

GAO

Report to the Assistant to the
Administrator for Management, Agency
for International Development

January 1986

AID MANAGEMENT

Efforts to Improve Cash Management and the Payment Process at AID



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United States
General Accounting Office
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National Security and International
Affairs Division

B-217738

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Mr. R. T. Rollis, Jr.
Assistant to the Administrator
for Management
Agency for International Development

Dear Mr. Rollis:

We have reviewed efforts by the Agency for International Development (AID) to improve management procedures, particularly in the areas of cash management and the payment process. Our work focused on action taken by AID to correct specific management weaknesses previously identified by the AID Inspector General (IG) or GAO. We did work at AID's headquarters in Washington and missions in Egypt, India, Indonesia, and Niger.

This letter summarizes our findings, conclusions, and recommendations. Details concerning the findings are presented in appendix I.

Cash Management

AID has made progress in improving cash management practices for certain programs and activities, including the Commodity Import Program (CIP), the Egyptian decentralization program, and advances to contractors and grantees. We believe, however, that further improvements can be made in managing the decentralization program disbursements and overseas cash advances. Specifically, steps should be taken to avoid premature disbursement of funds for the decentralization program and to assure that cash advances are limited to those needed to cover immediate disbursing needs.

Commodity Import Program

The CIP provides U.S. dollars to developing countries with foreign exchange shortages to enable them to import needed commodities. Host-country importers are required to deposit into a special account the local currency equivalent of the dollar value for the purchased commodities. The local currency is used to fund development projects and other activities mutually agreed to by the host country and the United States. For fiscal years 1983-1985, about \$1.4 billion was made available for CIPs in 11 countries.

In February 1984, we reported that most AID missions we reviewed were unable to account for local currency generated by CIP transactions. AID's

largest CIP is in Egypt; it exceeded \$300 million in both fiscal years 1983 and 1984 but was reduced to \$200 million for 1985. In our followup work, we noted that in January 1985 the AID mission in Egypt had developed and started to implement a system to improve accountability for local currency generated by the CIP. Effective implementation of this system will require the mission to obtain timely and accurate information on CIP transactions from Egyptian banks. The mission Controller agreed that it was important to obtain this information and stated that the mission would do so.

For the quarter ended March 31, 1985, the mission, in cooperation with the government of Egypt, had collected the Egyptian pound equivalent of \$71 million from delinquent CIP importers. This was about one half of the arrearages identified during development of the system to improve accountability for CIP transactions.

Decentralization Program

As of September 30, 1984, AID had approved grant funds totaling \$225 million for Basic Village Services (BVS) projects in the government of Egypt's decentralization program. The program is designed to support Egypt's policy of decentralizing authority for development projects to the local level. The mission in Egypt has taken action to avoid disbursing funds for decentralization projects before the funds are needed. This action includes efforts to (1) shorten the time it takes Egyptian government entities to transfer funds to village councils and (2) delay disbursement of funds to villages until projects are ready to start. We noted potential for further improvements in cash management for this program, as illustrated below.

In September 1984, an Egyptian government official informed the AID mission that the central government would disburse \$43 million for 1984/85 BVS projects to the governorates within 4 working days of receiving the funds from AID. This official stated that the central government would use its influence with the governorates to assure, to the extent possible, that the governorates disburse funds to the village level within 1 week of receipt. A mission official stated that in the past this process has taken 1-1/2 to 2-1/2 months, depending on the number of local entities involved.

In February 1985, the AID BVS project officer issued a report to the BVS project director showing that, although the time required to transfer funds from one Egyptian government entity to another had been reduced, the time goals set by the central government official for these

transfers had not been met. The report stated that in October 1984, a transfer of funds from the central government to 17 governorates took 9 calendar days. Then, one governorate took 26 days, a second took 19 days, and a third took 15 days to transfer the funds to their village councils. The report did not say how long it took the other 14 governorates to transfer funds to the villages.

At the village level, our analysis showed that some councils continue to hold funds for long periods of time before projects are started. As of September 30, 1984, some village councils had received Egyptian pounds valued at \$3.0 million for 1982/1983 projects that they had not yet started. These funds were unexpended by the villages for an average of 632 days. Also, as of September 30, 1984, some villages had received pounds valued at \$11.3 million for 1983/1984 projects they had not started. These funds were held by the villages for an average of 245 days. This total of \$14.3 million received for unstarted projects was 16 percent of the \$87.4 million received by the villages for all projects. The BVS project director stated that our analysis was useful and that in the future he would periodically perform a similar analysis to assist in monitoring project expenditures.

Cash Advances

Each year AID makes cash advances amounting to millions of dollars to contractors and grantees to carry out agency activities. AID/Washington implemented a new system designed by the Department of the Treasury to prevent excessive cash advances.

In general, the missions we visited also have initiated or planned actions to limit advances to amounts needed to cover recipients' immediate disbursing needs. We found, however, that the missions in Indonesia, Niger, and India did not periodically review the reasonableness of outstanding cash advances and that the mission in India should also document project files to support requests for advances.

Conclusions and Recommendations

Goals have not been completely attained for speeding up the flow of cash through the various Egyptian government entities. There are further opportunities to shorten the time it takes to move funds from one governmental level to another, thereby enabling AID to avoid disbursing funds before they are needed. At the village level, councils are holding funds for long periods of time. This indicates to us that funds were prematurely disbursed to the villages, possibly before project planning was completed and contracts were ready to be awarded. Also, the missions in

Indonesia, Niger, and India should make additional improvements in managing cash advances.

We recommend that the Assistant to the Administrator for Management instruct the mission in Egypt to make additional improvements in cash management for the BVS project, particularly to:

- further reduce the number of days it takes the Egyptian central government and governorates to transfer funds to the village councils and
- improve controls to ensure that projects are fully planned and ready for contracting before AID disburses funds.

We also recommend that the Assistant to the Administrator for Management instruct the AID missions in Indonesia, Niger, and India to review outstanding cash advances at least quarterly to determine whether the advances are excessive and should be reduced or eliminated. The mission in India should be instructed to include justification in project files for cash advance requests.

Payment Process

In December 1983, AID/Washington issued policy guidance to all missions for improving the Agency's payment process. The guidance is intended to ensure that AID pays only for goods and services received and in the proper amounts. It requires project officers to provide positive statements as to their basis for approving vouchers for payment and checklists showing their firsthand knowledge of and involvement with the projects.

AID sometimes uses bank letters of commitment to reimburse contractors and grantees for carrying out Agency programs and activities. When this financing method is used, Agency officials do not have the opportunity to review vouchers and supporting documents before the recipients are paid by the bank. The policy guidance issued by AID headquarters recognizes the Agency's increased vulnerability to making improper payments through bank letters of commitment and discourages uses of this financing procedure. In general, the missions we visited have taken steps to implement the policy guidance. In some cases, however, further action is called for as illustrated by our work in India and Niger.

India

As of December 31, 1983, the AID mission in India had project activities valued at \$365 million that would be paid for by direct reimbursement to the host country. Some of these projects have multiple sites and are

located in remote rural areas. Examples are installation of 380,000 electrical connections in nine Indian states, construction of 2,339 health and family planning buildings and facilities in five Indian states, and expansion of about 95,628 areas of land under irrigation in 2,000 separate activities.

Because of the number of activities and locations, the mission had difficulty inspecting the projects before approving payments. Mission officials stated that the mission does not have sufficient staff to inspect each and every subproject or element as required by the Agency's handbook. Moreover, according to these officials, it is uneconomical and impractical to inspect all project elements; they stated that some type of sample inspection, possibly a statistical sampling method, could replace the requirement to inspect every project element. These officials stated that a sample inspection process, in conjunction with mission monitoring of Indian government recordkeeping, reporting, and certification procedures, could provide adequate control over payments for projects with multiple sites and remote locations.

Niger

In fiscal year 1985, AID paid about \$25 million for development assistance and economic support fund projects in Niger. The mission has acknowledged the importance of strengthening its payment verification process. However, it had not fully implemented the checklist, which provides for the project officer to state the number of visits to the project site in the last 3 months or other basis for approving the voucher.

In March 1984, the mission Controller issued a memorandum informing project officers about the checklist requirement. Mission officials stated that compliance with the requirement has been inconsistent. In January 1985, the mission issued an order reminding project officers about the requirement to provide their basis for voucher approval. Since the order was issued during our visit, we were unable to evaluate compliance.

**Conclusions and
Recommendations**

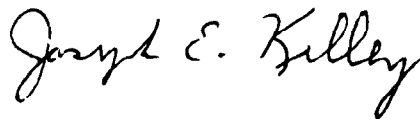
The mission in India needs to develop a method for inspecting projects that have multiple activities and locations. Also, project officers in AID/Niger should adhere to the requirement for stating the basis for voucher approval.

We recommend that the Assistant to the Administrator for Management have headquarters officials monitor efforts by these missions to improve the payment process. If necessary, these officials should help

the mission in India develop a sampling method for inspecting large projects and change the handbook requirements to accommodate this inspection method.

We would be pleased to discuss the results of our work with you or your staff. We would appreciate being advised of actions taken to implement recommendations made in this report.

Sincerely yours,



Joseph E. Kelley
Associate Director

AID Efforts to Improve Management Procedures

Cash Management

AID has made progress in improving cash management practices for the Commodity Import Program (CIP), Egyptian decentralization program, and advances to contractors and grantees. We believe, however, that further improvements can be made in managing decentralization program disbursements and overseas cash advances.

Commodity Import Program

The CIP provides U.S. dollars to developing countries with foreign exchange shortages to enable them to import needed commodities. Host-country importers are required to deposit into a special account the local currency equivalent of the dollar value for the purchased commodities. The local currency is used to fund development projects and other activities mutually agreed to by the host country and the United States.

For fiscal years 1983-85, about \$1.4 billion was made available for CIPs in 11 countries. AID's largest CIP is in Egypt; it amounted to \$300 million in both 1983 and 1984 and \$200 million in 1985. Other countries in which AID has fairly large CIPs are Sudan, Somalia, Mozambique, and Zimbabwe.

GAO Audit of CIP

In a report on the CIP (GAO/NSIAD-84-47, February 28, 1984), we concluded that AID was not adequately monitoring host-government compliance with the requirement that special accounts be established for deposits of local currency generated by CIP transactions. We stated that, as a result, missions did not know the status of special accounts (some had not even been established) and were unable to account for local currency amounts generated and used. We recommended that AID issue guidelines to improve accounting for local currency proceeds from CIP transactions.

AID agreed that guidance was needed to improve control over local currencies generated from CIP transactions. It stated that guidance on accounting and programming for local currencies had been forwarded to the missions in March 1984. AID further stated that specific efforts were being made to correct weaknesses in the management of the Egypt local

currency special account, including development of an accounting system to ensure that Egyptian pounds due from commodity importers are deposited in the special account.

CIP Accounting System Developed

In September 1984, the AID mission in Egypt awarded a contract to a public accounting firm to design an automated accounting system that would reconcile collections and deposits of local currency generated from future CIP imports. In January 1985, this accounting system had been developed; it establishes an Egyptian pound equivalent for dollar disbursements and reconciles these amounts to pound collections and receivables from importers. Data on CIP transactions is to be submitted to the mission by the Egyptian Central Bank and all other participating banks. In the opinion of the mission Controller, AID now has the accounting system necessary to track these transactions. He agreed that for the system to be effective, however, the mission must obtain timely and accurate information on import transactions from Egyptian banks.

**Importers in Arrears in Making
Local Currency Payments**

In implementing the new accounting system, 28 importers were identified as being in arrears of the pound equivalent of \$140.1 million¹ in making payments on commodity imports. Egyptian bankers stated that the arrearages occurred because importers obtained original shipping documents directly from suppliers and cleared commodities through customs without making down payments or signing promissory notes.

AID stated that importers in arrears on CIP payments will not be permitted to participate further in the program until the arrearages have been made good. The Egyptian government advised AID that the arrearages would be recovered. Subsequently, the mission advised that for the quarter ending March 31, 1985, the pound equivalent of some \$71 million had been collected from delinquent importers.

In May 1985, the mission Controller informed us that recently established procedures require importers to complete local currency financing arrangements before CIP dollar financing is obtained. The Controller said that the new procedures have resolved the customs clearance issue. We

¹Egyptian pounds (LE) were converted to U S dollars at the official-incentive exchange rate of \$1 = LE 84. This rate is used throughout the report for making dollar/pound conversions

agree that the new procedures should prevent importers from improperly obtaining commodities.

CIP Improvements in Other
Countries

We did not visit other countries in which AID has CIPs, but we did inquire at AID headquarters about action taken to implement the March 1984 guidance for improving accountability over local currency funds by missions in other countries having fairly large programs. AID officials stated that special accounting procedures have been established to monitor local currencies generated by CIP transactions in Sudan, Somalia, and Zimbabwe. Annual budget submissions by AID missions in these countries show that local currencies generated by CIP transactions are deposited in special bank accounts. We were told that guidelines exist in Mozambique for monitoring CIP local currency but that no currency has been generated yet by this recently initiated program.

Decentralization Program

The purpose of the Egyptian government's decentralization program is to support Egypt's policy to delegate authority for planning and implementing development projects to the local level. A major component of the decentralization program is the Basic Village Services (BVS) project, for which \$225 million in grant funds had been approved as of September 1984.

Through the BVS project, AID disburses funds to the central government after annual project plans are approved. The central government then disburses the funds to the governorates² for approved projects. Each governorate in turn disburses the funds to village councils, which make payments to contractors as projects are being completed. As of September 1984, 22 governorates and 860 village councils were participating in 3,360 individual BVS projects.

Cash Management Policies to
Reduce Interest Costs to U.S.
Treasury

Treasury Department regulations provide that U.S. dollars be retained by the Treasury as long as possible to minimize interest costs on the public debt. Treasury does not permit withdrawal of dollars prior to their need by recipients to carry out projects. Treasury regulations make grantor agencies responsible for monitoring recipient organizations' cash

²Administrative divisions in Egypt comparable to states in the United States

management practices to ensure that the organizations do not hold federal cash in excess of immediate disbursing needs.

**AID Inspector General Audit of
BVS Project**

In an April 1982 report, the AID Inspector General (IG) stated that as of December 31, 1981, AID had disbursed \$31 million for the BVS project and a large portion of these funds was paid out in advance of project needs. The IG found that the Egyptian central government, governorates, and villages were holding the BVS funds for long periods of time prior to disbursement. As a result of the premature payment of funds to the central government, the IG estimated that the United States incurred additional interest costs of \$1.2 million for the 6 months ending September 30, 1981. As a result of premature payments to governorates and villages, the IG estimated that they earned over \$1 million on grant funds by depositing them in interest-bearing accounts.

The IG recommended that AID (1) collect from the Egyptian government the interest earned on grant funds by the pertinent governorates and villages and (2) discontinue advancing funds to the BVS Project in excess of needs.

AID disagreed with the IG's recommendation that interest earned on BVS grant funds be collected from the government of Egypt. The AID position was supported by the Agency's General Counsel who stated in June 1983 that once the grant funds had been disbursed by the central government to the governorates and village councils they are considered to have been disbursed for an authorized use under the grant. The General Counsel concluded that interest earned on grant funds at these lower governmental levels was not subject to refund. In a November 1984 decision requested by the AID IG, the Comptroller General supported the AID General Counsel. The Comptroller General ruled that disbursement of grant funds by the Egyptian government to lower governmental levels was a legitimate and proper purpose of the grant, entitling them to retain the interest earned on grant funds.

It is clear that AID needs to strengthen its cash management practices by delaying disbursement of BVS funds until they are needed for projects at the village level. Delaying disbursement of grant funds will reduce interest costs to the U.S. government and prevent elements of the Egyptian government from earning interest on these funds.

In commenting on an IG recommendation that AID discontinue advancing funds to the BVS project in excess of needs, the Agency stated in October

1982 that it was making a more critical review of requests for grant funds in order to avoid premature disbursement of these funds.

Improvements Made but Additional Efforts Are Needed

During our review, we noted that AID/Egypt officials are aware of the need to match BVS project disbursements more closely with expenditures. While they pointed to a number of cash management improvements, we believe there is potential for further improvement.

Mission officials told us that the time between project disbursements by AID and expenditures at the local level is currently less than at the time of the IG audit. They maintain this is the result of stricter mission funding procedures and increased capabilities at lower Egyptian governmental levels. Mission officials have emphasized the need for speedier cash flow through the various Egyptian government levels and have stressed the importance of projects being fully planned, designed, and ready for contracting before funds are released.

In 1982, the planned disbursement for the BVS project was reduced from \$30 million to \$12 million dollars because some projects were not ready to begin. To further encourage governorates to speed fund pass-throughs, the mission adopted a 70-percent guideline. Under this procedure, governorates which had not expended at least 70-percent of the previous year's funding would not receive 1984/85 funds of \$43 million.

Mission officials stated that governorates and village councils are becoming increasingly proficient with funding procedures and this speeds cash flow. At the time of the IG audit, the project was new and lower government units did not know what to expect or do. According to mission officials, the governorates have had 3 years to learn the system and are more accustomed to passing funds down to the village councils. Previously, such procedures were contrary to their centralization customs. Similarly, the local village councils are becoming more aggressive about requesting that their funds be passed through as quickly as possible.

In September 1984, an Egyptian government official informed the AID mission that the central government would disburse \$43 million for 1984/85 BVS projects to the governorates within 4 working days of receiving the funds from AID. This official stated that the central government would use its influence with the governorates to assure that, to the extent possible, the governorates disburse funds to the village level within 1 week of receipt. A mission official stated that in the past this

process has taken 1-1/2 to 2-1/2 months, depending on the number of local entities involved.

In February 1985, the AID BVS project officer issued a report to the BVS project director showing that although improvements were made in reducing the time required to transfer funds from one Egyptian government entity to another, the goals set by the central government official for these transfers were not met. The report stated that in October 1984 a transfer of funds from the central government to 17 governorates took 9 calendar days. Then, one governorate took 26 days, a second took 19 days, and a third took 15 days to transfer the funds to their village councils. The report did not say how long it took the other 14 governorates.

At the village level, our analysis showed that some councils continue to hold funds for long periods of time before projects are started. As of September 30, 1984, some village councils had received Egyptian pounds valued at \$3.0 million for 1982-83 projects that they had not yet started. These funds were held by the villages for an average of 632 days. Also, as of September 30, 1984, some villages had received pounds valued at \$11.3 million for 1983-84 projects they had not started. These funds were held by the villages for an average of 245 days. The total of \$14.3 million received for unstarted projects was 16 percent of the \$87.4 million received by the villages for all projects. The BVS project director stated that our analysis was useful and that in the future he would periodically perform similar analyses to assist in monitoring project expenditures.

AID/Washington Cash Advances

In 1982, AID/Washington cash advances to contractors and grantees averaged \$325 million a year. The advances are made through Federal Reserve letters of credit, which authorize recipient organizations to draw funds from the Treasury through their commercial banks. The recipients are required to initiate cash drawdowns only when actually needed for disbursements and submit timely reports on cash disbursements and balances to AID.

U.S. Cash Management Policy

The administration and Congress are concerned about the effect that cash management practices of federal program recipients have on the national debt. The Senate Committee on Appropriations has called for federal agencies to take aggressive action to improve the management of cash advances. In July 1981, the Office of Management and Budget

instructed the heads of federal departments to review their systems for monitoring cash balances to recipient organizations to ensure that excessive drawdowns are controlled. In October 1982, Bulletin No. 83-6 was issued providing further instructions to federal agencies for improving cash management practices.

AID IG Audit

In a May 1982 report, the IG stated that recipients of letters of credit were maintaining excessive cash advances, costing the federal government more than \$2.5 million in interest annually. Also, the advance recipients were late in submitting required cash transaction reports, and the reports either omit relevant information or include inaccurate data. The IG stated that these cash management deficiencies were widespread and had been occurring for several years. The IG stated that AID should improve internal controls to ensure that recipients did not maintain excessive cash advances.

In an August 1982 report, the IG stated that commercial banks were not crediting recipients' accounts in a timely manner. Some recipients told the IG that this was the reason large cash advances were needed.

In January 1984, AID initiated action to improve its management of cash advances. At that time, AID began converting contractors and grantees from letters of credit to a new Treasury Department process called the Treasury Financial Communications System. As of February 1985, about 190 of 220 recipient organizations had been converted to the new system. If the banks for the remaining 30 recipients have not agreed to participate in the system by December 1985, Treasury stated that the recipients would have to change banks.

The new system gives AID the capability to do a much better job of monitoring the reasonableness of cash advances. AID can review requests for advances before they are made to determine whether the requests should be approved or disapproved. AID did not have this capability under letters of credit.

AID uses a computer in reviewing requests for advances. The computer displays information on previous withdrawals and submission of financial reports. Under the new system, recipient organizations receive credit for advance funds on the day after the request is made.

On January 18, 1985, Treasury acknowledged AID's efforts in fiscal year 1984 to improve cash management practices, particularly to reduce cash advances.

Overseas Cash Advances

Each year AID overseas missions make millions of dollars in cash advances to contractors and grantees to carry out AID programs and activities. As of September 30, 1982, 1,669 advances totaling \$161 million were outstanding.

IG Audits of Overseas Advances

Managing overseas cash advances for AID operations has not been completely successful, according to IG audit reports. In a December 1983 report, the IG reported that excessive advances occurred because mission controllers did not follow guidelines issued by AID Washington or regulations and procedures prescribed by Treasury and the Office of Management and Budget. As a result, the IG stated that \$73 million in excess cash advances could have been made, costing \$10.2 million a year in interest to the U.S. government. The IG recommended that (1) written justification be required for initial advances and that the USAID Controller should approve such advances and (2) all cash advances be reviewed at a minimum of every 90 days and any excess amounts be reduced or eliminated.

AID/Washington responded by sending a memorandum to all mission controllers advising them of their responsibility to implement the IG's recommendations for improving management of cash advances. We reviewed corrective action in Egypt, Indonesia, Niger, and India, with the following results.

Egypt

As of February 1985, the mission in Egypt had \$25 million in cash advances outstanding. The mission has instituted procedures to monitor advances based on a monthly comparison of projected cash needs to actual expenditures. Whenever recipient projections exceed expenditures by more than 25 percent in three successive estimates, the project officer based on knowledge of the project must decide whether the advances should be reduced. We noted support for advance requests in

project files and mission efforts to reduce outstanding contractor advances to an acceptable cash balance.

Indonesia

The mission in Indonesia assigns the project officer responsibility for making sure advances are reasonable. Requests for advances must be accompanied by a detailed budget of 30-day immediate cash requirements. In general, we found supporting documentation for advance requests in project files.

At the time of our visit in February 1985, the mission did not review cash advances on a quarterly basis as recommended by the IG. As a result, recipients of cash advances who request no additional funds are not held accountable for advances they have already been provided. This permits recipients to have advances outstanding for long periods of time. At the end of January 1985, Indonesia's cash advances totaled \$2.8 million; \$1.3 million had been outstanding over 90 days.

The mission planned to address this issue through a new policy which was to have been implemented in March 1985. The policy requires finance office accountants to analyze quarterly cash advance reports and to discuss with project officers whether action should be taken to reduce or liquidate outstanding advances.

Niger

The mission in Niger requires recipients to estimate their immediate disbursing needs every 30 days. The mission's chief financial analyst reviews the estimate in light of the existing advance balance, the recipient's bank account balance, vouchers in transit, and accounts payable. In addition, he uses his judgment in evaluating the reasonableness of the recipient's estimate.

As of December 1984, Niger's cash advance balance was \$2.2 million, \$1.6 million, or 73 percent, was outstanding over 90 days. We found that requests for advances are reviewed and, in some instances, reduced or denied. However, the large percentage of advances outstanding for more than 90 days suggests that the mission should intensify its periodic review efforts.

India

According to the mission Controller, no written procedures exist for monitoring cash advances. It is the controller's view that so few cash advances are made that such procedures are not necessary and a case-

by-case handling of requests for advances is sufficient. In February 1985, the mission had 10 U.S. dollar advances outstanding totaling about \$300,000. The mission compiles a quarterly aging list of outstanding cash advances, but does not review advances on any regular basis to verify, reduce, or eliminate excessive amounts. We could not determine from project files whether written justification for advance requests had been obtained.

Payment Process

AID pays for the billions of dollars of goods and services it finances each year in a variety of ways. The extent of voucher review and supporting documents obtained prior to payment varies with the method of payment. Thus, the degree of risk of paying improper vouchers will vary with the method used. A brief description of payment methods follows

- Direct payments/reimbursements. AID makes payments directly to suppliers, contractors, or host governments and reviews vouchers prior to payment.
- Direct letters of commitment. Except for payments for commodities, AID reviews vouchers prior to payment.
- Bank letters of commitment. AID reimburses banks for payments made on AID's behalf. The banks pay contractors/suppliers upon presentation of specified documents. AID does not review documents prior to payments.
- Federal Reserve letter of credit. Non-profit institutions withdraw cash from the U.S. Treasury through commercial banking channels. AID does not review withdrawal prior to payment.³

AID/ G Audit

The IG examined vouchers totaling \$40.4 million paid directly and by bank letters of commitment during fiscal years 1980 and 1981 and found that \$6.5 million, or 16 percent, of the disbursements were questionable. Reasons for questioning the payments included careless certification, approval of unsupported vouchers, and payment for ineligible items.

In January 1982, the IG reported that AID's process for administrative review and approval of vouchers was unreliable. The process depends on the ability of the project officers, their knowledge of project activities, and their proximity to the project location, but it sets no minimum

³This payment method has been replaced by the Treasury Financial Communication System discussed on p 14

standards for voucher approval. The report stated that the negative nature of the project officer's certification, i e , "I see no reason to withhold payment," indicates a lack of standards for approval. The report added that the negative approval may represent good working knowledge of a project or total ignorance of what is going on in a project. The IG report recommended that AID develop a system which provides the agency with a higher degree of assurance that payments are made only for valid expenses.

The report called the bank letter of commitment the highest risk method of financing because AID does not review vouchers before payment is made by the banks. The report cited cases of unauthorized and ineligible payments made through this process. The report recommended that AID issue a policy statement limiting the use of bank letters of commitment to unusual circumstances. In December 1983, AID issued policy guidelines to all missions for improving the payment verification process. In discussing the importance of the project officer's role in the payment process, the guidelines state that:

"The purpose of the administrative approval of any voucher is to provide the authorized certifying officer with notice that the officer responsible for charges billed to the government for services, commodities or other costs considers that these charges represent actual performance, delivery or other benefits received. A project officer will rarely have full knowledge of all services performed in a billing period by a contractor. The project officer performs an important function in administratively approving a contractor's invoice if she/he (1) has reasonable knowledge of contractor activities or other project activities which result in costs billed to AID and (2) reviews the voucher for the level of contractor effort charged during the period, types and general quantities of locally procured commodities delivered during the period and other costs which are reasonably familiar to the project officer because of his or her role as a monitor of project implementation. Internal control of the payments made by AID diminishes if project officers are unable to relate observed project implementation to costs billed in related vouchers."

To improve the administrative approval process, the new guidelines state that a project officer will provide a positive statement as to the basis for voucher approval along with a checklist showing firsthand knowledge of and involvement with the project. Even if the project officer has not visited the project, a concise statement as to the basis for approving the voucher will be presented. By submitting these documents to the certifying officer, the officer will have a better system of

tracking project payments and a more thorough knowledge of the relative vulnerability of each payment. The new guidelines also state that the mission must provide justification when it proposes use of the bank letter of commitment rather than direct payment methods, except for commodity imports and project commodity financing for which the mission anticipates a large number of invoices.

For the most part, missions we visited are taking steps to improve the payment process, but, in some cases, further action is called for.

Egypt

In fiscal year 1983, AID had \$867 million in expenditures for economic support fund assistance to Egypt. To improve the payment process, mission project officers are now using the checklist provided for in AID policy guidance and stating the basis of voucher approval. The mission has not used bank letters of commitment to finance goods and services since mid-1983.

The mission also hired a consultant to study its voucher payment deficiencies and recommend ways to resolve problems and is taking steps to implement the consultant's recommendations. For example, (1) contractors are now required to furnish more detailed information on invoices submitted for payment, (2) the mission has hired more voucher examiners, and (3) the mission conducts more detailed voucher examinations, including the use of contract abstracts which provide such data as overhead rates and time and dollar limits.

Niger

In fiscal year 1985, AID paid about \$25 million for development assistance and economic support fund projects in Niger. The mission has acknowledged the importance of strengthening its payment verification process. The mission, however, has not fully implemented the checklist, which provides for the project officer to state the number of visits to the project site in the last 3 months or other basis for approving the voucher.

In March 1984, the mission Controller issued a memorandum informing project officers about the checklist requirement. Mission officials stated that compliance with the requirement has been inconsistent. In January 1985, the mission issued an order reminding project officers about the requirement to provide their basis for voucher approval. Since the order was issued during our visit, we were unable to verify compliance.

The mission has complied with other aspects of AID's payment verification policy guidance. For example, an assessment of host-country payment systems was completed in June 1984. Assessments of host-country accounting systems are performed regularly, as required in the Sahel by section 121 (d) of the Foreign Assistance Act.

India

The direct payment method is commonly used by the mission to reimburse the Indian government for project costs. As of December 31, 1983, the mission had project activities valued at \$365 million that would be paid for by direct reimbursement to the host country. The mission is not using the bank letter of commitment method of payment except for one commodity import project valued at \$89.4 million.

In May 1984, the mission issued guidance to Indian government entities clarifying the types of project costs that are eligible and ineligible for reimbursement by the mission. In February 1985, a review of reimbursement claims had been initiated by a public accounting firm under a mission contract.

Some projects financed by the mission have many activities and are located in numerous and remote rural areas. Examples are installation of 380,000 electrical connections in nine Indian states, construction of 2,339 health and family planning buildings and facilities in five Indian states, and expansion of about 95,628 acres of land under irrigation in 2,000 separate activities. Because of this, the mission has had difficulty inspecting these projects before approving payments. Mission officials stated that the mission does not have sufficient staff to inspect each and every subproject or element as required by the AID handbook. Moreover, according to these officials, it is uneconomical and impractical to inspect all project elements; they stated that some type of sample inspection, possibly a statistical sampling method, could replace the requirement to inspect every project element. These officials stated that a sample inspection process, in conjunction with mission monitoring of Indian government recordkeeping, reporting, and certification procedures, could provide adequate control over payments for projects with multiple sites and remote locations

Indonesia

For fiscal years 1983-85, AID obligated an average of \$70.5 million a year for development assistance projects in Indonesia. In fiscal year 1983, the mission Controller initiated a voucher verification procedure which provides for the mission to review financial records of Indonesian

government agencies responsible for implementing AID-financed projects. The purpose of the reviews is to determine whether supporting documents for reimbursement claims are adequate and costs incurred are allowable.

We reviewed the first two reports prepared by the mission on these reviews. Both reports included recommendations for improving financial procedures. For example, one recommendation was that the mission should make no further project payments unless properly certified invoices were submitted by the grantee. As a result of this experience, the mission Controller issued a procurement and disbursement guide to host-country agencies.

In March 1984, the mission stated that it had several active technical service contracts financed by bank letters of commitment, but it did not plan to use this method in the future.

Objectives, Scope, and Methodology

We made this review to assess AID's efforts to improve management procedures, particularly the cash management and payment process. The need for improvements in these areas had previously been identified by the AID IG or GAO.

Our review was conducted in accordance with generally accepted government audit standards. Work was performed at AID headquarters in Washington, D.C., and at AID missions in Egypt, Niger, Indonesia, and India. These countries were selected on the basis of such factors as size of AID programs and significance of management weaknesses identified by the IG or GAO. In-country work was performed in January and February 1985, and audit work in Washington was completed in April 1985.

We reviewed a compilation of IG audit findings for fiscal years 1981-83, the latest one available at the time our work started, and identified audit reports that discussed the need for management improvements in major programs and activities. We studied these reports and did follow-up work to determine the corrective action taken on the IG's recommendations. We also followed up on action taken to implement a GAO recommendation to improve cash management of AID's commodity import program (GAO/NSIAD-84-47, Feb. 29, 1984). In the follow-up work, we examined policies and procedures initiated by AID to correct management problems and reviewed implementation efforts.

**Appendix I
AID Efforts to Improve
Management Procedures**

We interviewed AID/Washington officials in the Controller's Office and the IG's Office. At the missions, we interviewed AID officials.

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