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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S CASH CONTROL PROCEDURES

AUDIT REPORT NO. E-267-05-005-P
September 27, 2005

BAGHDAD, IRAQ



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Office of Inspector General

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MEMORANDUM

TO: USAID/Iraq Mission Director, Dawn M. Liberi

FROM: Regional Inspector General, Baghdad, Nancy J. Lawton /s/

SUBJECT: Audit of USAID/Iraq's Cash Control Procedures
(Report No. E-267-05-005-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft and have included them, without attachments, as Appendix II.

The report contains one recommendation for corrective action. In your written comments, you concurred with the recommendation and provided evidence of actions taken to address the auditors' concerns. Based upon the action taken to address these concerns, we consider that a management decision has been reached and final action has been taken on Recommendation No. 1.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during this audit.

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SUMMARY OF RESULTS

Cashiers use imprest funds to pay small, routine operating expenses. As of July 2005, USAID/Iraq was operating a \$350,000 imprest fund to disburse cash for a variety of reasons, including petty cash, procurement, payroll, travel-related reimbursements, and travel advances. The Mission also used its imprest fund to establish small petty cash funds at its regional offices in Erbil, Hillah, and Basrah. (See page 2.)

The Regional Inspector General in Baghdad, Iraq conducted this audit to determine whether the Mission (1) managed its cashiering operations in accordance with established regulations, policies, and procedures and (2) properly calculated and disbursed cash payroll payments to its foreign service national workforce in accordance with established regulations, policies, and procedures. (See page 2.)

USAID/Iraq properly managed its cashiering operations, and it properly calculated and disbursed its foreign service national cash payroll payments. However, we noted that the Mission did not require its regional representatives to sign a form to confirm that they received the petty cash funds sent to them. This unnecessarily exposed the Mission, and the staff responsible for transporting and receiving the cash, to the risk that someone could misappropriate the funds and deny having any responsibility for them because of the uncertainty surrounding when accountability for the cash was transferred. (See page 3.)

This report contains one recommendation for USAID/Iraq to finalize and implement its draft policy requiring regional offices to accept, in writing, petty cash funds delivered to them by the Mission's cashier's office. (See page 4.) See page 6 for our evaluation of management comments.

Management comments are included in their entirety in Appendix II.

BACKGROUND

U.S. Department of State officials and U.S. disbursing officers may create imprest funds, also called petty cash funds that cashiers operate in order to pay small, routine operating expenses. Cashiers are officers or employees of the Federal Government who are authorized to disburse cash or carry out other cash operations.

As of July 2005, USAID/Iraq was operating a \$350,000 imprest fund. USAID/Iraq's cashier was authorized to disburse cash for a variety of reasons, including petty cash, procurement, payroll, travel-related reimbursements, and travel advances. The Mission also used its imprest fund to establish small petty cash funds—ranging from \$500 to \$2,000—at its regional offices in Erbil, Hillah, and Basrah.

AUDIT OBJECTIVES

As part of its fiscal year 2005 annual audit plan, the Regional Inspector General in Baghdad, Iraq conducted this audit to answer the following objectives:

- Did USAID/Iraq manage its cashiering operations in accordance with established regulations, policies, and procedures?
- Did USAID/Iraq properly calculate and disburse cash payroll payments to its foreign service national workforce in accordance with established regulations, policies, and procedures?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

Did USAID/Iraq manage its cashiering operations in accordance with established regulations, policies, and procedures?

With one exception, USAID/Iraq managed its cashiering operations in accordance with established regulations, policies, and procedures.

The cashier's office met the government's physical security standards for cashier's offices, and access to the cashier's office was limited. The Mission secured its cash in a combination safe and disbursed it from within the cashier's office.

Furthermore, documentation used to support the Mission's cash disbursements was properly authorized by the appropriate Mission personnel, and employees from the Mission's Financial Management Office conducted periodic unannounced cash counts. As part of the audit, the audit team conducted an unannounced cash count and reconciliation of the imprest fund on July 11, 2005; the auditors did not identify any discrepancies.

Although the Mission properly managed its cashiering operations, we identified an issue, described below, which the Mission should address to strengthen its internal controls over the imprest fund.

Documentation Needed to Support Petty Cash Funds

Summary: On two separate occasions, a representative from the Mission delivered cash to its regional office in Basrah, but there were no documents on file to prove that an official in Basrah accepted the funds. The Mission did not require its regional representatives to sign a form confirming the receipt of petty cash funds, thereby exposing the Mission, and the staff responsible for transporting and receiving the cash, to the risk that someone could misappropriate the funds and deny having any responsibility for it because of the uncertainty surrounding when accountability over the cash was transferred. Moreover, the transfer of petty cash advances to a regional office is a significant event, and according to the Government Accountability Office's Standards for Internal Control in the Federal Government, "all transactions and other significant events need to be clearly documented."

Various unsettled cash advance forms were on file in the cashier's office during the surprise cash count. Among other things, the Mission used these forms to record the existence of small petty cash funds in its regional offices.

In November 2004, a USAID employee signed a cash advance form documenting that he was transporting \$500 to the USAID regional office in Basrah. However, there was no document on file to prove that an official in Basrah accepted the funds. Similarly, in

December 2004 an individual signed a cash advance form agreeing to transport an additional \$1,000 to USAID's regional office in Basrah. Again, there was no document on file to prove that an official in Basrah accepted the funds.

The Mission did not require its regional representative to sign a form documenting that the couriers delivered the cash. The cashier stressed that the Mission knew that the regional office in Basrah received the cash because the Mission sent the funds with an employee it trusted and because the regional representative in Basrah would have contacted the Mission if the funds did not arrive. Nevertheless, without a document proving that someone from the regional office accepted the funds, the Mission, and the staff responsible for transporting and receiving the cash, were unnecessarily exposed to the risk that someone could misappropriate the funds and deny any responsibility for it because of the uncertainty surrounding when accountability over the cash was transferred. Moreover, the transfer of petty cash advances to a regional office is a significant event, and according to Government Accountability Office's Standards for Internal Control in the Federal Government, "all transactions and other significant events need to be clearly documented."

The controller acknowledged that the Mission needed to augment its written policies relating to its regional offices and had tasked the deputy controller with addressing this weakness. During the course of the audit, the deputy controller drafted a handbook for the regional offices that provided a brief overview of the Mission's policies for administering, replenishing, and securing a petty cash fund. The draft handbook also included a form that the Mission intended to use to document that petty cash funds transferred out to the regional offices had been accepted by the regional representatives.

Once implemented, the new form, in conjunction with the handbook, should help ensure that petty cash funds transferred to the Mission's regional offices are adequately documented. Therefore, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/Iraq finalize and implement its draft policy requiring regional offices to accept, in writing, petty cash funds delivered to them by the Mission's cashier's office.

Did USAID/Iraq properly calculate and disburse cash payroll payments to its foreign service national workforce in accordance with established regulations, policies, and procedures?

USAID/Iraq properly calculated and disbursed cash payroll payments to its foreign service national (FSN) workforce for the period of January 1 to May 31, 2005. Payroll amounts recorded in the Mission's imprest fund agreed with the supporting documentation maintained in the accounting records, and the Mission complied with the pay policies outlined in its local compensation plan. In addition, controls existed and were functioning properly to protect the Mission's funds.

Specifically, as the result of our testing, we determined that:

- No unexplained discrepancies existed between USAID/Iraq's accounting records and the amounts recorded in the cashier's accountability reports.
- Payroll disbursements observed by the auditors on a payday during the course of the audit had sufficient controls in place to document and safeguard FSN payroll disbursements.
- For a judgmentally selected pay period, no material differences were found between expected FSN payroll amounts based on the timesheets and the amounts recorded on the payroll voucher.
- No evidence existed suggesting that documentation for fictitious employees had been created.
- Reports used to document payroll transactions appeared to provide sufficient information to allow Mission personnel to properly track and process payroll transactions.

Because USAID/Iraq properly calculated and disbursed cash payroll payments and established adequate internal controls, we are not making any recommendations.

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Iraq concurred with the audit recommendation and provided evidence indicating that it had already taken action to address the auditors' concern. Specifically, the Mission management stated that it had finalized its policy and will shortly begin its implementation. The Mission furnished a copy of the new policy titled "Petty Cash Administrator's Handbook" which is designed to provide an explanation of the normal operating cycle of petty cash and explain the use of the emergency salary advance. Incorporated in the new policy is the requirement that the Regional Office Director must sign for the receipt of funds. Additionally, the original signed copy for the receipt of funds must be returned to the Mission's cashier.

Subsequent to receiving the management comments, the USAID/Iraq Financial Management Office emailed the implementation of the new policy to its regional offices. We believe the actions taken by the Mission should strengthen management controls related to its cashing operations.

Based on the information provided, we consider that USAID/Iraq has reached a management decision and final action on Recommendation No. 1.

Management's Comments are included, excluding attachments, in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General in Baghdad audited USAID/Iraq's cashiering operations in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether the Mission (1) managed its cashiering operations in accordance with established regulations, policies, and procedures and (2) properly calculated and disbursed cash payroll payments to its foreign service national (FSN) workforce in accordance with established regulations, policies, and procedures.

To conduct the audit, we performed an unannounced cash count of USAID/Iraq's cashier's office on July 11, 2005. To ascertain the accuracy of the reported cash balance of the imprest fund, the audit team:

- counted the cash on hand,
- verified the cashier's checks,
- reviewed the current bank statement,
- reviewed the cash disbursements,
- reviewed the supporting documentation for outstanding advances, and
- reconciled the amount documented to the authorized imprest fund of \$350,000.

In addition, we reconciled the \$1.3 million of cash disbursements for the period of January 1 to May 31, 2005. To evaluate the internal controls related to the approval process, the audit examined 10 percent, or \$96,422, of the cash disbursements made during this period. Auditors examined payroll disbursements totaling \$789,461 for the same period. The audit team also conducted a surprise cash count at the USAID/Iraq's Hillah regional office on August 24, 2005.

The audit team conducted an initial risk and internal control assessment. After gaining a basic understanding of the internal controls based on the results of prior audit work, the audit team conducted a series of tests to (1) assess the physical security of the cashier's office, (2) test the approval process for cash disbursements, (3) ensure that surprise cash counts were conducted, and (4) evaluate the independence of the cashier. Based on the tests conducted during the fieldwork, the audit team determined that the internal controls were functioning and helped ensure that U.S. government assets were safeguarded. Prior audit findings affecting USAID/Iraq's cashiering operations were reviewed and considered.

We conducted the audit at the Mission's office in Baghdad, Iraq from July 11 to August 29, 2005. We visited one of the Mission's regional offices to conduct a surprise cash count, but we could not perform work at the other regional offices because of travel restrictions and because the risks associated with not auditing these relatively small petty cash funds did not outweigh the security concerns related to conducting additional site visits.

Methodology

To answer the audit objectives, we reviewed documents and controls relevant to the cashiering operations and FSN payroll disbursements. To evaluate the Mission's cashiering operations, the audit team conducted surprise cash counts, reviewed accountability reports, verified vouchers and cash receipts, interviewed the cashier and controller, and evaluated the physical security of the cashier's office. To evaluate the payroll cash disbursements, the audit team compared the disbursements recorded in the accounting system to the amounts recorded in the cashier's office, reviewed a judgmental sample of timesheets submitted by FSNs, reviewed the procedures for processing final payroll payments, and verified that FSN employees were required to produce some form of identification and sign for the receipt of their cash payments.

Because the liquidity of cash creates a high risk of theft, the audit team did not set a materiality threshold for the cash count; any deficiency it identified would have been treated as a reportable condition. The audit used the following guidance to evaluate other potential weaknesses: the Department of the Treasury's Manual of Procedures and Instructions for Cashiers (Cashier's Manual); USAID/Iraq Mission Notice 04-006; Volume 4, Handbook 3 of the Foreign Affairs Handbook; and the Government Accountability Office's Standards for Internal Control in the Federal Government.

Although the audit team decided to rely on judgmental samples for certain tests, the auditors coordinated with the Office of Inspector General statistician to develop and analyze a statistical sample to determine if cash disbursement vouchers were properly authorized. Using interval sampling, the audit team selected 56 transactions (approximately 10 percent of the universe) for examination using a 90 percent confidence interval. The statistician projected the results to the population and determined that the population had a minor error rate of less than 5 percent.

MANAGEMENT COMMENTS



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TO: Nancy Lawton, Regional Inspector General
FROM: Dawn Liberi, Mission Director /s/
DATE: September 15, 2005
SUBJECT: Audit Response

On behalf of USAID/Iraq, I would like to express my appreciation for the conscientious and professional effort reflected in the subject audit report. The finding will be helpful to the mission as we implement policies and procedures to safeguard its cash assets.

Through this memorandum, USAID/Iraq provides its formal concurrence with the audit findings, which include the following:

- USAID/Iraq has properly managed its cashiering operations. We should, however, ask our regional representatives to sign a form confirming that they have received petty cash funds.
- The audit also found that USAID/Iraq has properly calculated and disbursed its FSN cash payroll payments and that controls are in place to protect those funds.
- The audit noted several minor areas of concern, mostly involving documentation, which should be addressed.

The audit contained one recommendation, that “USAID/Iraq finalize and implement its draft policy requiring its regional offices to accept, in writing, petty cash funds delivered to them by the mission’s cashier’s office.” We are pleased to report that USAID/Iraq has finalized its policy and will shortly begin its implementation.

A copy of the finalized policy is attached to this memorandum.

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