

**Regional Inspector General for Audit
Dakar, Senegal**

**Audit of USAID/Guinea's
Management of Cash Advances**

**Audit Report No. 7-675-99-009-F
September 24, 1999**

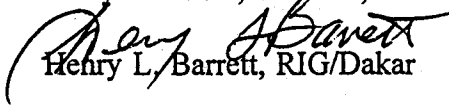
UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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September 24, 1999

MEMORANDUM

TO: Harry Birnholz, Director, USAID/Guinea
FROM: 
Henry L. Barrett, RIG/Dakar
SUBJECT: Audit of USAID/Guinea's Management of Cash Advances
Audit Report No. 7-675-99-009-F

The attached memorandum is our report on the subject audit. We have considered your comments on the draft report and have included them in Appendix II.

This report contains three recommendations. Management decisions have been made for all of the recommendations, including recommendation number 1 for \$130,792, recommendation number 3.1 for \$465 and recommendation number 3.2 for \$61. Furthermore, Mission management has taken final action on recommendation numbers 1.1 and 1.2. Consequently, no further action on the part of the Mission is required for recommendation numbers 1.1 and 1.2. However, the USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action related to recommendation numbers 2, 3.1 and 3.2 has occurred.

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

Background

The Administration and Congress have been very concerned about the impact cash management of Federal funds has on the United States (U.S.) Department of the Treasury borrowing costs and the national debt. Consequently, they have urged Federal agencies to take steps to improve their management of cash advances to Federal program recipients. Inefficient cash management costs taxpayers millions of dollars every year and contributes to the increase in the national debt. Federal policy endorses advancing cash in reasonable amounts to nonprofit, educational, or research institutions for experimental, developmental or research work. USAID extends this policy to all nonprofit organizations, U.S. educational and research institutions and international

research institutions. This policy ensures that the organizations will not have to use their own working capital or earmarked funds to finance work done under USAID agreements. USAID policy recognizes that funding for host country governmental institutions will also normally be on an advance of funds basis.

The U.S. Department of the Treasury policy requires USAID to monitor the cash management practices of recipient organizations to ensure that advances of Federal funds are limited to the minimum amounts necessary for immediate disbursement needs. In addition, the policy says that remedial measures should be taken in the event excessive cash is withdrawn. Furthermore, according to Treasury policy, cash advances should be timed to coincide with a recipient's actual cash requirements. Treasury recognizes two methods of making advances to recipients: advances by Treasury check and advances under letters of credit. The letter of credit method enables the recipient to withdraw cash from the Treasury concurrently with disbursements as frequently as the disbursements are made. Thus, under letters of credit, recipients need only maintain small balances of Federal cash necessary to accommodate the minimum limitation on individual drawdowns.

Audit Objective

The audit was designed to answer the following question:

Did USAID/Guinea follow USAID policies and procedures in issuing and limiting cash advances to a recipient's needs?

To test the effectiveness of USAID's internal controls related to this objective, we reviewed ten judgmentally selected advances (see Appendix III) to determine whether they were valid, properly monitored and whether their unliquidated balances complied with Federal and USAID guidance. Additional testing included various other fund control responsibilities associated with reconciling outstanding advances.

Appendix I contains a discussion of the scope and methodology for the audit work conducted at USAID/Guinea.

Audit Findings

Did USAID/Guinea follow USAID policies and procedures in issuing and limiting cash advances to a recipient's needs?

USAID/Guinea generally followed USAID policies in reviewing and approving the issuance of advance requests, in an effort to limit advances to a recipient's cash needs for 90 days. However, we noted weaknesses in USAID/Guinea's monitoring and follow-up of its outstanding advances and errors in its processing of liquidating vouchers relating to advances.

As of December 31, 1998, USAID/Guinea had a total of 41 outstanding project advances totaling \$140,431. Of these 41 advances, 33 totaling \$130,792 were outstanding for more than 90 days. In addition, we noted that the Controller's Office had not correctly processed two advance-related transactions totaling \$526.

Outstanding Advances Were Not Properly Liquidated and Adequately Monitored

The Treasury Financial Manual, Volume 1, Part 6, Chapter 2000 says that advances to a recipient organization will be limited to the minimum amounts necessary for immediate disbursement needs. USAID Handbook 3 Supplement B further defines this limitation by saying that advances shall be limited to the minimum amount needed by the recipient for immediate disbursing needs, up to a maximum of 90 days of its cash needs. We determined that USAID/Guinea had 33 outstanding advances totaling \$130,792 that were more than 90 days old (see Appendix III), including one advance of \$24,845 that was perceived by the Mission to be uncollectible, but not reported to USAID/Washington as required. The Mission stated that they did not always comply with these policies and procedures because they did not have the staff to properly monitor the advances and to follow up on the liquidation of advances more than 90 days old. As a result, advances that were outstanding for an excessive period of time increased the borrowing costs of the U.S. Department of the Treasury.

Recommendation No 1: We recommend that USAID/Guinea:

- 1.1 establish a work plan and time schedule to resolve and liquidate the 33 advances totaling \$130,792 that have been outstanding for more than 90 days; and**
- 1.2 establish a system to ensure that the Mission notifies USAID/Washington when advances over \$500 are perceived to be uncollectible.**

USAID Handbook 3 Supplement B states that advances shall be limited to the minimum amount needed for immediate disbursement needs up to a maximum period of 90 days of cash needs. The U.S. Department of Treasury policy requires USAID to monitor the cash management practices of recipient organizations to ensure that remedial measures are taken in the event excessive cash is withdrawn. Furthermore, the USAID Controller Guidebook, Chapter 16 III, Section A4 states that USAID should make every effort to collect payments owed to the U.S. Government in a timely manner.

Regarding amounts perceived to be uncollectible, USAID Handbook 19 says that the Mission should notify USAID/Washington of all such amounts over \$500, to enable USAID/Washington to determine a course of action that should be taken regarding the perceived uncollectible advance.

During our review, we determined that USAID/Guinea had 33 outstanding project advances

totalling \$130,792 that were more than 90 days old. These old advances represented 80 percent of the 41 total project advances and 93 percent of their total dollar value of \$140,431. In reviewing the accounting records and their history, we noted that consistent efforts were not made to monitor and promptly collect these old outstanding amounts.

Included in the above mentioned old outstanding advances was one advance of \$24,845, which the Mission perceived to be uncollectible. Furthermore, we determined that the Mission did not notify USAID/Washington of this perceived uncollectible advance, as required by Handbook 19.

The Mission stated that they did not always comply with the guidelines for advances because they did not have the staff to properly monitor the advances and to follow-up on the liquidation of advances more than 90 days old. They stated that, because they were short of staff, choices were made as to which tasks were the most important and monitoring of advances was assigned a lower level of priority. As a result, advances remained outstanding for excessive periods of time, ultimately leading to increased borrowing costs for the U.S. Treasury.

Controller's Office Staff Do Not Have Adequate Training in Monitoring or Processing Advances

USAID's "Financial Management Bulletin" says that the Controller should pursue an active follow-up program for all advances as a basis for actions with respect to the liquidation of advances. This guidance further says that the recipient of advances must report expenditures to USAID which are used to liquidate advances. During our audit we noted two instances totaling \$526 in which such liquidating vouchers were not processed properly by the Controller's Office. This was due to the staffing problems and lack of trained accountants. As a result, USAID's funds were improperly spent and reflected on its accounting records, and, more importantly, appropriate internal controls related to advances were lacking.

Recommendation No 2: We recommend that the Controller of USAID/Guinea provide in-country training to the Controller's Office staff on the monitoring and accounting for project advances.

Recommendation No. 3: We recommend that the Controller, USAID/Guinea:

- 3.1 initiate action to collect the \$465 which was erroneously disbursed; and
- 3.2 adjust the Mission Accounting and Control System records to properly reflect the \$61 liquidating voucher.

USAID's Financial Management Bulletin, Part III - Bulletin No. 2 entitled "Financial Analysis for Programs and Projects Implementation" says that "the Controller should pursue an active follow-up program for all advances, including a regularly scheduled analysis of the status, aging, and utilization of funds as a basis for actions with respect to decreasing, increasing or liquidation

of advance balances to meet current, immediate needs." This Bulletin also adds that recipients must report expenditures to USAID, which USAID will in turn use to liquidate the outstanding advance.

During our review we noted two errors in the monitoring of advances and the processing of related vouchers. In one instance the Mission incorrectly processed a voucher for \$465 by disbursing funds to the recipient, instead of applying the voucher against the recipient's outstanding advance. In a second instance, we found a \$61 voucher which was correctly identified on the voucher as an amount to be applied against an outstanding advance. However, this voucher was not posted against the outstanding advance in the "Mission Accounting and Control System" (MACS). Thus, the MACS incorrectly showed an outstanding advance of \$61.

We recognize that two errors amounting to \$526 are not significant; however, the internal controls related to the monitoring of advances are extremely important and significant.

These errors arose because the staff in the Controller's Office lacked training and technical knowledge in the area of monitoring and accounting for advances. The Controller's Office has been plagued with numerous and prolonged vacancies in its staffing. In April 1998 there were four vacancies in the Controller's Office out of a total authorized staff of nine. Since April 1998, only three of the four vacant positions have been filled, giving a staffing level of eight out of the authorized nine. However, of these eight people currently staffing the Controller's Office, five have no formal accounting training.

As a result of this lack of trained staff and the lack of knowledge relating to the monitoring and accounting for advances, there is an increased risk that advances will not be properly monitored and transactions relating to advances will not be properly processed. Accordingly, we are recommending that staff in the Controller's Office receive appropriate training.

Management Comments and Our Evaluation

USAID/Guinea concurred with all of the recommendations in this report. Additionally, USAID/Guinea has taken final action on recommendation numbers 1.1 and 1.2, and the Mission has provided us with documentary evidence that these actions have been implemented. Thus, no further action by the Mission is required for these recommendations.

Furthermore, the Mission is in the process of implementing recommendation numbers 2 and 3.2. According to the Mission, it has taken action on recommendation number 3.1 but as of the date of this report, the Mission had not provided us with documentary evidence of this action. Thus, USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action related to recommendation numbers 2, 3.1 and 3.2 has occurred.

Regarding recommendation number 1.1, the Mission has established a work-plan and time

schedule to resolve and liquidate the 33 advances encompassed by this recommendation. Furthermore the Mission has provided us with a copy of this work-plan and schedule. Thus, we consider that final action has occurred for this recommendation.

Recommendation number 1.2 suggested that USAID/Guinea establish a system to ensure that the Mission notifies USAID/Washington when advances over \$500 are perceived to be uncollectible. In response to this recommendation, the Mission has prepared and provided us with a description of their written procedures for the review of outstanding advances and the handling of advances that are deemed to be uncollectible. These procedures include notifying USAID/Washington of advances greater than \$500 which are deemed to be uncollectible. Thus, we consider that final action has been taken on this recommendation.

For recommendation number 2, USAID/Guinea plans to provide the recommended training in November 1999. Additionally, USAID/Guinea and the U.S. Embassy/Conakry plan to send a financial management staff member and the Embassy's self-help coordinator to a regional self-help training conference to be held in Senegal in November 1999. This conference will include a session on managing advances made under self-help activities. Thus, the Mission has made a management decision on this recommendation, but has not yet completed the desired final action.

Recommendation number 3.1 suggested that the Mission collect \$465 which was erroneously disbursed. According to the Mission, this amount was liquidated in August 1999. However, the Mission has not provided us with documentary evidence that this \$465 was actually collected. Thus, USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action related to this recommendation has occurred.

Regarding recommendation number 3.2, the Mission plans to make the suggested \$61 adjustment prior to September 30, 1999. However, as of the date of this report, the Mission had not provided us with documentary evidence that this adjustment had been made. Thus, the Mission has made a management decision on this recommendation, but has not yet completed the desired final action.

SCOPE AND METHODOLOGY

Scope

This audit was performed in accordance with generally accepted government auditing standards and was conducted at USAID/Guinea from March 9, through March 30, 1999.

Our universe consisted of the 41 project advances totaling \$140,431, which were outstanding at December 31, 1998. Using a judgmental sampling method, we selected and reviewed in detail ten (24 percent of the 41 project advances) which totaled \$50,586 (36 percent of the total dollar amount outstanding) (see Appendix III).

Additionally, the scope of this audit included a review of USAID/Guinea's internal control system associated with its cash advances.

Methodology

We considered the materiality of transactions and supporting documents in the planning, fieldwork and reporting phases of our audit. We set the materiality threshold of our audit objective at a low level, due to the inherently high risks associated with cash advances and the numerous policies and procedures which govern them.

We performed detailed tests on the samples of outstanding cash advances to determine if the selected USAID/Guinea transactions followed the prescribed U.S. Department of the Treasury and USAID policies designed to minimize Federal borrowing costs.

We also analyzed USAID/Guinea's "Mission Accounting and Control System" reports to determine the amount of funds that the Mission had as outstanding advances to project recipients as of December 31, 1998. We judgmentally selected a sample of the advances outstanding to use for our substantive testing.

We performed tests to determine if USAID/Guinea followed applicable guidelines and requirements, and determined, when applicable, why policies and procedures were not being followed. We also examined supporting documents and interviewed USAID/Guinea officials and, when necessary, recipient personnel to verify the accuracy of accounting and other data and to determine if personnel were properly monitoring and processing advance transactions.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID/GUINEA
Conakry,
Republic of Guinea
MEMORANDUM

DATE: September 15, 1999
FROM: Harry Birnholz, Director *B*
TO: Henry L. Barrett, RIG/DAKAR
SUBJECT: Draft Audit Report 7-675-99-00X-F.
Audit of USAID/Guinea's Management of Cash Advances

As requested, the Mission has reviewed RIG's draft audit report indicated above. Please find below our response to the report's recommendations.

Recommendation No. 1:

1.1
establish a work plan and time schedule to resolve and liquidate the 33 advances totaling \$130,792 that have been outstanding for more than 90 days.

Attached is a time schedule and work plan to resolve and liquidate the 33 advances. Nine of the 33 balances have been completely liquidated at 9/15/99. The Mission is recommending write-off of \$46,945: an outstanding balance due from GOG (\$24,845), two small advances from a former USPSC employee (\$129), and balances outstanding from FY 96 (\$5,939) and 97 (\$16,032) Special Self-Help/Democracy and Human Rights program advances. Although the Embassy has agreed to follow-up in collecting these FY 96 & FY 97 amounts, they are not optimistic that they are collectible. Most of these balances represent amounts which were disallowed from reimbursement vouchers previously submitted. Nearly all of the debtors are located up-country in areas which are difficult to reach.

Balances due at 9/15/99:	\$72,222
Recommending Write-Off	<u>\$46,945</u>
	\$25,277

Of the remaining balance, \$25,132 represents balances to Special Self-Help/Democracy & Human Rights program advances from FY 98. These balances will be written off at 12/31/99 if not liquidated or reimbursed. Of the remaining balance, \$84 is due from an employee and will be withheld from his salary if not paid prior to 9/30/99; and \$61 represents a MACS posting error which will be adjusted by 9/30/99.

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Balance forward: \$25,277
SSH/DHR FY 98: \$25,132
Employee Advance: 84
MACS posting error: 61

0

1.2

establish a system to ensure that the Mission notifies USAID/Washington when advances over \$500 are perceived to be uncollectible.

The following procedures have been established:

-The Chief Accountant is responsible for reviewing advances on a monthly basis as part of the review of the Mission's U-101 monthly report.

-Bills of Collection will be issued by Mission Cashier for all advances which are 30 days past due.

-Bills of Collection will be reported to M/FM/CAD on form AID 7-236, Report of Billing and Collection Transactions (Report Control Symbol U-141) monthly.

-Controller will prepare recommendation to Mission Director for write-off of uncollectible amounts if < \$500 (excluding employee indebtedness). If approved by Director, amounts will be written-off. A permanent record will be maintained by the Cashier for all such terminated claims.

-For amounts deemed uncollectible, but > \$500, Controller will issue to M/FM/CAD the Mission's recommendation for further action. be attached to the recommendation for further action.

-A summary sheet entitled Transfer of Uncollectible Accounts Receivable will be used to summarize the collection activity and will, together with complete documentation. Mission will transfer uncollectible debt to FM/CAR within 90 days after the due date in order to comply with the Debt Collection Improvement Act of 1996 (to allow FM/W to transfer the debt to Treasury for servicing within 180 days of due date).

Recommendation No 2: We recommend that the Controller of USAID/Guinea provide in-country training to the Controller's office staff on the monitoring and accounting for project advances.

This task has been added to the scope of work of the Financial Advisor, who is a former USAID Chief Accountant with nearly fifteen years of Mission experience. The training has been planned for November, 1999. In addition, the Embassy plans to send their new Self-Help Coordinator and his FSN assistant to a

regional SSH/DHR workshop to be sponsored by USAID/Dakar in November, 1999.

Recommendation No 3: We recommend that the Controller, USAID/Guinea:

3.1 initiate action to collect the \$465 which was erroneously disbursed;

This amount was liquidated in August, 1999.

3.2 adjust the Mission Accounting and Control System records to properly reflect the \$61 liquidating voucher.

This adjustment will be posted prior to 9/30/99.

Based on the actions taken to date, USAID/Guinea requests that recommendation Nos. 1.1 and 1.2, 3.1 and 4 be closed upon issuance of the final audit report. USAID/Guinea will advise the USAID Management Bureau's Office of Management Planning when recommendations 2 and 3.2 have been completed.

Unliquidated Project Advances Over 90 Days Old

Document Number	\$ Amount
IA-675-9999-A-97-07104	\$114
IA-675-9999-A-97-07104	2,683
IA-675-9999-A-97-07104	108
IA-675-9999-A-97-07104	1,689
IA-675-9999-A-97-07104	3,916
IA-675-9999-A-00-06154	3,843
IAA-698-DHR-96-001	1,760
IAA-698-DHR-96-003	336
TA-675-95-OE-001	5
CO-624-S-00-97-00035	13
CO-624-0221-S-00-4009	23
CO-624-0221-S-00-4009	106
TA-675-98-OE-001	84
CO-675-0216-S-00-2152	61
TA-675-98-PRJ-0219-039	2,200
IAA-675-SSH-98-81004	3,725
IAA-675-SSH-98-81004	1,500
IAA-698-DHR-97-004	399
IAA-675-SSH-98-81004	8,310
IAA-675-SSH-98-81004	5,500
IAA-675-SSH-98-81004	2,400
IAA-675-SSH-98-81004	8,650
IAA-675-SSH-98-81004	3,765
PIL-675-0216-13	24,845
IAA-675-DHR-98-003	8,000
IAA-675-SSH-98-81004	3,200
IA-675-SSH-98-81004	7,350
IA-675-9999-A-97-07104	8,091
IAA-698-DHR-97-005	13,752
IAA-675-DHR-98-002	8,000
IAA-675-DHR-98-004	8,000
CO-675-0219-S-00-07030	(1,572)
CO-675-0219-S-00-07030	(64)
Grand Total	\$130,792

Schedule Of Outstanding Advances
At December 31, 1998
That Were Selected For Review

Document Number	Amount (\$)
IA-675-SSH-98-81004	\$8,310
IAA-698-DHR-96-001	1,760
TA-675-95-OE-001	5
CO-675-0228.01-S006194	860
CO-675-S-0233-98-08185	691
CO-675-S-0233-98-08185	188
IAA-698-DHR-97-005	13,752
IA-675-9999-A-97-07104	114
CO-675-0216-S-00-2152	61
PIL-675-0216-13	24,845
Total	\$50,586