

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF CASH MANAGEMENT
PROCEDURES USED BY WASHINGTON
UNIVERSITY IN ST. LOUIS**



**JANET REHNQUIST
INSPECTOR GENERAL**

**DECEMBER 2001
A-07-01-00133**



Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64108

CIN: A-07-01-00133
December 4, 2001

Ms. Katherine M. Landmann
Controller
Washington University in St. Louis
Campus Box 1147
7425 Forsyth Boulevard
St. Louis, MO 63105-2161

Dear Ms. Landmann:

This final report presents the results of our audit of the cash management procedures used by Washington University in St. Louis (University) to control the funds paid by the Payment Management System (PMS) during the three years ended June 30, 2000.

We found that the University did not have adequate policies and procedures in place to monitor daily cash balances and to precisely calculate interest earned on positive daily cash balances. In monitoring the daily cash balances, the University did not consider (1) outstanding checks and (2) overhead costs as incurred. In addition, the University did not use the appropriate interest rates when calculating the interest remitted to the Federal government.

We determined that the amount of excess interest remitted by the University was comparable to the amount of interest that should have been remitted if appropriate procedures had been used. We believe that this occurrence was a coincidence due to off setting factors in the University's calculation of the amount to be remitted.

We are recommending that the University revise its written policies and procedures to effectively monitor the daily cash balance and to accurately compute the Federal remittance. We made four specific recommendations for improving the University's cash management procedures. The University concurred with two and is still evaluating the third. However, they did not accept our fourth recommendation. The University's response is included in its entirety as Appendix A.

INTRODUCTION

Background

The Office of Management and Budget (OMB) Circular A-110 allows recipients to be paid in advance if the recipient: (i) has procedures that minimize the time between the

receipt of Federal funds and their disbursement, (ii) remits any interest earned on the Federal advances, and (iii) meets certain other financial management standards. Also, the financial management requirements for Federal advance payments are contained in Subpart C, Section 22.

Paragraph (a) of Section 22 states:

Payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients.

In addition, paragraph (b) of Section 22 states:

Recipients are to be paid in advance, provided they maintain or demonstrate the willingness to maintain: (1) written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient, and (2) financial management systems that meet the standards for fund control and accountability as established in Section .21. Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

Paragraph (1) of the above quoted section requires that any interest earned on the Federal advances be remitted annually to the PMS, less an allowance of \$250 per year for administrative expense.

Objectives, Scope, and Methodology

Our review was performed in accordance with generally accepted government auditing standards. The objective of this limited scope review did not require a complete understanding or assessment of the internal control structure. Therefore, we did not evaluate the internal control structure of the University. In addition, we accepted the expenditure amounts and general ledger posted dates without verification. We conducted our review at the University's office in St. Louis, Missouri during May through June 2001. The three objectives of our review were to determine whether the University:

- Maintains cash management procedures that minimize the time elapsing between the transfer of funds and their disbursement for program purposes;
- Maintains advances of Federal funds in interest bearing accounts and remits the interest earned to the PMS; and

- Reconciles fully the amount reported on *Federal Cash Transaction Reports* to its accounting records.

To accomplish our objectives, we reviewed the University's request for DHHS funds totaling \$613.7 million during the period July 1, 1997 through June 30, 2000. We also reviewed advances of funds, amounting to approximately \$16.7 million for the same period to support grants and contracts with the Department of Energy (DOE) and the National Aeronautics and Space Administration (NASA).

We selected the University's three largest funding sources (as associated with the PMS) to determine if positive cash balances had accumulated from advance requests. The DHHS, DOE, and NASA provided more than 99 percent of the funding during the audit period.

For the DHHS funds, we used data supplied by PMS and detailed expenditure data to calculate the daily cash balances: The PMS supplied us with the dates and amounts for all funds drawn during the audit period. The University supplied the following detail expenditure data:

- General ledger runs identifying daily expenses,
- Percentage of payments made electronically and manually in six month intervals,
- Outstanding check payments and dates from June 2001 (this information will be used for estimating the effect of outstanding checks for our audit period),
- The overhead costs posted at the end of each month, and
- Other adjustments to account for unallowable costs and differences between downloaded information and reported amounts.

For the DOE and NASA funds, we used the draw down and expenditure data supplied by the University. Such data included: daily print screens of individual deposits, general ledger runs showing daily and monthly expenses, and adjustments to account for unallowable costs.

Our review of the non-DHHS funds had findings consistent with those reported in the RESULTS OF REVIEW section for DHHS funds. However, these findings were immaterial to the audit. Further, the University was able to reconcile the Accounting System and the *Federal Cash Transaction Reports*.

FINDINGS AND RECOMMENDATIONS

We found that the University did not have adequate policies and procedures in place to monitor daily cash balances and to precisely calculate interest earned on positive daily cash balances. In monitoring the daily cash balances, the University did not consider (1) outstanding checks and (2) overhead costs as incurred. In addition, the University did not apply the correct interest rates when calculating the excess interest remitted to the Federal government.

The University remitted an amount of interest that was comparable to the amount that should have been remitted if appropriate procedures had been in effect. This occurrence was a coincidence due to off setting factors in the University's calculations. To ensure an accurate remittance to the Federal government in the future, we are recommending that the University revise their policies and procedures.

Daily Cash Balances

The University used a monitoring tool for computing the daily balances of cash that contained procedures that were inaccurate. Specifically, we determined the University:

- Considers the dates the checks were written rather than the dates the outstanding checks were presented for payment. This procedure resulted in an understatement of the daily cash balance. We were unable to obtain the dates the outstanding checks were presented for payment during our audit period. However, using information from a more current period, we created a schedule that estimated when payments should have reduced the daily cash balances.
- Considers all overhead costs incurred on the last day of the month rather than on a daily basis. Because the overhead did not reduce the cash balances on a daily basis, the monitoring tool computed an overstated average cash balance amount until the end of the month.

Notwithstanding the fact that the above procedures produced inappropriate data, University officials stated that the monitoring tool was acceptable with the current procedures.

Interest Calculations

The University did not use the appropriate interest rate in computing the amount of Federal remittance. The University's policies and procedures stated that the Corporate Treasury rate was to be reduced by 1.25 percent. However, the University deviated from its policies and procedures by using different rates and only changed the interest rates on a quarterly basis. A University official stated that the 1.25 percent reduction was to account for administrative costs and could not explain why the internal policies and procedures were not followed.

In our calculation, we used the Corporate Treasury rate and adjusted the amount due each year by the authorized \$250 administrative amount.

Summary

We determined that the University had 143 days in which there were positive cash balances. These daily cash balances represented a positive cash balance of \$82 million. We applied the appropriate interest rate and allowed for allowable annual administrative costs (\$250 times three years). We estimated that the University earned approximately \$10,200 of interest. During the same period, the University also remitted \$10,200 of interest to the PMS. Although the remittance was comparable to our calculated amount, this occurrence was a coincidence due to off setting factors used by the University in calculating the amount of the remitted interest.

RECOMMENDATIONS

We recommend that the University revise its written policies and procedures for effectively monitoring the daily cash balance on Federal funds. Specifically, the University should consider:

- Using outstanding Checks (dates presented for payment rather than dates issued),
- Adjusting overhead costs on a daily basis,
- Adjusting administrative costs (\$250) on an annual basis, and
- Using the appropriate interest rate.

UNIVERSITY RESPONSE

The University concurred with our recommendations for (1) adjusting administrative costs (\$250) on an annual basis and (2) using the appropriate interest rate. Regarding our recommendation for using outstanding checks, the University interpreted OMB Circular A-110 guidelines for calculating interest as allowing for the use of issued dates. However, the University is still evaluating this recommendation. Regarding the allocation of overhead on a daily basis, the University did not accept this recommendation for several reasons including the fact that it would significantly increase the daily transactions to the general ledger. The University's response is included in its entirety as Appendix A.

OIG RESPONSE

We believe that if the University implemented all of our recommendations it would improve its cash management by calculating precise amounts for the daily cash balances and Federal remittances.

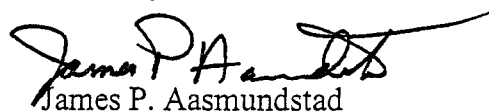
INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendations in this report within 30 days from the date of this report to the HHS

Action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS, reports issued to the Department's grantees and contractor are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5).

Sincerely,



James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosures

HHS Action Official:

Stuart J. Feldsott
Chief, University and Non-Profit Payment Branch
Division of Payment Management
Financial Management Service
Program Support Center
P.O. Box 6021
Rockville, MD 20852

Office of the Controller

November 9, 2001

James P. Aasmundstad
Regional Inspector General
For Audit Services
Office of the Inspector General
Department of Health and Human Services
601 East 12th Street
Room 284A
Kansas City, MO 64106

CIN: A-07-01-00133

Dear Mr. Aasmundstad:

Washington University has reviewed the results of the cash management audit for funds paid by the Payment Management System (PMS) during the three years ended June 30, 2000. The report discusses a number of issues regarding our current cash management practices and our responses have been noted below.

General:

The University maintains a large and complex research enterprise and it has specific resources dedicated to cash management. Our policies, procedures, and internal controls for federal funding are based upon various Office of Management and Budget (OMB) Circulars and agency guidelines. The University applies a conservative approach to cash management issues involving federal funds and attempts to minimize the occurrence of positive cash balances.

Administrative Allowance:

The University agrees with your recommendation about the administrative cost adjustment. Our policy and procedures will be revised so that the \$250 allowance is deducted from the accrued interest calculation on an annual basis.

Interest Rate:

The University concurs with your recommendation about the interest rate utilized in the accrued interest calculation. The full Corporate Treasury rate will be utilized in all future interest calculations.

CIN: A-07-01-00133
November 9, 2001
Page Two

Check Redemption:

Your recommendation to consider revising our practice of monitoring cash utilizing a check redemption methodology is being considered. Currently, the University computes the balance of federal funds based upon the dates that checks are issued. Our interpretation of the OMB Circular A-110 guidelines indicates that both methodologies (check redemption and check issuance) are allowable. Additionally, the check issuance method is closely integrated with the University's general ledger, payroll, purchasing, accounts payable, treasury, and sponsored projects accounting systems. We believe our current practices are in full compliance with the regulations and they are maintained in an administratively feasible and efficient manner; however the University will continue to evaluate its practice in order to maintain an appropriate and effective system.

F&A Processing:

Your recommendation to adjust overhead costs on a daily basis has been reviewed. We understand that there are other research institutions that perform this function on a more frequent basis, but our analysis indicates that several factors have significant influence over our current practice. Approximately 70% of the monthly F&A costs relate to the direct expenditures incurred at the end of the month. Accordingly, the timing of the F&A entry is closely matched to a major portion of a sponsored project's monthly expenses. The F&A entry is also closely integrated with the month end general ledger closing process. It's a four-step process that involves multiple federal and non-federal rates, several base methodologies, and approximately 2,300 transactions. (Note: Posting F&A costs on a daily basis would add approximately 800,000 transactions to the general ledger, per year.) Although posting F&A costs on a monthly basis is a conservative methodology, it's one that effectively utilizes general ledger resources while maintaining a high level of accuracy.

The cash management audit performed by your office was a constructive activity for both parties. The University appreciates your review of our procedures and your comments. If there are any additional concerns regarding these issues, please feel free to contact me directly. I would also be happy to meet and discuss the issues in more detail, should you prefer.

Sincerely:



Katherine M. Landmann
Controller