross Societies	OTR0000G00604500	6402109	10-Feb-86	12/31/86	2,588,292
67)	Lerner, Eugene	AFR-1157	730107	13-Oct-82		500
68)	Louisiana State University	LA(AJ) 75-65-A-8	4538566	04-Dec-73		3,197
69)	McGowan, Francis Edward	AFR-C-1476	9424810	01-Feb-79		2,300
70)	Medical Benevolence Foundatn	HSH1324GSS303200	5405562	05-Aug-85	6/30/86	9,927
71)	Montana State University	DAN1406G00509700	6402392	07-Mar-86	8/31/86	12,000
72)	Montana State University	DAN-5097	6402392	07-Mar-86	8/31/86	63,000
73)	National American Red Cross	ASB0000G00512600	5405458	01-Aug-85	02/28/85	33,625
74)	Natl Council for Res in Agrof	DAN-2076	622036	01-Nov-85		38,736
75)	Natl Governors Assoc	PDC0230G00413200	6405249	05-Sep-86	7/31/86	10,523
76)	Natl Republican Inst for Intl	OTR0251GSS603400	6401950	03-Feb-86	6/30/86	49,527
77)	Nyagabana Women's Agri School	930-0100	62200022	01-Feb-85		19,465
78)	Org of American States	PDC0003G00038300	125973	01-May-86	4/30/83	13,347
79)	Parsons Brenherhoff Intl Inc	TDP5713100	5600123	01-Mar-85		140,000
80)	People to People Health Found	HSH1346GSS308500	6402048	06-Feb-86	2/28/86	125,000
81)	Phelps Stokes Fund	PDC0230G00314700	7002981	01-Dec-86	7/31/86	25,233

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AUDIT OF CASH ADVANCES TO GRANTEES AND CONTRACTORS
SCHEDULE OF ADVANCES UNLIQUIDATED FOR AT LEAST A YEAR PER ADVANCE CARDS

(AS OF SEPTEMBER 30, 1987)

82)	Policy Sciences Ctr Inc	DAN1406G00508300	6403985	02-Jun-86	3/30/87	2,876
83)	PRA Research Inc	AFR-C-1297-W01	8421650	14-Jan-78		3,500
84)	PRA Research Inc	not available	514000062	01-Mar-83		560
85)	Renewable Energy Inst	not available	4600169	01-Jun-84		6,000
86)	Science Educ Prog Africa	not available	6770049	16-Feb-84		6,883
87)	Society for Adv of Contracep	ANE0048GSS605600	124053	08-May-87	9/30/91	55,300
88)	Stovall, Spradlin, Armstrong	not available	WFC-86-724	01-Jul-86		43,100
89)	Sufran Tell	not available	278-004	01-Dec-84		500
90)	TAMS	7445570	5600173	13-May-85		124,400
91)	TMI	not available	6600283	08-Aug-86		29,000
92)	Tunisia Government	not available	138000004	21-Jun-82		7,901
93)	Unitd Brd fr Christn Highr Ed	HSH1316GSS300800	6402736	01-Mar-86	6/30/84	25,000
94)	UN Children's Fund	ASB0000GSS509300	6404774	01-Aug-86	5/13/86	271,603
95)	UN Children's Fund (UNICEF)	ASB0000GSS418700	4406929	01-Oct-84	9/30/86	1,000,000
96)	UN Children's Fund	PDC0000GIN211900	4403941	15-Mar-84	6/30/84	188,744
97)	UNDP	not available	4600015	01-Oct-83		150,000
98)	UNIDO	not available	5600243	01-Aug-85		102,033
99)	UNDRO	OTR0000GIC612600	7401766	08-Dec-86	12/31/87	185,000
100)	UNDRO	ASB0017GSS505800	7401765	08-Dec-86	12/31/86	133,598
101)	UNDRO	OTR0000G00601200	6401254	13-Dec-85	12/31/86	1,999,100
102)	Univ del Valle de Guatemala	936-4075	5200117	01-Dec-84		57,637
103)	Univ of the Americas	HSH0333G00305500	5404101	16-May-85	12/31/85	4,594
104)	World Bank	not available	6600261	01-Jul-86		9,000
105)	World Bank	AFR0510G00502200	6403926	27-May-86	11/30/86	300,000
106)	World Bank	DAN1406GSS503100	5405876	21-Aug-85	4/26/85	10,000
107)	World Bank	PDC1002GIC606300	6405642	06-Oct-86	12/3/86	10,160
108)	World Education Inc	TAB1020C00145500	1402104	12-Dec-80	5/31/81	2,895
109)	World Food Program	ASB0000GSS510100	5405860	19-Aug-85	12/31/86	2,250,000
110)	World Food Program	ASB0000GSS516700	6403023	01-Apr-86	4/14/86	400,000
	TOTAL UNLIQUIDATED ADVANCES					$ 14,952,556

EXHIBIT 3

AUDIT OF CASH ADVANCES TO GRANTEES AND CONTRACTORS

COMPARISON OF FM'S FINANCIAL RECORDS ON CERTAIN GRANTEES AND CONTRACTORS

NAME OF GRANTEE OR CONTRACTOR (GRANT OR CONTRACT NO.)	GRANT OR CONTRACT NUMBER	UNLIQUIDATED ADVANCES AS OF 9/30/87 FM'S CONTROL SHEET	FM'S ADVANCE CARD	FACS	COMPARISON OF THE 3 RECORDS CONTROL SHEET VS. ADVANCE CARD	CONTROL SHEET VS. FACS	ADVANCE CARD VS. FACS
1) American Schools of Oriental Research	HSH1313655308800	$27,000.00	$27,000.00	$27,000.00	$0.00	$0.00	$0.00
2) Intl Center for Tropical Agriculture	DAN0865611N302000	$1,205,000.00	$1,205,000.00	$1,205,000.00	$0.00	$0.00	$0.00
3) Intl Center for Diarrhl Disease Resrch	DPE5928A000600200	$1,876,150.00	$879,807.50	$1,876,150.00	$996,342.50	$0.00	($996,342.50) (1)
4) Intl Inst of Tropical Agriculture	DAN0309611N302600	$1,358,750.00	$2,717,500.00	$2,717,500.00	($1,358,750.00)	($1,358,750.00)	$0.00 (2)
5) Intl Lab for Resrch on Animal Diseases	DAN0310611N301700	$1,080,600.00	$540,300.00	$540,300.00	$540,300.00	$540,300.00	$0.00 (3)
6) Jesuit Seminary & Mission Bureau	HSH1350600309500	$620,959.79	$620,959.79	$620,959.79	$0.00	$0.00	$0.00
7) Jesuit Seminary & Mission Bureau	HSH1365655601100	$285,062.14	$285,062.14	$285,062.13	$0.00	$0.01	$0.01
8) Intl Crops Resch Inst Semi Arid Tropics	DAN0972611N302100	$3,815,000.00	$3,815,000.00	$2,815,000.00	$0.00	$1,000,000.00	$1,000,000.00 (4)
9) Medical Benevolence Foundation	HSH1359600309300	$100,453.78	$100,453.78	$100,453.78	$0.00	$0.00	$0.00
10) American University of Les Cayes	HSH1372600603400	$547,187.00	$547,187.00	$570,444.00	$0.00	($23,257.00)	($23,257.00) (5)
11) American-Thai Foundation for Education	HSH1370600603000	$524,900.00	$524,900.00	$524,900.00	$0.00	$0.00	$0.00
12) Escuela Agricola Panamericana	HSH1338600307000	$166,179.21	$152,662.62	$152,662.62	$13,516.59	$13,516.59	$0.00 (6)
13) People to People Hlth Foundation, Inc.	HSH1335600306700	$1,763,234.00	$2,810,460.00	$3,015,569.00	($1,047,226.00)	($1,252,335.00)	($205,109.00) (7)
14) Foundation Francisco Marroquin	HSH1332600700500	$650,000.00	$650,000.00	$650,000.00	$0.00	$0.00	$0.00
15) United Schools of America, Inc.	LAC0640C00608300	$2,495,672.45	$2,477,365.45	$1,847,923.95	$18,307.00	$647,748.50	$629,441.50 (8)
16) Foundatn of Univ of Valley of Guatemala	HSH1344655601500	$299,538.45	$299,538.45	$175,410.13	$0.00	$124,128.32	$124,128.32 (9)
17) American Friends of Maru A Pula School	HSH1323655303000	$55,351.40	$89,575.00	$89,575.00	($34,223.60)	($34,223.60)	$0.00 (10)
18) Society for Advancement of Contraceptn	ANE0048655605600	$55,300.00	$75,300.00	$51,507.10	($20,000.00)	$3,792.90	$23,792.90 (11)
19) Vellore Christian Medical College Board	HSH1310655601800	$225,000.00	$225,000.00	$97,800.00	$0.00	$127,200.00	$127,200.00 (12)
20) Food and Agriculture Organization	DTR0000600613600	$1,058,587.00	$494,000.00	$715,172.00	$564,587.00	$343,415.00	($221,172.00) (13)
21) Intl Potato Center	DAN0973600302700	$500,000.00	$500,000.00	$500,000.00	$0.00	$0.00	$0.00
22) Asian Institute of Technology	ASB0000600515500	$234,040.00	$234,040.00	$234,040.00	$0.00	$0.00	$0.00
23) Consor for Intl Coop in Higher Educatn	PDC0230600414000	$227,327.75	$127,316.72	$227,327.75	$100,011.03	$0.00	($100,011.03) (14)
24) Heifer Project Intl Inc	ASB0000600517400	$69,614.00	$69,614.00	$180,000.00	$0.00	($110,386.00)	($110,386.00) (15)
25) Intl Statistical Institute	DPE3023600408600	$266,321.52	$265,586.52	$172,605.38	$735.00	$93,716.14	$92,981.14 (16)
26) Vellore Christian Medical College Board	HSH1310600309000	$0.00	$0.00	$289,394.00	$0.00	($289,394.00)	($289,394.00) (17)
27) Wellstart DBA San Diego Lactation Progr	DAN1010600511800	$222,696.62	$0.00	$355,182.32	$222,696.62	($132,485.70)	($355,182.32) (18)
28) World Bank	PDC0091600621000	$115,000.00	$120,000.00	$120,000.00	($5,000.00)	($5,000.00)	$0.00 (19)
29) Food and Agriculture Organization	DTR0000600611200	$75,000.00	$75,000.00	$75,000.00	$0.00	$0.00	$0.00
30) Food and Agriculture Organization	ISE0911600097600	$228,610.00	$204,767.00	$228,610.00	$23,843.00	$0.00	($23,843.00) (20)
31) Food and Agriculture Organization	DTR0000600616200	$200,000.00	$111,585.00	$200,000.00	$88,415.00	$0.00	($88,415.00) (21)
32) UN Children's Fund	PDC0000600211900	$188,743.72	$188,743.72	$188,743.72	$0.00	$0.00	$0.00
33) Rabushka, Alvin	PDC0095600607100	$4,296.00	$4,296.00	$12,819.00	$0.00	($8,523.00)	($8,523.00) (22)
34) Citizens Network for Economic Security	PDC0230600610600	$135,567.97	$135,567.97	$100,567.97	$0.00	$35,000.00	$35,000.00 (23)
35) InterAmerican Commission of Women	LAC0600655901100	$79,656.15	$79,656.15	$79,656.15	$0.00	$0.00	$0.00
36) InterAmerican Institute of Human Rights	LAC0591655306800	$133,267.93	$133,267.93	$133,267.93	$0.00	$0.00	$0.00
37) Fla Asso Volunt Agencs for Caribb Actn	LAC0630655304700	$74,711.52	$74,711.52	$74,711.52	$0.00	$0.00	$0.00
38) American Israeli Civil Liberts Coalition	NEB0201A00519000	$68,764.98	$68,764.98	$68,764.98	$0.00	$0.00	$0.00
39) People to People Health Foundation Inc	HSH1346655308500	$125,000.00	$125,000.00	$125,000.00	$0.00	$0.00	$0.00
40) Amer Consortium for Intl Pub Admin	DAN1096655307900	$5,000.00	$5,000.00	$5,000.00	$0.00	$0.00	$0.00
41) Amer Consortium for Intl Pub Admin	PDC0092655616400	$45,000.00	$45,000.00	$45,000.00	$0.00	$0.00	$0.00
42) United Brd for Chris Highr Educ in Asia	HSH1316655300800	$25,000.00	$25,000.00	$25,000.00	$0.00	$0.00	$0.00
43) Natl Republican Inst for Intl Affairs	DTR0251655603400	$49,527.00	$49,527.00	$49,527.00	$0.00	$0.00	$0.00
44) American Enterprise Inst	DTR0086655445800	$74,269.00	$74,269.00	$74,269.00	$0.00	$0.00	$0.00
45) Intl Human Rights Law Group	DTR0000655348700	$38,331.00	$38,331.00	$38,331.00	$0.00	$0.00	$0.00
46) Intl Bank for Reconstruc and Developat	PDC1002610606390	$10,160.00	$10,160.00	$10,160.00	$0.00	$0.00	$0.00
47) Intl Committee of the Red Cross	DTR0000600604500	$2,588,292.00	$2,588,292.00	$2,588,292.00	$0.00	$0.00	$0.00

EXHIBIT 4

AUDIT OF CASH ADVANCES TO GRANTEES AND CONTRACTORS

SCHEDULE OF DUPLICATE PAYMENTS

	NAME OF GRANTEE OR CONTRACTOR	GRANT OR CONTRACT NO	AMOUNT OF PAYMENT	DATE RECORDED	DATE RECOVERED
1)	American University of Les Cayes	HSH1372600603400	$215,453.00	05-Jan-87	March 23, 1987
2)	Int'l. Crops Research Inst for Semi-Arid Tropics	DAN0972GIN302100	$400,000.00	23-May-84	no record of recovery
3)	Int'l. Laboratory for Research on Animal Diseases	DAN0310GIN301700	$581,920.00	15-Nov-83	no record of recovery
4)	People to People Health Foundation, Inc.	HSH1335600306700	$1,047,226.00	10-Aug-87	recovery not recorded
TOTAL DUPLICATE PAYMENTS			$2,244,599.00		

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

August 26, 1988

MEMORANDUM FOR IG/PSA, MERVIN F. BOYER, JR.

FROM: PFM/FM/C, Michael Usnick

SUBJECT: Draft Inspector General Report: Audit of Cash Advances to Grantees and Contractors

REF: Your Memorandum to Mr. Halligan Dated July 7, 1988

I apologize for the delay in responding to the recommendations contained in the subject draft. I want to assure you that we take these recommendations seriously and we will take the appropriate action to correct any deficiency in our operations.

We are in agreement with the finding and recommendations contained in the draft report. With respect to the specific recommendations we have the following comments.

Recommendation No. 1

a. We will develop desk top procedures to be used by voucher examiners.

b. We have completed an internal review of FM. Based on this review and other factors we are changing the organizational structure of our payment units. As part of this restructing, we will focus on staff and supervisory performance.

c. We will develop the appropriate FACS reports. However, because of the lengthy development process for FACS reports, it will take several months to put them in place.

Recommendation No. 2

We will initiate discussions with M/SER on this recommendation. We will advise you on action taken once the discussions are concluded.

Recommendation No. 3

We will undertake implementation of Recommendations 3a through 3d in consultation with M/SER. We will advise you on actions taken once the discussions are concluded.

We are not sure how to address Recommendation 3e. Since the amount of interest earned is unknown, we can not establish a system to monitor/track these earnings. The only way to insure compliance is for the IG to include this requirement in its audits. The only other step would be to send periodic reminders to advance recipients. Your additional guidance in this area would be welcomed.

Sandy Owens is the responsible FM official for implementing these recommendations. You may reach him on X32104, if you have any questions.

LIST OF RECOMMENDATIONS

Page

Recommendation No. 1 4

We recommend that the Office of Financial Management:

a. supplement U.S. Treasury and A.I.D. cash advance regulations and procedures with detailed instructions to be used by voucher examiners,

b. review the capability of voucher examiners and their supervisors to ensure that qualified staff have been provided and that effective supervision is being performed, and

c. develop appropriate reports using the Financial Accounting Control System that will ensure compliance with U.S. Treasury and A.I.D. cash advance regulations and procedures.

Recommendation No. 2 12

We recommend that the Office of Financial Management in consultation with the Directorate of Program and Management Services initiate action to comply with U.S. Treasury regulations on use of Letters of Credit.

Recommendation No. 3 15

We recommend that the Office of Financial Management in consultation with the Directorate for Program and Management Services:

a. immediately send instructions to all advance recipients to ensure compliance with OMB requirements;

b. establish procedure to ensure that future advance recipients are provided instructions regarding OMB requirements on cash advances and interest prior to their receipt of an advance;

c. notify recipients with existing advances to refund interest already earned; and

d. establish a system to monitor/track interest being earned and to ensure that it is being periodically refunded as required.

APPENDIX 3

REPORT DISTRIBUTION

	No. of Copies
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Assistant Administrator, Bureau for Private Enterprise (AA/PRE)	1
Assistant Administrator, Bureau for Program and Policy Coordination (AA/PPC)	1
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