

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
USAID/Madagascar's Cash Management Procedures

Report No. 3-687-94-008
May 18, 1994

BEST AVAILABLE DOCUMENT

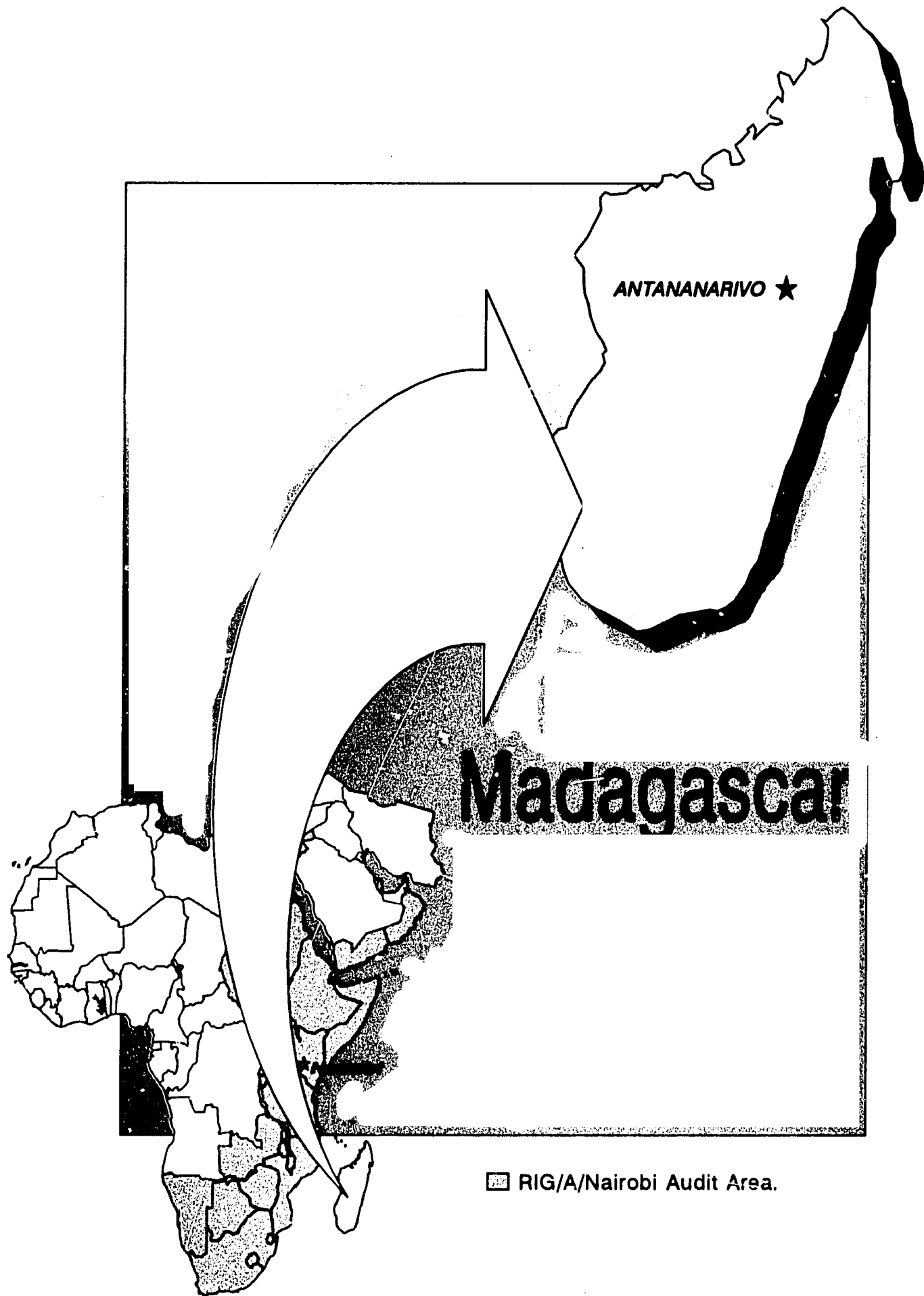


**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**AUDIT OF
USAID/MADAGASCAR'S CASH MANAGEMENT PROCEDURES**

**Report no. 3-687-94-008
May 18, 1994**



ANTANANARIVO ★

Madagascar

■ RIG/A/Nairobi Audit Area.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

May 18, 1994

MEMORANDUM

TO: USAID/Madagascar Director, George Carner

FROM: RIG/A/Nairobi, Everette B. Orr

Everette B. Orr

SUBJECT: Audit of USAID/Madagascar's Cash Management Procedures

This memorandum is our report on the "Audit of USAID/Madagascar's Cash Management Procedures", Report No. 3-687-94-008. We considered your comments on the draft report and have included them as an appendix to this report (see Appendix II). Based on the results of our audit, the report contains three recommendations, two of which are closed with the issuance of this report. The third, Recommendation No. 1.3, is unresolved. I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

The Administration and Congress have been very sensitive to the impact cash management of Federal funds has on U.S. Department of Treasury borrowing costs and the national debt. Both have urged Federal agencies to improve management of cash advances given to program recipients. Inefficient cash management costs taxpayers millions of dollars every year and contributes to increasing the Federal debt. Therefore, U.S. Treasury policy requires USAID to monitor the cash management practices of recipient organizations, like the ones operating in Madagascar, to ensure advances of Federal funds are limited to the minimum amounts necessary for immediate disbursement needs. USAID is also required to take remedial measures when excessive cash is withdrawn.

Madagascar is in the throes of a historic transition to a democratic Third Republic and a competitive market economy. If it succeeds, its prospects for realizing its economic potential are good, particularly as it integrates into the regional economies of the Indian Ocean and Southern Africa. The U.S. is interested in Madagascar succeeding with its democratic and economic reform process. Such progress can bring prosperity to this poorest of countries, open prospects for stronger commercial and cultural relations with the U.S., and contribute to political stability and economic prosperity in the region.

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*Regional
Inspector General
for Audit/Nairobi*

The audit covered 3 outstanding advances totalling \$165,500 for the period December 1, 1991, through December 31, 1993.

Audit Objectives

The Cash Management Review, which is a worldwide audit, assigns lead office responsibility to the Inspector General's Office of Programs and Systems Audits, Washington D.C. The Nairobi Office was one of several Regional Inspector General Offices selected to participate in this audit.

Our field work began January 11, 1994, ended January 26, 1994, and was conducted in Antananarivo, Madagascar. The audit was to answer the following :

1. Does USAID limit cash advances to the immediate cash needs of recipients in accordance with USAID policy and U.S. Treasury regulations?
2. Does USAID use letters-of-credit to finance recipients in lieu of cash advances in accordance with USAID policy and U.S. Treasury regulations?
3. Does USAID ensure that recipients maintain cash advances in interest-bearing accounts and remit the interest earned to USAID in accordance with Agency policy and OMB Circular No. A-110 requirements?
4. Does USAID program the local currency generated through its programs to provide cash advances to project recipients in lieu of using appropriated dollars to buy local currency?

Appendix I contains a complete discussion of the scope and methodology for this audit.

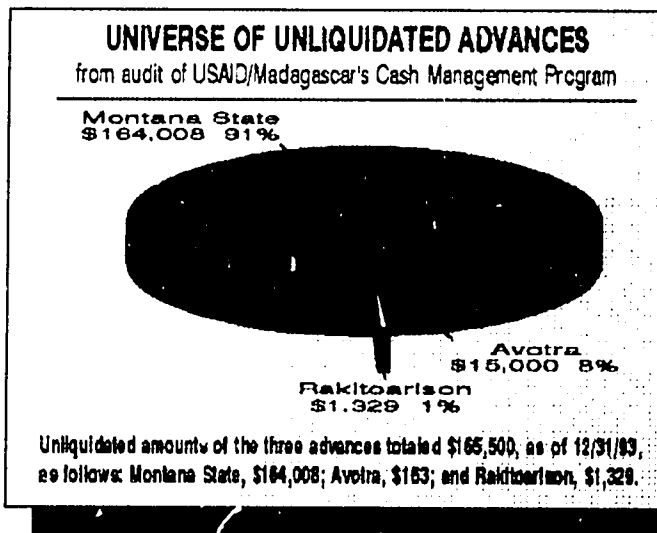
Audit Findings

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

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

Internal Controls Were Not Utilized

Although Federal policy requires cash advances to be limited to immediate recipient cash needs, USAID/Madagascar did not follow these policies, because the Controller personnel attached low priority to analyzing and monitoring recipients' immediate cash needs. Also,



the Mission did not adequately maintain its cash advance aging schedule to track outstanding advances. For example, as of December 31, 1993, the Mission had 3 outstanding cash advances totalling \$165,500. An inspection of the Controller's files indicated the standard forms required to minimize these cash advances were not utilized, which contributed to additional U.S. Treasury borrowing costs¹ and exposed Federal funds to fraud, waste and abuse.

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

- 1.1 utilize Standard Forms 270, 272 and 269 to ensure recipient cash advances are kept to a 30-day minimum whenever possible, and excess cash advance funds are retrieved in a timely manner;
- 1.2 maintain an updated monthly recipient cash advance aging schedule to

¹ We were not able to determine the U.S. Treasury's additional borrowing costs because expenditure documentation, in some cases, was not available. However, the maximum amount of additional borrowing costs to the U.S. Treasury would have been \$3,710.

identify cash advances due to be liquidated; and

- 1.3 recover \$48,000 remaining of an unliquidated cash advance made to Montana State or obtain appropriate liquidation documentation.**

Treasury Financial Manual (1 TFM 6-2000), Chapter 2000—Cash Advances Under Federal Grant and Other Programs, Section 2025—Limitation and Timing of Cash Advances, dated September 3, 1992, states:

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

In addition, A.I.D. Handbook 13 (Appendix 4C, Payment-Periodic Advance) requires grantees to submit to the specified payment office:

- requests for advances at least monthly on expenditure projections form SF-270, "Request for Advance or Reimbursement";
- one copy of the disbursement report form SF-272, "Federal Cash Transactions Report," 15 working days after the end of each quarter; and
- a "Financial Status Report," form SF-269, no later than 30 days after the end of each quarter.

None of the above was followed for the three cash advances discussed below because the Mission attached a low priority to analyzing and monitoring recipients' immediate cash needs.²

Montana State University

According to documents in the Controller's Office, Montana State University was given a \$164,008 cash advance August 3, 1993. Our review indicated the University did not submit a properly prepared SF-270 ("Request for Advance or Reimbursement") when it requested this advance. Therefore, the Mission did not have the appropriate information with which to set the amount of the cash advance.

² However, in their comments to the draft report, the Mission provided a copy of a proforma invoice received from Rakitoarison Thierry which appeared to meet the intent of the SF-270.

In lieu of a properly prepared SF-270, which would have provided a detailed budget of estimated expenditures, the Mission simply took the total grant amount of \$492,028 and divided it by the grant's six-month duration to come up with a figure of \$82,004 per month. Since the advance was to cover a two-month period (August/September 1993), the Mission advanced the University \$164,008. Realistically, the Mission had no reliable basis for advancing the University the amount of money it did.

Originally, this grant was to have run from April 5, 1993, through September 30, 1993, but it was extended until December 31, 1993. During the extension, the Mission did not receive a SF-272, ("Federal Cash Transaction Report"), which is due 15 days after the end of the quarter (in this case, 15 days after September 30, 1993). Without the SF-272, the Mission had no way of knowing how much cash was being held in excess of the recipient's thirty-day need.

Additionally, a SF-269 ("Financial Status Report"), due no later than 30 days after the end of the quarter, was not found in the files. Although the Mission had a periodic (ad hoc) cash advance aging schedule, the \$164,008 cash advance did not appear on the most recent schedule dated January 3, 1994. This may be why at the time of our audit, the Mission was unaware this advance was outstanding.

In a January 26, 1994, memo to the audit team concerning this advance, the USAID/Madagascar Controller said the University claimed to have expended approximately \$116,000 of the \$164,008 cash advance. The Controller said he had asked the project officer to get a month-by-month accounting of expenditures so that the advance could be properly accounted for and excess funds recovered with interest.

We feel if the Mission had followed its internal control procedures when the cash advance was given, the need to recover excess advance funds could have been avoided.

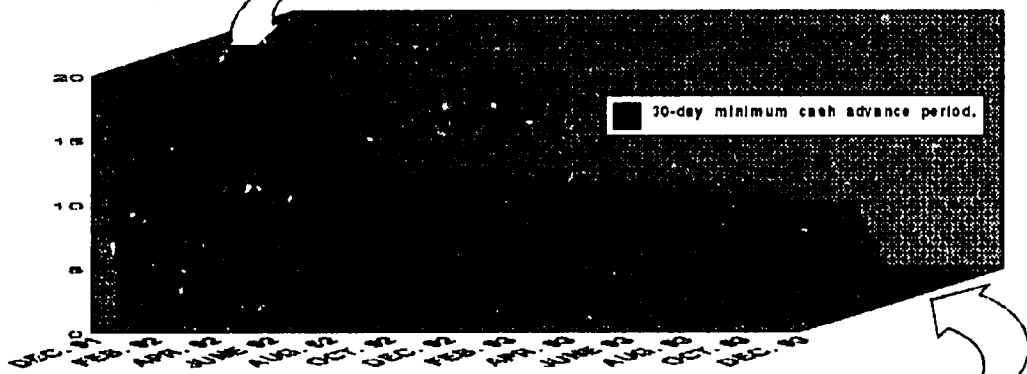
Avotra

Avotra received 2 cash advances on December 4, 1991; one for \$15,000, and another for \$2,548. Based on a review of the Controller files, there were no SF-270s listing the recipient's 30-day minimum expenses, no SF-272s indicating quarterly expenditures, and no SF-269s showing the organization's quarterly Financial Status Reports for either advance. The \$2,548 advance was liquidated May 21, 1993, about 17 months after it was received. The \$15,000 advance had an outstanding balance of \$163 as of December 31, 1993—more than 2 years after it was given. Excess funds of \$4,032 from this advance were returned to USAID September 27, 1993, about 21 months after the money was advanced. Although the Mission's ad hoc aging schedule listed these advances, based on the time they were outstanding, it appears the schedule was not used to track them.

CASH ADVANCE TO AVOTRA

Audit of USAID/Madagascar's Cash Management Program

2 cash advances totaling \$17,548, one for \$15,000, another for \$2,548, were given to Avotra on Dec. 4, 1991.



Cash outstanding Dec. 31, 1993, from the \$15,000 advance was \$163, 24 months after advance was made.

Rakitoarison Thierry

This advance was made December 9, 1993, for \$1,329. We found no SF-270 to indicate the Mission had analyzed the recipients' expenditures to ensure only a minimum 30-day advance was given. This advance was in the process of being liquidated in January 1994. However, in this particular case, the Mission received a proforma invoice which appears to have met the intent of the SF-270.

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

USAID/MADAGASCAR had no situations where letters of credit would have been the preferred finance method.

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

In one case, a Mission recipient did deposit cash advance monies into an interest-bearing account, but in the other two advances, one may have been exempt from the Treasury

requirement and there was no record of accrued interest in the third case.

U.S. Treasury Financial Manual, 1TFM—Chapter 2000, Section 2075.30a—Interest Earned on Federal Funds states:

“Any interest income earned by a recipient organization on Federal funds will be promptly refunded to the Federal program agency unless specifically prohibited by law.”

In the first case, Avotra kept its advance in an interest-bearing account and the \$145 interest was remitted to the U.S. Treasury.

However, the Mission was not aware Montana State University, which received a \$164,008 advance, had not deposited its advance into an interest-bearing account. According to the Mission's Chief Accountant, the Mission did not follow up to ensure cash advance recipients abided by the agreement provision, which requires them to deposit cash advances in interest-bearing accounts. Rather, the Mission left compliance to the recipient's discretion. In a January 25, 1994, letter from the University's Vice President for Administration, the Mission was informed that under a written agreement with the U.S. Treasury Department, effective July 1, 1993, the institution was exempt from generating interest on USAID monies. The Mission did not know of the exemption until it received that letter.

In the case of Rakitoarison Thierry, there was no record of accrued interest. However, given the short time the advance was held, any interest earned would have been minimal.

We are not making a recommendation for this objective because the U.S. Government apparently did not lose a material amount in interest. However, we advise USAID/Madagascar to initiate an aggressive system to ensure cash advances are being deposited in interest-bearing accounts.

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

The Mission is not currently generating local currency nor is it providing advances to local public or private organizations.

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MANAGEMENT COMMENTS AND OUR EVALUATION

In its comments on the draft audit report, USAID/Madagascar said the report did not fairly present the sufficiency of the Mission's cash management practices. While the Mission agreed with Recommendation Nos. 1.1 and 1.2, concerning the need to improve its internal controls to monitor advances, it disagreed that it did not take reasonable and adequate actions to limit cash advances to the immediate cash needs of the recipients. USAID/Madagascar stated that their ability to limit advances was evident by the fact that the audit universe of unliquidated advances totaled only three.

Also in the case of not knowing an advance to Montana State University had not been placed in an interest-bearing account, the Mission said it relied on the university to fulfill its contractual obligations to do so and felt no follow-up was necessary. A detailed discussion and our response follows.

Based on Mission documentation provided with its response to the draft report, Recommendations Nos. 1.1 and 1.2 are closed upon issuance. The complete original text of USAID/Madagascar's comments is included as Appendix II.

Limiting Cash Advances

According to USAID/Madagascar, notwithstanding the absence of standard forms, the advance to Montana State University was made on the basis of the recipient's certification that the funds were required to meet its cash needs for the period for which the funds were requested. The Mission said it had analyzed this request, reduced the advance to cover two months, instead of the requested six months, and advanced an amount consistent with the average prior and projected monthly expenditures.

In the case of the advance to Rakitoarison Thierry, the Mission said the advance followed the terms of the authorizing purchase order and covered the immediate needs of the recipient based on a detailed proforma invoice, which specified the cost of services purchased. The Mission stated it believes this advance was properly issued and no additional documentation nor analysis was warranted.

RIG/A/Nairobi response: We concur that the submission of a detailed proforma invoice by Rakitoarison Thierry appears to have met the intent of the SF-270. The appropriate change was made to the body of the report.

On the Montana State University advance, prudent cash management dictates the Mission obtain appropriate detailed internal control documentation, otherwise, it can not reasonably validate a recipient's needs. Therefore, basing a recipient's cash needs merely on past requirements or a certification without financial details, in our view, is neither reasonable nor adequate to protect the financial interests of the U.S. Government.

Interest-Bearing Accounts

Regarding the advance given to Montana State University, USAID/Madagascar states that provisions in the university's grant agreement require funds advanced be placed in an interest bearing account. The Mission contends it did not improperly cede compliance to the recipient's discretion, but instead "appropriately relied upon a major U.S. University to comply with its contractual responsibilities". Thus, the Mission believed no additional follow-up was warranted.

RIG/A/Nairobi response: We disagree. USAID/Madagascar should have checked to see that the contractor placed the money in an interest-bearing account, or at the least, discovered that the university was exempt from doing so. The Mission can not assume cash advance recipients' are always cognizant of the fact they are required to place the advances into interest-bearing accounts. Thus, follow-up to ensure U.S. Government money is being properly handled is an important cash-management tool.

APPENDICES

<p style="text-align: center;">SCOPE AND METHODOLOGY</p>

Scope

We audited USAID/Madagascar's Cash Management Procedures in accordance with generally accepted government auditing standards.

The audit universe for the first three audit objectives consisted of unliquidated cash advances as of December 31, 1993, as recorded in USAID/Madagascar's computerized accounting records. The audit excluded Operating Expense (OE) account advances (e.g., travel advances). The audit did not test the overall reliability of the Mission's computerized data. However, the accuracy of balances and related data selected for detailed review was verified. In the case of USAID/Madagascar, 3 outstanding advances totalling \$165,500 comprised the audit's universe. It should be pointed out that 1 advance, for \$164,008, constituted most of the universe.

We conducted our field work, which began January 11, 1994, and ended January 26, 1994, at USAID/Madagascar, Antananarivo, Madagascar.

Methodology

In addition to the specific methodology for the audit objectives discussed below, we:

- (1) Reviewed USAID/Madagascar's fiscal year 1993 Internal Control Assessment to determine whether it disclosed any material weaknesses in managing cash advances, and
- (2) Obtained written representations from USAID/Madagascar for all essential assertions relating to the audit objectives.

To answer the audit objectives, we verified the accuracy and currency of advance balances,

APPENDIX I

Scope and Methodology

determined if they exceeded applicable guidelines and requirements, and determined, when applicable, why policies and procedures were not being followed. We also examined supporting documents and interviewed USAID/Madagascar personnel to verify the accuracy of accounting and other data, and to determine why personnel may not have implemented prudent and required cash management techniques. When discrepancies were found between current practices and required cash management procedures, we attempted, when possible, to quantify the cost of such practices in dollars to the U.S. Treasury.

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID / ANTANANARIVO
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DATE : April 21, 1994
TO : Everett B. Orr, RIG/A/Nairobi
FROM : George Carner, DIR/USAID/Madagascar
SUBJECT : Audit of Mission Cash Management Procedures

Thank you for the opportunity to review this draft audit report. The Mission concurs in the audit recommendation to improve internal controls to monitor advances to recipients, and has incorporated it in our standard operating procedures. A copy of the Controller's Bulletin referencing the recommended procedures is enclosed for your records. We request that you consider the recommendation closed upon issuance of the audit report.

The Mission also requests that you revise the draft audit report and its findings in light of the below clarifications or that the following Mission response be included in its entirety within the audit report.

Audit Findings

The Mission believes that the audit report does not fairly present the sufficiency of the Mission's cash management practices. USAID/Madagascar believes that it has taken reasonable and adequate actions to limit cash advances to the immediate cash needs of recipients. In particular, the Mission has strictly limited the use of cash advances to the extent that the audit and findings are based, not on a sample, but on a universe of three advances with outstanding balances of \$164,008, \$1,329 and \$163.

Montana State University - \$164,008

Notwithstanding the absence of standard forms this advance was made on the basis of the recipient's certification that the funds were required to meet its cash needs for the period for which funds were requested. The Mission analyzed this request and the amount advanced was consistent with average prior and projected monthly expenditures. For the four months prior to period of the advance the recipient's reported expenditures averaged \$70,000 per month compared to the \$82,00 per month requested to be advanced. Furthermore, the Mission reduced the requested six month advance to an advance for two months.

As noted in the audit report, the advance was also consistent with the average monthly expenditures projected for the agreement period. Since there was no indication of inadequate financial reporting on the part of the recipient, the Mission appropriately relied on Montana State University's certification of its immediate cash requirements.

The standard conditions of the agreement with the recipient require that funds advanced be placed in an interest bearing account. Rather than improperly ceding "compliance to the recipient's discretion", the Mission appropriately relied upon a major US University to comply with its contractual responsibilities and believes no additional follow up was warranted in this regard. Moreover, as noted in the audit findings, the Treasurer of the University has informed USAID that the University is exempt from placing funds in an interest bearing account until July 1, 1994 under written agreement with the US Treasury Department. Under these circumstances to suggest that "the Mission did not follow up to ensure ... deposit of cash advances in interest bearing accounts" seems an unreasonable expectation.

Rakitoarison Purchase Order - \$1,329

This advance was made in accordance with the terms of the authorizing purchase order to cover the immediate cash needs of the recipient based upon a detailed proforma invoice which specified the cost of services purchased. As noted in the audit report, the advance liquidation report was being processed by the Mission within 25 days of the date of the advance. Mission believes that this advance was properly issued to meet the immediate cash needs of the recipient and no additional documentation nor analysis was warranted.

AVOTRA - \$163

This advance was issued to meet the recipient's projected cash needs which were anticipated in connection with a separate, USAID direct, construction contract. The delay in disbursement of the advance was due to contractor default and the time required to replace the contractor and resume work. The audit report correctly states that funds were placed in an interest bearing account but incorrectly states that interest of \$145 was used within the project. Mission records show that the advance has been fully liquidated and that the recovered interest was credited to Treasury General Cash Receipt Account.

APPENDIX III
Report Distribution

American Ambassador to Madagascar	1
Mission Director, USAID/Madagascar	5
FDC/FHA	1
LPA/XA/PR	1
LPA/LEG	1
GC	1
AA/AFR	1
AA/M	1
AA/OPS	1
M/FA/FM	1
M/MPI/MIC	1
M/FA/FM/FPS	2
AA/G	1
REDSO/ESA	1
REDSO/RFMC	1
REDSO/Library	1
PPC/POL/CDIE/DI	1
IG	1
AIG/A	1
D/AIG/A	3
IG/LC	1
IG/RM	12
AIG/I&S	1
IG/I/NFO	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/S	1
RIG/A/SJ	1
RIG/A/B	1
RIG/A/EUR/W	1