Report No. 6-263-01-002-P
October 29, 2000

MEMORANDUM

TO: USAID/Egypt Director, Willard J. Pearson, Jr.

FROM: Acting RIG/Cairo, Thomas C. Asmus

SUBJECT: Audit of Interest Paid to U.S. Banks under USAID/Egypt's Commodity Import Program

This is our final report on the subject audit. We reviewed your written comments on the draft report and have included them in Appendix II.

This report contains one recommendation for your action. Your written comments indicate that as a result of the audit the Mission has examined its procedures and has taken further steps to reduce the average number of days interest paid to U.S. banks under the Mission's Commodity Import Program (CIP).[1] However, given these improvements, the Mission believes that insufficient savings potential remains[2] to justify implementing an important part of our recommendation, i.e., to implement an alternative U.S. Treasury payment system on a pilot basis to determine the workload issues and savings potential from that system. We believe that the Treasury system has the potential to further reduce or eliminate interest payments to the banks. Hence, we do not consider that a management decision has been reached on the recommendation.

Please advise me within 30 days of any additional actions planned or taken by the Mission to implement the recommendation.

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

Background

USAID/Egypt (the Mission) and the Government of Egypt's (GOE) Ministry of International Cooperation (the Ministry) jointly manage the CIP. USAID provides $200 million per year to Egyptian private sector importers, accessible through participating Egyptian commercial banks,

[1] The Mission states that it has been able to reduce the average number of days to 7.6 as compared to an average of 13.26 noted during the audited period.

[2] We did not verify that the Mission reduced the average number of days to reimburse the banks to 7.6. However, if the average number of days is permanently reduced to that level, then the Mission should be able to reduce interest costs from the average $460,000 per year estimated by the audit to a new level of $270,000—a savings of $190,000 per year compared to the previous situation.

to finance the importation of equipment and materials from the United States. The Egyptian banks bear primary implementation responsibility for the program and act in accordance with the rules and procedures set forth in the Ministry's General Circular No. 1.[3]

The participating Egyptian bank reviews the importer's application for CIP funds to determine if the commodity conforms to General Circular No. 1 and applicable USAID regulations, and determines the credit worthiness of the applicant. The participating bank then forwards the approved application to the Mission for review and concurrence. Upon Mission concurrence, the participating Egyptian bank opens a letter of credit through a U.S. bank in favor of the selected U.S. supplier.

Local currency loans are made to Egyptian importers at the equivalent of the transaction's dollar value. These loans are made at prevailing local interest rates and provide differing interest-free grace periods and repayment periods depending on whether the importer is a trader or end user and whether the import is a capital or non-capital good. Under the program, importers pay off their local currency loans and the Egyptian participating banks deposit these repayments in separate special accounts established for the program at the Central Bank of Egypt. USAID/Egypt and the Ministry then jointly program the funds in the special accounts. Typical uses of the funds include general budget support to the GOE, sector budget support to individual GOE Ministries or Agencies, and support for the Mission's projects and operations.

USAID/Egypt finances the U.S. dollar cost of the imported commodities and associated freight and charges through Letters of Commitment (L/COM) issued to U.S. banks. The U.S. supplier, prior to shipment, must submit to the Mission a form[4] certifying that the transaction is eligible under CIP regulations. The Mission must approve this form before the U.S. bank can make payment to the supplier. This approved document along with copies of shipping and commodity invoices is then submitted to the U.S. bank for payment. The U.S. bank pays the U.S. supplier and then sends a voucher to USAID/Egypt to be reimbursed. The Mission reimburses the U.S. bank for the amount paid to the supplier plus banking charges. After the U.S. bank is reimbursed for the original transaction, it then bills again for interest given the number of days it took to receive reimbursement.

Audit Objective

The Office of Regional Inspector General, Cairo audited the CIP as a result of survey work indicating that it might be possible to reduce or eliminate interest payments to U.S. banks. The audit was designed to determine if there are practical ways for USAID/Egypt to reduce or eliminate interest paid to U.S. banks on Letters of Commitment for Commodity Import Program purchases.

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

[3] General Circular No. 1, Rules and Procedures for Utilization of Funds under the Private Sector Commodity Import Program, June 8, 2000.

[4] USAID Form 11, Application for Approval of Commodity Eligibility.

Audit Findings

Are there practical ways for USAID/Egypt to reduce or eliminate interest paid to U.S. banks on Letters of Commitment for Commodity Import Program purchases?

There are practical ways for USAID/Egypt to reduce or eliminate interest paid to U.S. banks on Letters of Commitment for Commodity Import Program purchases.

USAID/Egypt Needs to Explore
<u>Alternate CIP Payment Method</u>

Federal policy[5] requires that agencies periodically analyze how new technology and modifications to work processes can enhance agency operations and financial management. By adopting a U.S. Treasury payment system which would permit immediate reimbursement to U.S banks, USAID/Egypt could reduce or eliminate further interest payments to the banks, saving up to $460,000 annually. The Mission did not consider the Treasury system because it was not aware that it existed. Further, the Mission noted that it would need to request a deviation from USAID policy to permit the banks, since banks are for-profit institutions, to reimburse themselves before the Mission reviews and certifies the payment. The Mission also voiced various concerns regarding implementation details and wondered whether the U.S. banks would be willing and capable to use the new system.

USAID/Washington did not oppose revising the disbursing mechanism currently in place. Also the banks that responded to our e-mail inquires indicated that they were willing and capable of using the new system. Regarding implementation details, we consider that to be the responsibility of the Mission controller.

DISCUSSION

Since taking over payment responsibilities from USAID/Washington at the beginning of FY1998, USAID/Egypt's Financial Management office (FM) took steps to reduce interest costs. For example it implemented a new payment method whereby payments to U. S. banks were made against faxed vouchers resulting in reduced interest payments. Also in FY1999, it negotiated interest rates and bank charges with participating banks. FM stated that as a result the interest rates were reduced from 8.5 to almost 7 percent. However, at the time of our audit, most of the banks were charging the Federal Funds rate, which is lower.

The CIP incurs interest from the date the U.S. bank pays the U.S. supplier to the date the bank receives reimbursement from USAID. In order to reduce this period of time, FM requested that the U.S. banks fax their invoices to the Mission so that payments could be expedited. FM's voucher examiners base their reviews on this faxed voucher and, once certified, the

5 Office of Management and Budget (OMB) Circular No. A-127, Financial Management Systems, Section 8a.

vouchers are scheduled for payment through the Kansas City Regional Financial Center. However, even with this expedited process, it has taken about 13 days on average [6] for the U.S. banks to receive payment.

Upon further analysis of payment data, it became apparent why there were delays in the payment process. We analyzed the FY1999 approved letters of credit transactions for one bank L/COM. For the 47 transactions reviewed, it took about a day and a half on average for the bank to fax the vouchers to the Mission for payment. Once the voucher was faxed, it took another 2.5 days on average for FM to date stamp and log the voucher into its payment system. We noted only two instances where the Mission was able to log the voucher into its payment system on the same day it was faxed to them. Finally, it took an additional five days on average to process the voucher from voucher examination through the Mission's electronic transmittal of the payment data to the Kansas City Regional Financial Center.

Certain delays in the reimbursement process are unavoidable. In our opinion, even in the best case scenario it would take a minimum of four days[7] from the point the U.S. bank pays a transaction until it receives reimbursement. There are various reasons for this situation. USAID/Egypt's workweek does not correspond exactly with the workweek in the U.S.[8] There is a seven-hour time difference between Egypt and most of the U.S. banks used by the program. Even if the U.S. banks immediately faxed the voucher after payment to the supplier, the Mission could very well be closed by the time the fax was received. Further, to process the payment takes additional time. Also, we were told that sometimes the Mission encounters problems in transmitting the data to the Kansas City Regional Financial Center. Additionally, there are other delaying factors such as the Mission being closed for Egyptian holidays, and personnel not being available to process the transactions due to leave, training, higher priority work, etc.

Regardless of the reasons behind the delays, the interest costs to the CIP are substantial. USAID/Washington and USAID/Egypt from FY1996 through May 2000 spent over $1.7 million on CIP interest charges. For FY1999, the Mission provided us with a report documenting interest costs exceeding $376,000.[9] We calculated that in FY2000 through the end of May, expenditures for interest already exceeded $425,000. USAID/Egypt's strategic plan projects CIP funding at the current level of $200 million per year through FY2006 and then reducing gradually to $150 million by FY2009. We estimate that the interest cost to the CIP

[6] The Mission approved 627 CIP letters of credit for FY1999. We examined 289 transactions from those letters of credit, calculating the number of days from the date of payment to the supplier to receipt of the payment from USAID reimbursing the transaction. The average number of days to reimburse banks was 13.26 days per transaction.

[7]The best case scenario assumes one day for the Mission to receive the bank's fax, two days to examine the voucher, and one day to both certify the voucher and have the Kansas City Regional Financial Center pay the bank. Even though we believe that the payment delay could be reduced to as low as 4 days, this goal probably would be unrealistic. Of the 289 transactions we reviewed, only 5 vouchers were paid in 4 days or less (1.7 percent).

[8] The Mission's workweek is Sunday through Thursday while the U.S. workweek is Monday through Friday.

[9] The Mission Accounting and Control System (MACS) does not separately break out the interest payments. The $376,000 figure was based on a MACS intelligent query report sorted for the word "interest".

over the next five fiscal years will amount to $2.3 million, [10] or $460,000 per year.

In discussions with U.S. Treasury officials, we learned of a payment system that could possibly eliminate the interest incurred from delays in reimbursing U.S. banks. This system, which has been available since 1995, is called the Automated Standard Application for Payments (ASAP) system. It is an all-electronic payment and information system through which financial agents that are performing financial services for Federal agencies (such as the U.S. banks under the CIP) can draw from accounts pre-authorized by Federal agencies.

The system would work as follows:

- U.S. banks receiving CIP funds enroll one time to use ASAP.
- USAID/Egypt would establish and maintain L/COM accounts in ASAP to control the flow of funds to the U.S. banks.
- The Mission would electronically enter spending authorizations into its ASAP accounts in accordance with L/COM needs and schedules.
- The U.S. banks would initiate payment requests via the Federal Reserve's electronic payment (FEDWIRE) system after first paying U.S. suppliers and faxing a copy of their invoice for payment to USAID/Egypt.

USAID/Egypt's on-line authorizations can be made effective as of the current processing day or up to a year in advance, in which case the authorization is warehoused until its effective date. Authorization transactions, once certified, immediately update the system.

U.S. bank payment requests are approved or rejected automatically by the ASAP system, unless placed on "Mission Review", based on the amount of available funds in the account. U.S. banks would be able to return funds to their ASAP accounts via the same FEDWIRE payment system they used to take the money out. The Mission and the U.S. banks can view relevant data on-line, such as up-to-the-minute account balances, account history, and the status of payment requests affecting their ASAP accounts. Furthermore, the Mission will also receive daily reports relating to the ASAP accounts under its authority.

Using Treasury's ASAP system may have the added benefit of reducing the workload of both FM's payment branch and U.S. banks. According to information provided to us by FM, in FY1999 it processed 623 interest payment transactions for the CIP. Each of these transactions requires a review to determine the accuracy of the claim. Depending upon how FM would choose to implement the ASAP system, it is conceivable that these interest transactions would be eliminated thus reducing FM's workload. In addition, we contacted nine U.S. CIP banks to inquire about any concerns using the ASAP system. Of the five banks that responded, four

[10] We calculated this amount by using the funding level of $200 million per year multiplied by the current Federal Funds rate of 6.5 percent. We assumed 13 days of interest due to payment delays. This total was then multiplied by 5 years. Our calculation is based on $200 million average expenditures because actual total CIP disbursements in a given fiscal year may be more or less than $200 million.

stated that their workload would be reduced using this system. One bank official stated that "not having to invoice USAID for interest charges would be to our mutual benefit. Aside from reducing our workload, it would reduce your cost of operation."

Prior to our audit the Mission had taken steps to reduce interest payments, however it had not considered the possibility of using an electronic payment system to allow the U.S. banks under the CIP to immediately reimburse themselves upon making a CIP payment. Besides being unaware of the existence of Treasury's ASAP system, FM noted that ASAP would require the use of advances, and that USAID policy[11] does not favor making advances to for-profit organizations. FM personnel pointed out that even though the banks could be required to fax their invoices to the Mission, as they do now, prior to reimbursing themselves through the ASAP system, technically the banks would be getting an advance until FM examines the faxed invoice and certifies payment.

We note FM's point that the banks reimbursing themselves through the Treasury ASAP system would technically be an advance of funds until FM examines and certifies the voucher. Our interpretation of the applicable ADS policy, however, is that it is open to making advances to for-profit organizations when it makes sense.

ADS 636.5.1 states that under certain conditions advances may be extended to for-profit organizations and gives a few examples of when it would be appropriate. Further, ADS 636.2 states that the prescribed policy is not intended to cover all possible situations involving advances, and that questions concerning its application to a particular situation not fully addressed in the policy should be directed to USAID/Washington's Office of Financial Management (M/FM). We briefed M/FM on Treasury's ASAP system and how we envisioned the system saving interest charges to USAID/Egypt's CIP. M/FM officials told us that the idea sounded good in theory and that it would be willing to grant a deviation to USAID/Egypt to try using the ASAP system for CIP expenditures. M/FM stated it would be up to the Mission to determine the practicality of the ASAP system.

The Mission raised various other concerns that it envisioned might make use of the ASAP system an impractical method for reimbursing payments made by the U.S. banks under the CIP:

1. It questioned whether the banks would be agreeable to using the system and whether the banks might increase their fees for lost profit built into their interest charges.

   As noted earlier, all the banks that responded to our e-mail inquiries (5 of 9) indicated that they were open to using the system. The banks stated that profits built into interest charges were minimal.[12] We did not specifically ask if the banks would raise banking fees to compensate for the small profit factor built into their interest rates. We consider banking fees a separate issue from interest charges and that if any bank were to raise its fees to the point the fees would be non competitive with other banks, the Mission would have the

[11] USAID ADS Chapter 636, Program Funded Advances.

[12] As an example, we noted that one bank added a spread of 3/20ths, or .15 percent, above the cost of its funds in charging USAID.

option of redirecting its business over time to more competitive banks.

2. The Mission questioned whether use of the ASAP system would increase the workload of the controller's staff, envisioning that there would be problems keeping the CIP accounts reconciled.

   As regards to this concern, we note that the Mission would only have the CIP disbursing under the ASAP system, which system is run through a different payment center (Federal Reserve Bank of Richmond) than the one the Mission uses for the rest of its programs. So the CIP payment data would be clearly segregated from the rest of the Mission's program. That coupled with the fact that the ASAP system accounts can be structured as the Mission pleases (e.g. accounts by individual L/COM or even accounts detailed to the letter of credit level) we do not envision that reconciliation will be an unsolvable problem.

3. USAID/Egypt FM staff questioned what the actual accounting entries and transaction-processing procedures would be.

   When we attempted to discuss these matters further with the chief accountant, he stated that he does not have enough information about the ASAP system and therefore is not in a position to answer those questions until sufficient detailed information is available and the system is tested. He stated that he was willing to answer any questions pertaining to the existing system, but could not give an opinion about a proposed system he does not know about. Considering this response, we decided not to spend further effort inquiring into this area. In any case, we consider that determining such technical details is the controller's expertise and responsibility.

Use of the ASAP system for reimbursing U.S. bank expenditures under the CIP has the potential to save about $460,000 per year in program funds that otherwise would be spent on bank interest charges. The Mission can use these funds to finance additional U.S. imports. While we think the Mission should implement the ASAP system for CIP expenditures, we agree with USAID/Washington/M/FM's statement that determining the practicality of that system is the responsibility and authority of USAID/Egypt. Consequently, we are making the following recommendation.

<u>Recommendation No. 1</u>: We recommend that USAID/Egypt explore alternative ways to reduce or eliminate interest paid to U.S. banks on letters of commitment for Commodity Import Program (CIP) purchases. Such exploration should include implementing Treasury's Automated Standard Application for Payments (ASAP) system on a pilot basis for one or two U.S. banks participating in the CIP program so that the Mission can evaluate the workload issues involved in using the ASAP system as well as the savings potential.

Management Comments and Our Evaluation

The Mission interpreted the report as not containing reportable internal control conditions and as acknowledging the Mission's compliance with OMB Circular A-127.

It stated that in compliance with the audit report it conducted a thorough review of the current payment system, noted some areas that needed more attention, and directed its staff to give CIP payments utmost attention. It further stated that as a result of these actions, during the April to September 2000 period, it had been able to reduce the average number of days to reimburse the U.S. banks from "about 13 days" as stated in the audit report to 7.6 days.

The Mission stated that the ASAP system ignores Agency policies regarding pre-payment document examination and certification, and that USAID policy prohibits giving advances to for-profit organizations such as the banks. It stated that USAID Regulation No. 1 requires a number of documents be submitted and therefore the Mission will still have to examine those documents prior to payment. Further, it stated that even if it opted for the ASAP system "with the option of transferring funds [being] kept at the Mission" it believed the potential savings in processing time would be only one day compared to the current procedures (as improved due to its latest review). It did not believe the minimal savings in interest costs from a one-day reduction in processing time justifies the cost of implementing the ASAP system even on a pilot basis as there would be additional costs of training, system trouble shooting at the Mission, the banks and Treasury.

Further, the Mission stated the ASAP option would result in the Mission relinquishing accountability of its funds. It indicated that ASAP would result in noncompliance with USAID Regulation No. 1, banks would have no incentive to send payment documents to the Mission, records would not be up-to-date, and there would be potential major reconciling problems with the U.S. Treasury and banks. It further stated that ASAP would increase the workload of the controller staff and that introducing ASAP at the banks would introduce another challenge for the banks, increase their likelihood of making errors, and most likely result in increased bank fees. Lastly, it stated that the estimated interest cost of $460,000 per year being paid to the banks is an acceptable cost of doing business as the banks provide an invaluable service. (The full text of the Mission's comments is included as Appendix II.)

While we note the Mission's comments that it has been able to reduce the average number of days it takes to reimburse banks, we note that such improvement partially is achieved by giving CIP payments "utmost attention". We applaud the Mission's accomplishment but, at the same time, question whether the same degree of attention and results will be achieved over time. In any case, the Mission is satisfied with reducing the average number of days interest paid to 7.6. However, we believe that with the ASAP system the number of days interest can be reduced further, possibly to zero.

We agree that the banks provide a valuable service for USAID. However, the banks are paid for their services via bank fees—not interest. The banks charge the Mission interest because the Mission is using the banks' funds until such time as the Mission reimburses the banks. Hence it is a worthy goal to eliminate these avoidable costs.

The Mission offers USAID Regulation No. 1 as a reason for why it would not be able to reduce the number of days of interest charges. It states that all the required documents per Regulation

No. 1 will need to be examined before certifying payment. However, such contention is contrary to the Mission practice noted during the audit. During the audit the Mission reimbursed banks after receiving a faxed Standard Form 1034 invoice from the banks. The controller's office did not wait to certify payment until it had examined all the documents. Another point regarding USAID Regulation No. 1 is that USAID may waive, withdraw, or amend at any time any or all of the Regulation's provisions (see section 201.86 of the Regulation). Hence, the Mission's argument in this respect is misleading.

Certain other statements offered by the Mission also are somewhat less than forthright, for instance, its statement that USAID policy prohibits giving advances to for-profit organizations. As we have explained in the audit finding, our interpretation of the policy is that it is open to making advances to for-profit organizations when it makes sense. In any case, under the ASAP system the banks would only reimburse themselves for their payments made on behalf of the Mission. The banks would not be authorized to take funds in advance of making those payments.

As regards examining documents and certifying payment after the fact, USAID already allows advance payments under grantee letters of credit without pre-examination of documents or certification. So there is precedent for making payments and examining the supporting documents later. It should be noted that USAID Regulation No. 1 basically holds banks blameless for CIP program payments based on documents that they accepted from the suppliers in good faith. Hence the banks are entitled to reimbursement for these expenditures in any case. Delaying payment simply acts to increase interest costs.

The Mission's concerns that banks will not send the documents specified in the agreement, the Mission's records will not be up-to-date, there will be major reconciling problems with Treasury and the banks, and the banks will raise their fees—all these problems are what we would term, "to be determined." Obviously, as with any new endeavor there will be start up problems and learning curves. This not to say that it is acceptable for the Mission to dismiss the ASAP system out-of-hand without making a good faith effort to make it work and assess its savings potential. If the controller was interested in implementing the ASAP system on a pilot basis, then we believe the controller staff would make it work. Information on the U.S. Treasury website shows that other departments of the U.S. Government use the system.

Lastly, we do not agree with the Mission's interpretation that its paying hundreds of thousands of dollars per year in otherwise avoidable interest costs is not an internal control issue. Purposely incurring avoidable costs amounts to a waste of resources. Also, the audit report cites OMB Circular A-127 in the vein that the Mission should analyze how the ASAP system can enhance agency operations and financial management. The Mission has not done this yet.

In conclusion, the Mission's comments indicate that it has no plans to implement the ASAP system on a pilot basis to evaluate the workload issues involved as well as the savings potential. We do not agree with this plan of action. Hence, Recommendation No. 1 remains without a management decision.

We would be happy to consult with the Mission during pilot implementation of the ASAP system to suggest changes to achieve the best results.

SCOPE AND METHODOLOGY

Scope

This report is based on our audit of the payment process for USAID/Egypt's Private Sector Commodity Import Program. We reviewed approved FY1999 letter of credit transactions paid under Letters of Commitment issued to U.S. banks. During FY1999, the Mission approved 627 CIP letter of credit transactions amounting to about $233 million. There were 244 Egyptian importers and 279 U.S. suppliers that participated in the program during this time. This audit assessed the Mission's reimbursement process to U.S. banks and looked at ways to reduce or eliminate CIP interest costs. The audit was conducted from March 13, 2000 through August 10, 2000 at USAID, U.S. Treasury and contractor offices located in Washington, D.C. and USAID/Egypt. All work was done in accordance with generally accepted government auditing standards.

Methodology

To accomplish the audit objective, we first conducted a survey to learn about the operations of the CIP and to assess program internal controls. Then we reviewed Office of Management and Budget Circular No. A-127, Financial Management Systems, USAID's Automated Directives System (ADS) Chapter 636, Program Funded Advances, and Treasury Manual Volume 1 - Part 6 - Chapter 2000, Cash Advances Under Federal Grant And Other Programs.

We interviewed U.S. Treasury financial management officials to gain an understanding of alternative payment methods available to U.S. government agencies. In order to gain an understanding of the CIP payment process, we interviewed USAID/Egypt's CIP program personnel, voucher examiners, the Mission's certifying officer and other USAID/Egypt controller personnel. Additionally, we contacted officials at U.S. banks participating in the program.

In determining the number of days for U.S. banks to receive their CIP reimbursements, we first determined the interest rate charged by the U.S. bank. Using the total interest paid data from the Mission's CIP office, we calculated the number of days of interest paid to U.S. banks by taking the amount of interest paid and dividing it by the applicable bank's interest rate. This method did not always result in an exact number of days because many of the banks' interest rates are tied to the Federal Funds rate, a rate that changes from time to time. Therefore, the U.S. banks often used more than one rate to calculate interest costs. To be conservative, we rounded the number of days down to the nearest whole number. The calculated results, therefore, are understated. Finally, we verified these analytical calculations by selecting random transactions and tracing the actual number of days of paid interest to the payment vouchers.

USAID

CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

RECEIVED

23 OCT 2000

MEMORANDUM October 22, 2000

TO: Thomas C. Asmus, A/RIG/Cairo

FROM: Willard J. Pearson, Jr., Director, USAID/Egypt

SUBJECT: Draft Report of Audit of Interest Paid to U.S. Banks under USAID/Egypt's Commodity Import Program (CIP) received by E-mail September 11, 2000

Thank you for giving the Mission the opportunity to comment on the draft audit report. My staff was complimentary of your cooperation on narrowing down the differences between the RIG/Cairo and the Mission of the discussion paper presented earlier. I want to assure you that I am committed to full cooperation between our two offices as I believe it's critical to achieving the overall Mission and U.S. objectives in Egypt.

I am pleased the draft audit report contains no reportable findings on internal control conditions, non-compliance issues or deviation from existing criteria, rules, regulation, or applicable laws. I was also pleased that the report acknowledged the Mission's compliance with OMB Circular A-127 by reducing interest paid to banks since the Mission took over this program from USAID/W. In compliance with the report, my staff carefully reviewed the report and conducted a thorough review of the current payment system which is in full compliance with existing rules and regulations governing payment, certification, and CIP guidance. The review, however, disclosed some areas that could benefit from close monitoring of the payment process such as improving communications with some banks, and requesting others to fully comply with prior arrangements that were designed to expedite the payment process. For example, we suggested to one bank to use e-mail, and we improved communications with banks by arranging for our staff to visit most of them in the U.S.

USAID/Egypt
Zahraa El Maadi, Maadi
Cairo, Egypt

and solve some pending issues and avoided potential problems. In one case, we held one bank accountable for faxing claims instead of express-mailing them. Furthermore, we instructed the Accounts Payable Section and the U.S. Certifying Officer, in the Controller's Office, to give the CIP payment the utmost attention. These improvements, which coincided with the time the audit was underway, have proven to be effective. For example, our recent bank letters of commitments (L/COM) payment records show in the last six months (April - September) the average number of days it took the Mission to reimburse banks has been reduced from "about 13 days" to 7.6 days, a reduction of 42%, (Annex I). With full implementation of the new improvements, we expect the average number of days and the interest paid will decline. This average number of days in this context is the difference between the date the bank paid the supplier and the date the bank received payment from the Mission.

In regards to Treasury's Automated Standard Application for payments (ASAP), a team from the Mission visited Treasury and most of U.S. banks in June 2000 participating in the CIP. The purpose of the visit was to study the system and assess the banks capabilities to undertake a new system. As far as the team could determine, ASAP is designed almost exclusively for non-for-profit grantees that do not have the capability to put their funds up-front and request reimbursements from grantors. Therefore, these organizations withdraw federal funds as advances and account for them later. Under the CIP program suppliers are almost always for-profit organizations. The same is true for the U.S. commercial banks. USAID policy prohibit giving advances to for-profit organizations.

I also want to emphasize that the Mission is in full compliance with required control measures stipulated in the Agency existing policies. ASAP ignores Agency policies regarding pre-payment document examination and certification. USAID Regulation 1, Subpart F, Section 201.51c, states, in part "upon presentation to USAID of the documents described in Section 201.52, USAID will reimburse the banks any amount paid by it in dollars to or on behalf of the approved applicant pursuant to a letter of commitment, subject, however, to compliance by the requirements of Subpart H. Documents required include voucher (SF 1034); supplier's invoice, charter party (if applicable); evidence of shipment and the associated documents; supplier's certificate, freight forwarder's invoice and the commodity approval application." Therefore, based on the above, the Mission will still have to examine documents prior to payment. Even if we opted to use ASAP with the option of transferring funds is kept at the Mission, we believe the time required to process payment under ASAP is almost identical to the current system using Health and Human Services (HHS) facilities in Kansas City. At best, there is the potential of saving one day using ASAP. We believe this scenario does not justify the use of a new system with the additional cost of training and system trouble shooting at the Mission, the banks, and at Treasury.

If the option to give the transferring of fund authority to the banks selected (an ASAP option), the Mission would relinquish accountability of it's own funds. Example: Non-compliance with USAID Regulation 1, banks would have no incentive to send payment documents to the Mission, records would not be up-to-date, potential major reconciling problems with U.S. Treasury and banks. Finally, there would be additional workload resulting from opening up 400 accounts per year as payments would have to be tracked at the letter of credit level (LC) for posting purposes.

In exploring ASAP as an option, our staff found that most of the U.S. commercial banks maintain a small staff designated for this work and the turnover is considerably high. Introducing a new system would impose another challenge for banks and increase the likelihood of errors, and most likely will increase bank fees!

Finally, the report specifically requested comments on the potential monetary benefits of ASAP. Please note the report estimated interest cost per annum under the current system by $460,000. This represents 0.25% or one quarter of one percent of CIP funds disbursed per year. We believe this is an acceptable cost of doing business as the banks provide invaluable service e.g. voucher examination and facilitating implementation the CIP program. The improvements the Mission has undertaken as discussed above will further reduce interest paid to banks. I also want to share with you that the amount of interest paid in the report is for FY 99, which included two periods totaling more than 30 days when payment system was shut down due to Y2K testing.

In conclusion, we believe we complied with the draft report by exploring new alternative ways to reduce or eliminate interest paid to U.S. banks on letter of commitment for CIP purchases. We also fully considered implementing the ASAP system and found it inappropriate for the CIP program. **Therefore, we request closure of the recommendation upon issuance of the report.**

cc: A. Aarnes, D/DIR
D. McCloud, AD/SCS
G. Kinney, OD/PROC
P. Weisenfeld, OD/LEG
R. Mahoney, AD/EG

Annex I

SUMMARY OF THE BANK L/COM PAYMENTS AND INTEREST				
FROM 04/01/2000 TO 09/30/2000				
TOTAL/MONTH	PRINCIPAL	INTEREST PAID	AVR DYS BK TO CK	AVR DYS BK TO REC
TOTAL APR 2000	25,027,541.03	74,586.46	8.648936	5.202128
TOTAL MAY 2000	29,864,996.20	51,817.96	9.428571	6.038095
TOTAL JUN 2000	12,126,164.36	56,257.46	9.17284	4.604938
TOTAL JUL 2000	15,400,405.44	32,057.60	7.526316	4.631579
TOTAL AUG 2000	18,899,305.10	28,056.26	5.604396	4.208791
TOTAL SEP 2000	11,532,942.76	8,503.47	5.539683	3.650794
TOTAL FOR SIX MONTHS	**112,851,354.89**	**251,279.21**	**7.653457**	**4.722721**

NOTE:

AVR DYS BK TO CK = CHECK DATE - BANK PAYMT DATE

AVR DYS BK TO REC = RECEIVING BY USAID-BANK PYMT DATE