



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

*Financial Audit*

March 15, 1999

MEMORANDUM FOR M/OP, Marcus L. Stevenson

FROM: IG/A/FA, Bruce N. Crandlemire

SUBJECT: Audit on Processing of Interest Earned on Federal Advances by Selected Organizations, Audit Report No. O-000-99-003-F

This is our audit report on the subject audit. In preparing this report, we considered your comments on our draft audit report and included these comments as Appendix II.

We make two recommendations in the report. These recommendations call for the Office of Procurement (M/OP) to officially notify USAID Offices, Missions and recipients and/or grantees that interest earned on Federal advances is to be remitted to the Department of Health and Human Services (DHHS), Payment Management System, Rockville, Maryland.

In your comments on the draft report, you essentially agreed with our position. However, your proposed action was to place a General Notice on the USAID external web-site for the recipients to view. This action would suffice for USAID Offices/Missions, but is not formal notification. Thus, this may not suffice for recipients as official notice of the USAID requirements. We agree that placing a notice on the web-site will provide information, but we do not believe this is an acceptable alternative to an official notice. Accordingly, we believe that you need to review your management decision on these recommendations to assure official notification to each recipient of USAID requirements for remitting interest earned on Federal advances.

Please provide this office of your management decision concerning Audit Recommendation Nos. 1 and 2 within 30 days of the date of our report.

I appreciate the cooperation and assistance provided to my staff on this assignment.

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## Background

Recipients and/or grantees' expending \$300,000 or more in a year on Federal awards are to have a single or program-specific audit conducted for that year. This requirement is based on the Office of Management and Budget (OMB) Circular A-133, which specifies uniform Federal policies related to audits of States, Local Governments, and Non-Profit Organizations. These audits are commonly referred to as **OMB A-133 audits**. This Circular requires, among other things, that the auditor assess compliance with agreement terms and regulations. It is through these audits that USAID is usually informed of non-compliance issues, such as interest earned on Federal funds that has not been returned as specified in the agreement. In such instances, the Office of Inspector General issues a report transmitting the recipient's annual financial statement audit report, and if appropriate, makes recommendations to management regarding any findings by the auditors. An example of a recommendation would be for USAID to make a management decision on the non-compliance with requirements concerning interest earned on Federal funds advanced.

In November 1993, OMB issued implementing instructions<sup>2</sup> for the Cash Management Improvement Act (the Act) which changed past practices for Federal agencies. The Act established that interest earned on Federal funds was to be submitted to one Federal location--DHHS, Payment Management System, Rockville, Maryland. Previously, an organization, which was allowed to obtain Federal funds in advance, was required to deposit these advance funds into interest bearing accounts. Subsequently, the organization was required to record and report interest earned on Federal funds to the awarding agency, such as USAID. The organization was allowed to keep \$100 of the interest earned, per year, for administrative costs related to these funds. Then, USAID would determine if the interest earned on Federal funds should be refunded by the recipient, or determine if the recipient could use the earnings for program related activities.

In February 1995, USAID issued revised regulations carrying out this provision in the Act. Based on our limited review, USAID unilaterally modified its awards with recipients. These modifications put these organizations on notice of the changed process for interest earned on Federal advances. The new USAID regulation provided:

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<sup>1</sup> Through out the balance of this report, when referring to recipients and/or grantees, we will use the form: "recipient."

<sup>2</sup> Amendments to Circular A- 110-Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, effective November 19, 1993.

<sup>3</sup> 22 CFR [Agency For International Development], Part 226 Administration of Assistance Awards to U. S. Non-Government Organizations, Subpart C - Post-Award Requirements, Section 226.22--Payment, Paragraph (l).

“Except as otherwise provided in the terms and conditions of the award in accordance with USAID regulations or other implementing guidance for those entities where the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on Federal advances deposited in interest bearing accounts shall be remitted annually to Department of Health and Human Services, Payment Management System, Rockville, MD 20852. Interest amounts up to \$250 per year may be retained by the recipient for administrative expense.”

USAID requires that any organization receiving advances of more than \$1 million annually to submit the Federal Cash Transaction Report<sup>4</sup> on a monthly basis. This report, among other things, requires the recipient to disclose the amount of interest earned on Federal advances. In utilizing this reporting requirement, we selected 30 recipients for review of any earned interest income reported to USAID for the period of April 1, 1997 to June 30, 1998. The selection of these organizations was based on the “obligated amount” (See Appendix III). These 30 recipients reportedly had USAID awards (obligated amount), totaling approximately \$1.3 billion.

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## **Results of Audit**

This audit was initiated because a recipient disputed an audit recommendation involving approximately \$7,000 in interest earned on Federal funds arising from its OMB A-133 audit report.<sup>5</sup> In response to the issues raised, we designed an audit objective to answer the following question:

**For the items tested, was interest earned on Federal funds advanced by USAID being processed in accordance with USAID regulations?**

We found, for the items tested, a mixed understanding regarding the processing of interest earned on Federal funds advanced by USAID. In some instances, recipients knew of the revised regulation and sent the interest earned on advances to DHHS; but other recipients remitted the interest to either a USAID office overseas or in Washington. When the interest was remitted to an office in Washington, the office normally sent the funds to the Office of Financial Management, who in turn, forwarded it to DHHS. Due to the limited nature of this audit, we did not pursue the interest handling procedures or actions by USAID Mission/Offices overseas or specific offices in Washington. The Scope and

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<sup>4</sup> Standard Form, SF-272 or 272a

<sup>5</sup> Audit of Financial Statements of Project Concern International for the Period July 1, 1995 through June 30, 1996, Audit Report No. 0-000-97-141-A, dated July 3, 1998. The report recommended that various award a management decision on the questioned cost of \$7,064 resulting from interest income earned by Project Concern International. The questioned amount was related to interest income earned by the grantee on federal funds but not remitted to the Government.

Methodology for this report explains the depth and coverage of the audit work, evidence gathering and the analysis techniques used to accomplish the audit's objective (See Appendix I).

### **OMB A-133 Audit Report Brings-out Issue On Processing Interest Earned**

In a major recipient's report on its audited financial statements,<sup>6</sup> the recipient argued that interest income earned on its operating bank accounts was not the same as the interest earned on Federal funds advanced. The recipient contended that the interest earned on funds, through its various bank accounts, became its operating funds; and therefore, disagreed with its auditor's recommendations that the interest earned must be remitted to DHHS as required in its awards from USAID.

This recipient's audit report brought out that, at USAID, both the management and the auditors were not being responsive to this specific issue. In fact, the recipient stressed that USAID was not answering its question concerning resolving prior audit recommendations. Upon review, we found that inconsistency in our actions on recovery of the interest earned on advanced funds. For example, in the fiscal year 1997 audit report, the recipient pointed out that the current audit report basically resurfaced the same issues and audit recommendations of prior year's [fiscal year 1996] audit report. The prior years audit report disclosed that the recipient's processing of interest earned income was not in accord with its agreements with USAID and, therefore, recommended that the interest be remitted back to USAID. Further, the recipient expressed continued frustration with this issue by saying that it had not received consistent guidance from USAID on the fiscal year 1996 audit report's recommendations. Specifically in its fiscal year 1997 audit report, the recipient disclosed that the USAID Office of Inspector General asked USAID Missions in Bolivia, Indonesia, and Nicaragua; and the USAID's Office of Procurement in Washington to make a management decision about whether or not recipient's view of the interest earned matter was acceptable or should if the interest earned should be returned to USAID. The recipient contended that it had not received any response from any USAID Mission or the Office of Procurement regarding the interest earned matter.

The management decisions on the Office of Inspector General audit recommendations varied for the recipient. One Mission determined that the recipient should remit a check in the amount of \$424 payable to the Mission for the interest earned, since it determined that it was an unallowable cost related to the Mission's grant. Yet, another Mission approved \$991 of the interest earned income to be placed back into the program under its grant. These funds represent a partial recovery of interest earned income of \$1,415 from a total of \$7,064. Initially, we accepted these management decisions for partial recoveries as an acceptable action because the contracting officer had directed this action. However

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<sup>6</sup> Ibid.

based upon our review of the USAID regulation, we recognized that the acceptance of the funds back into the program was inappropriate and we, therefore, advised the appropriate USAID offices to remit the interest earned to DHHS for recovery and processing.

The recipient's OMB A- 133 audit report, for the fiscal year ending June 30, 1997, disclosed \$14,612 in interest earned on Federal advances associated with USAID awards. Although its management was aware of the USAID requirement calling for interest earned on Federal advances to be remitted annually to DHHS, it concluded that this Code of Federal Regulations (CFR) requirement reflects a continuing disparity in Federal regulations between those dealing with US-based Federally funded activities and those overseas-based Federally funded activities. The recipient argued further that the mere reference to the DHHS in the USAID portion of the CFR, indicates that the domestic Federal requirement was simply "lifted" and applied to the overseas programs. According to the recipient, this action was viewed as inappropriate because overseas conditions vary greatly from domestic situations. Its opinion was that to remit interest earned on such accounts is contrary to the CFR and at variance with the Congressional policy authorizing foreign assistance funds.

We disagree with recipient's position on this matter. As described on pages 2 and 3 of this report, USAID regulations' clearly state that interest earned on advances shall be remitted annually to Department of Health and Human Services.

To ensure that our interpretation of the USAID regulation was valid, we met with officials from the Office of Procurement (M/OP) to discuss the developments cited in the recipient's OMB A-133 audit report. These M/OP officials agreed with us. That is, the recipient's interpretation of the provision on remitting interest earned was incorrect.

### **Review of 30 Awards Reveals More Problems**

To find out if the above event was either an isolated incident or the reflection of a larger problem, we reviewed 30 awards to major USAID recipients to discover how interest remittances were processed. Our limited review showed that recipients were remitting interest earned payments to various entities at USAID. We found interest earned was being remitted to the following entities: 1) the respective USAID Mission, 2) the program and/or project office which the recipients work with. 3) the Office of Financial Management, 4) the Letter of Credit Office within the Office of Financial Management, and 5) DHHS, Payment Management System, Rockville, Maryland. However, only seven of 30 recipients reported interest earned income for the period of April 1, 1997 to June 30, 1998. Of the seven organizations that remitted interest, only one forwarded the interest to DHHS. The financial officers of the remaining six recipients were not aware

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<sup>7</sup> Agency for International Development, 22 CFR Part 226 Administration of Assistance Awards to U.S. Non-Government Organizations, Subpart C - Post-Award Requirements, Section 226.22--Payment, Paragraph (1).

that the interest earned income should be remitted to DHHS nor were they aware of the USAID regulation that requires this action. The total amount of interest earned from these six organizations was nearly \$159,000 (See Appendix IV).

Somewhat surprising to us was that 22 organizations, either reported a negative balance for Federal funds advanced or a small cash balance (Federal funds) on hand at the end of the reporting period. A finance manager for one of the recipients said that they draw on federal funds after expenses have been recorded. They did this because guidance from USAID management concerning the issues surrounding the “handling and distribution” of interest earned on Federal advances was not forthcoming. They also stated that Federal funds advanced are not banked long enough to gain any interest. This person also said: “Under the current USAID guidance, or the lack thereof, the processing of interest deriving from Federal funds advances is too much of a hassle to handle, record and distribute. It, is just too much of a headache.”

In July 1998, we met with the Office of Financial Management (M/FM) officials to verify the receipt and the procedures for processing interest earned payments. We were advised that the interest payments are automatically forwarded to DHHS upon their arrival in FM. However, according to the M/FM representative, who is responsible for distributing the interest payments to DHHS, the following action, which has only been process for about a month and a half, is performed on each payment item:

- 1) a copy of the interest check is made and the check is inserted into an envelope with a hand-written message to DHHS, but no copy of the hand written message is kept to show record and date the transfer action took place;
- 2) the copy of the interest check is placed in a folder for record keeping purposes, however, no-one documents the date the transmittal took place;
- 3) there is no process to confirm that DHHS received the interest check/payment, because there is no requirement on the part of DHHS to advise another Federal agency of the receipt of such payments.

During this review, we examined two folders labeled 1997 and 1998. These folders contained copies of checks for payment of interest earned, refund for travel expenses and other forms of payments that had been received in FM for processing. We verified two payments in the 1998 folder. These two payments reflected interest earned income payable to USAID or the U.S. Treasury in the amounts of \$71,025 from one major recipient and \$725 from another recipient.

## **Clarification Is Needed on Where to Remit Interest Earned**

Based on the disclosures in the OMB A- 133 audit report and our review of **30** recipients processing of payments for interest earned, we concluded that the recipients and USAID award offices are not fully aware of the changes brought about by the Cash Management Improvement Act and USAID's revised regulation. During our meetings with Office of Procurement officials responsible for the major recipient, whose OMB A- 133 audit report brought out this matter, we were assured that procurement officers were aware of the changes that required recipients to remit the interest income to DHHS. However, these same officials said that they have no reason to believe that such payments were being forwarded to DHHS as required. They pointed out that current regulations authorizing the recipient to retain \$250 per year was being reviewed for the purpose of including the wording that would allow the recipient to retain "\$250 per account.

In light of the developments disclosed during our limited review, we are making the following recommendations to the Office of Procurement to help ensure that USAID offices and its recipients are officially made aware of the changes brought about through the Cash Management Improvement Act, effective February 1995. We hope this will lead to consistent processing of these payments.

**Recommendation No. 1:** We recommend that the Office of Procurement notify USAID Missions and Offices that the interest earned on Federal advances deposited in interest bearing accounts be remitted to the Department of Health and Human Services, Payment Management System, Rockville, Maryland.

**Recommendation No. 2:** We recommend that the Office of Procurement, notify all recipient and grantee organizations that they are to remit interest income earned on Federal advances deposited in interest bearing accounts directly to the Department of Health and Human Services, Payment Management System, Rockville, Maryland.

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## **Management Comments and Our Evaluation**

Overall, the Office of Procurement's Policy Division had no problem with the audit position of issuing a General Notice to inform all USAID Missions and offices of the requirement related to interest earned refunds. However, they contend that, rather than attempting to issue an individual notice to all recipients, it seems more reasonable, while still being informative, to put the notice on the external web-site for recipients to access. The Division also pointed out that our suggestion that all interest must be remitted to DHHS did not recognize that Section 530, Fiscal Year 1997 Appropriations Act, provides statutory authority for USAID to allow recipients to retain interest to use for the

furtherance of program purposes, in certain cases.

We believe that the proposed management action to use a USAID web-site for the notification of policy matters is possibly an effective method to inform USAID personnel of policies and/or policy revisions. However, we do not believe this method is appropriate for an official notice to USAID recipients. We believe that an official notice to the recipients is needed to ensure an understanding of the policy change and the reasons for the policy change.

With regard to “all” interest earned, we believe our report and recommendations are clear in that we are covering only Federal funds advanced for an activity. Section 530 pertains to specific economic assistance conditions and not Federal advances. We believe that the notice to all parties will cite only Federal funds advanced to recipients or grantees.

## SCOPE AND METHODOLOGY

This audit is limited in scope. Our audit work was done in accordance with generally accepted government auditing standards, except as noted. Primarily, we relied on the OMB A- 133 audit reports for Project Concern International covering its two fiscal years ending June 30, 1996 and 1997, respectively. Also, we selected 30 recipients from USAID's Contract Information System (CIMS Report) on all awards as of April 1996, the most recent year available. These 30 recipients had reportedly Federal funding (obligated amount) of approximately \$1.3 billion. For these 30 recipients, we attempted to verify if they had earned interest income to be remitted to USAID during the period April 1, 1997 to June 30, 1998. The selection of the organizations was based on the "obligated amount" (See Appendix III). The selection was based on our judgement and we did not attempt to ensure that the selection was representative of USAID awards. However, these were some of the largest awards. We did not attempt to verify the source information.

During our analysis of the year ended June 30, 1997 audit report for Project Concern International (PCI), we noted that PCI claimed that interest earned income from its operating bank accounts was not the same as the interest earned on Federal cash advances. It contended that the interest earned on funds, through its bank accounts, became its operating funds. Therefore, it disagreed with the auditors recommendations, in that the funds must be remitted in accordance with their agreements to the Department of Health and Human Services (DHHS), Payment Management System, Rockville, Maryland. Based on this information, we reviewed USAID policy and procedures related to the subject interest earned on Federal advanced funds. We obtained a copy of Agency For International Development, 22 CFR Part 226 Administration of Assistance Awards to U. S. Non-Government Organizations, Subpart C - Post-Award Requirements, Section 226.22--Payment.

We used this as the criteria for our audit. If the awardee had not remitted interested earned of more than \$250 to DHHS, we considered this to be an error. The audit work was conducted from July 1, 1998, through September 30, 1998, at USAID offices in Washington D.C. We contacted various recipients by telephone and requested that they submit documentation showing where they had sent any payments for interest earned on Federal funds. Planning for the audit was limited to identifying pertinent criteria and limiting our scope to as few files and records necessary to determine if there was a problem. This audit report is limited to the disposition of interest earned on Federal funds advance to some recipients.

MANAGEMENT COMMENTS



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

January 7, 1999

MEMORANDUM

TO: IG/A/FA, Bruce N. Crandlewire  
FROM: M/OP/P, Kathleen O'Hara *Kathleen O'Hara*  
SUBJECT: Draft Report - Audit on Processing of Interest Earned  
on Federal Advances by Selected Organizations, Audit  
Report No. O-000-99-00X-F

Thank you for the opportunity to comment on the draft audit report. We have no problem with the idea of issuing a General Notice to inform all USAID offices of the requirement that interest refunded to the Government under grants and cooperative agreements must be sent to DHHS. Rather than attempting to issue individual notice to all recipients, it seems more reasonable, while still being informative, to put the notice on the external website so recipients will have access.

The basic issue I have with the report concerns the discussion that all interest earned on Federal advances must be returned to DHHS. The report acknowledges the provision to retain \$250 annually for expenses, but it doesn't discuss about the authority that USAID has through its appropriations acts to allow recipients to retain interest to use for furtherance of program purposes. On page 3, the second and third paragraphs make it sound as though the Cash Management Improvement Act in 1994 and the February 7, 1995 issuance of the regulations took away USAID's authority to allow a recipient to retain interest earned on advances to use for program purposes. USAID has had statutory authority for a number of years now that enables us to allow recipients to retain all interest. The language quoted from USAID's regulation starts out: "Except as otherwise provided in the terms and conditions of the award..." indicates that we may provide alternatives to requiring refund of all but \$250.

I don't have the citations for FY 98 or 99, but the FY 97 appropriations act provided the following:

MANAGEMENT COMMENTS

Sec. 530. In order to enhance the continued participation of nongovernmental organizations in economic assistance activities under the Foreign Assistance Act of 1961, including endowments, debt-for-development and debt-for-nature exchanges, a nongovernmental organization which is a grantee or contractor of the Agency for International Development may place in interest bearing accounts funds made available under this Act or prior Acts or local currencies which accrue to that organization as a result of economic assistance provided under title II of this Act and any interest earned on such investment shall be used for the purpose for which the assistance was provided to that organization.

a notice ensuring that USAID offices are informed that interest to be refunded must be sent to DHHS, but i hops the report can be clarified to recognize that some interest may be retained for program purposes when authorized in the specific agreement.

## List of Organizations Selected for Review Concerning Processing Interest Earned on Advanced Federal Funds

	Organization	Amount Obligated
1.	Academy for Educational Development	\$ 84,431,000
2.	African American Institute	35,120,000
3.	AFRICARE	67,000,000
4.	Agricultural Cooperative Development	35,656,000
5.	American Institute for Free Labor	29,551,000
6.	Asia Foundation	33,100,000
7.	CARE	186,370,000
8.	Catholic Relief Services	70,000,000
9.	Citizens Network for Foreign Affairs	14,400,000
10.	Cooperative League of the USA	23,000,000
11.	Family Health International	15,000,000
12.	Helen Keller International, Inc.	22,600,000
13.	Int'l. Committee of the Red Cross	23,092,000
14.	Int'l. Executive Service Corporation	40,900,000
15.	Institute of International Education	26,061,000
16.	International Medical Corporation	27,790,000
17.	International Rescue Committee	52,573,000
18.	Management Sciences for Health	71,000,000
19.	Mercy Corps International	16,070,000
20.	OIC International, Inc.	12,355,000
21.	Pathfinders International	48,490,000
22.	People-to-People Health (Project HOPE)	62,795,000
23.	Project Concern International	15,847,000
24.	Save the Children	114,640,000
25.	Technoserve, Inc.	11,830,000
26.	The Urban Institute	20,000,000
27.	Volunteers In Technical Assistance, Inc.	2,190,000
28.	World Education, Inc.	17,236,000
29.	World Wildlife Fund	23,246,000
30.	World Vision Relief	<u>60,161,000</u>
	<b>Total Dollars</b>	<b>\$ <u>338,220,000</u></b>

**List of Organizations Incorrectly Processing of Interest  
Earned On Federal Funds Advances  
For the Period April 1997 through June 1998**

<u>Recipient Organization</u>	<u>Period for Funds</u>	<u>Amount</u>	<u>Remitted To</u>
AFRICARE	June 1998	\$ 725	USAID/Washington
Mercy Corps International	June 1998	1,486	USAID/Washington
Mercy Corps International	June 1997	4,563	USAID/Washington
Mercy Corps International	Dec. 1997	5,363	USAID/Washington
Catholic Relief Services	Dec 1997	7 1,025	USAID/Washington
Project Concern International	June 1996	424	USAID/Bolivia
	June 1996	991	USAID/Nicaragua
	June 1996	5,649	Recipient' Program
	June 1997	14,612	Recipient's Program
Family Health International	Dec. 1997	12,265	US AID/Washington
	Sept. 1997	16,907	USAID/Washington
	Oct. 1997	10,636	USAID/Washington
	Dec. 1997	12,975	USAID/Washington
OIC International, Inc.	Sept. 1997	401	USAID/Washington
<b>Total Amount</b>		<b><u>\$158,023</u></b>	