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## OFFICE OF INSPECTOR GENERAL

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# AUDIT OF USAID/SOUTH AFRICA'S CASHIERING OPERATIONS

AUDIT REPORT NO. 4-674-07-006-P  
May 24, 2007

Pretoria, South Africa



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*Office of Inspector General*

May 24, 2007

**MEMORANDUM**

**TO:** USAID/South Africa Mission Director, Carleene Dei

**FROM:** Acting Regional Inspector General, James Charlifue /s/

**SUBJECT:** Audit of USAID/South Africa's Cashiering Operations  
(Report No. 4-674-07-006-P)

This memorandum transmits our report on the subject audit. In finalizing this report, we considered management comments on the draft report and have included those comments, in their entirety, as Appendix II.

This report includes three recommendations to strengthen USAID/South Africa's cashiering operations. In response to the draft report, the Mission concurred with Recommendation Nos. 1 and 2 and agreed with Recommendation No. 3. The Mission has provided corrective action plans to address all three recommendations. Therefore, we consider that a management decision has been reached on all three recommendations. Please provide the Office of Audit, Performance, and Compliance Division (M/CFO/APC) with the necessary documentation demonstrating that a final decision has been taken on these recommendations.

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

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# SUMMARY OF RESULTS

The Regional Inspector General/Pretoria conducted this audit to determine whether USAID/South Africa managed its cashiering operations efficiently, economically and in accordance with Agency policies and procedures.

The audit found that USAID/South Africa generally managed its cashiering operations efficiently, economically and in accordance with Agency policies and procedures. However, the Mission could strengthen its cashiering operations by:

- Conducting monthly cash verifications (see page 4).
- Conducting periodic reviews of the level of the imprest fund cash advance (see page 5).
- Taking action to prohibit commingling U.S. Government imprest funds with other funds (see page 6).

The report includes three recommendations for improving USAID/South Africa's cashiering operations (see pages 4 through 6).<sup>1</sup>

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<sup>1</sup> We intend to provide Mission management with a separate memo detailing some minor matters that came to our attention during the audit.

# BACKGROUND

Mission cashiering operations are governed by policies and procedures issued by the U.S. Department of the Treasury, the U.S. Department of State, and the U.S. Agency for International Development.

The Mission cashier's main responsibilities typically are to: (1) maintain an imprest fund cash advance in amounts prescribed by the State Department's U.S. Disbursement Officer in local currency and U.S. Dollars; (2) make cash disbursements from the imprest fund cash advance against properly authorized documents for local procurement, travel advances, local currency expense claims, and emergency situations; (3) provide accommodation exchange transactions for U.S. citizens working for the mission and institutional contractors; (4) accept payments on behalf of the U.S. Government, such as payments for bills of collection, and deposit the funds collected; (5) maintain a record of cash payments made by the subcashier and replenish the subcashier's petty cash; and, (6) process sub-vouchers, certified vouchers, collections, local deposits, accommodation exchange transactions and check requests into the Phoenix financial accounting system.

Generally, the purpose of an imprest fund is to make small payments when the ordering of checks is not practical and where the best interests of the U.S. Government are served by making payments in cash. At the same time, cash on hand must be kept to the minimum needed to meet Mission requirements.

At the time of our audit the Mission was authorized to maintain an imprest fund cash advance level of \$165,000—or local currency equivalent—with a temporary advance of \$100,000 issued in October 2006, for a total of \$265,000.

## AUDIT OBJECTIVE

The Regional Inspector General/Pretoria audited USAID/South Africa's Cashiering Operations to answer the following question:

- Did USAID/South Africa manage its cashiering operations efficiently, economically and in accordance with Agency policies and procedures?

Appendix I describes the audit's scope and methodology.

# AUDIT FINDINGS

Generally, USAID/South Africa managed its cashiering operations efficiently, economically and in accordance with Agency policies and procedures.

The Mission has established controls to safeguard the cashier's office and cashiering operations. In addition, the Mission has implemented procedures to carry out its cashiering operations according to the established guidelines. For example the Mission:

- Followed appropriate procedures in establishing the imprest fund cash advance.
- Formally designated the cashiers—a principal cashier, a subcashier, and an alternate cashier.
- Provided training and guidance for the cashiers.
- Provided physical security for the cashiering process.
- Conducted daily reconciliations.

The cashier's office is in a secured area and access is restricted to authorized personnel. All cash, checks and other documents associated with the cashier and the imprest fund reconciliation process are maintained in a safe overnight.

Although the Mission has taken positive steps to implement and manage its cashiering operations, the following are areas where controls could be strengthened:

- The Mission was not conducting the required monthly cash verifications.
- Periodic reviews of the imprest fund cash advance were not conducted.
- Foreign Service National (FSN) Emergency Relief Fund collections were left in the cashier's safe.

These areas are discussed in detail below.

## **Monthly Cash Verifications Were Not Conducted**

Summary: The importance of conducting monthly cash verifications is to ensure proper cash accountability and to safeguard the imprest funds cash advance held by the cashiers. The Foreign Affairs Handbook governing cashiering operations states that as part of the basic supervisory responsibility to assure protection of U.S. funds, the immediate supervisor of the cashier is responsible for making unannounced verifications of each cashier fund at least once a month. However, USAID/South Africa was not conducting the required monthly cash verifications. This occurred in part because of an oversight and weak internal controls. Consequently the Mission did not have the required assurance that the imprest fund cash advance was safeguarded and properly accounted for.

Periodic unannounced cash verifications should be conducted to ensure that the Mission is in compliance with the Department of State's regulations. The Foreign Affairs Handbook (FAH) governing cashiering operations requires that unannounced cashier

verifications be conducted monthly by a cash verification officer regardless of the advance amount.<sup>2</sup> All cashier verifications must be completed and signed in the month conducted and the U.S. Disbursing Officer (USDO) must receive an unannounced cash count for each of the 12 months in the calendar year. To assure protection of the funds, the immediate supervisor of the cashier is responsible for making unannounced cash verifications of each cashier fund at least once a month. According to the FAH, the immediate supervisor must be an American.

Unannounced cash verifications were not conducted during calendar year 2005. In spite of identifying the lack of cash counts in USAID/South Africa's fiscal year 2005 Federal Manager's Financial Integrity Act annual certification, only 3 of the required 12 monthly cash verifications were conducted during the calendar year 2006. Monthly unannounced cash verifications were not conducted in part because of an oversight and weak internal controls.

In the absence of the required cash counts, the Mission lacked assurance that the cashier's imprest fund records were accurate and prepared in accordance with the Department of State's policies and procedures. For example, at the time of our audit there was a transaction recorded for 200,000 South African rand that was borrowed from the U.S. Embassy cashier which was erroneously entered into the system as \$30,000 dollars instead of South African rand (based on a rough approximation of the exchange rate at the time of the transaction). This type of error could have been detected had regular cash counts been conducted.

Cash verifications are an important control to ensure the safekeeping of government funds, reduce the potential for misuse, and reduce the risk of having unaccounted for funds. Accordingly, we are making the following recommendation:

*Recommendation No. 1: We recommend that USAID/South Africa establish procedures to conduct monthly unannounced cash verifications and maintain documentation of the verifications indicating the date reviewed.*

## **Periodic Reviews of Imprest Fund Cash Advance Were Not Conducted**

Summary: A system of good internal control over cashing operations requires close oversight and monitoring of cash handling. It includes conducting periodic reviews of the imprest funds cash advance held by cashiers. Regular reviews help to determine if the imprest fund cash advance level is commensurate with actual needs and strengthens cashier accountability over cash. The Foreign Affairs Handbook requires the review of the amount of each cashier's advance to determine if it is at a minimum level to meet the needs of the Mission. However, due to internal control weaknesses, periodic cash reviews of the imprest fund cash advance were not being conducted. Because of the lack of periodic reviews of the cash advance, the Mission was not assured that Agency funds were appropriately managed and that the fund level was appropriate to meet Mission needs.

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<sup>2</sup> Foreign Affairs Handbook Volume 4, Handbook 3, Section H-397.1-2 (4 FAH-3 H-397.1-2)

A system of good internal control over cashiering operations requires close oversight and monitoring of cash handling. It includes conducting periodic reviews of the imprest funds cash advance held by cashiers. Regular reviews help to determine if the imprest fund level is commensurate with actual needs and strengthens cashier accountability over cash. The FAH requires the review of the amount of each cashier's advance to determine if it is at a minimum level to meet the needs of the Mission.<sup>3</sup> It further states that the cashier's accountability is authorized as the maximum U.S. dollar amount but the actual accountable amount fluctuates based on the level of cashier's activity. This FAH states that the adequacy of the cashier's advance must be reviewed at least annually by the Financial Management Officer, in this case the Mission Controller. The review must be documented, signed by the cashier and the Financial Management Officer, and filed in the cashier's file, with a copy sent to the servicing U.S. Disbursing Officer.

Nevertheless, the Mission was not conducting the required periodic reviews of the imprest fund cash advance and there were no definite plans to conduct imprest fund reviews in the future. Mission officials were not aware of when the last review of the imprest fund had been conducted. These conditions arose due to weak internal control over the cash advance level. Without conducting periodic reviews of the imprest fund, the Mission is not assured that Agency funds are appropriately managed and that the current fund level is appropriate for the needs of the Mission. To strengthen the monitoring process for conducting imprest fund reviews, we are making the following recommendation:

*Recommendation No. 2: We recommend that USAID/South Africa establish procedures to conduct periodic reviews of the amount of the imprest fund cash advance and maintain records of the completed reviews.*

## **FSN Emergency Relief Fund Collections Were Left in Cashier's Safe**

Summary: Cash contributions that were collected for the Foreign Service National (FSN) Emergency Relief Fund were left in the cashier's safe. The Foreign Affairs Handbook prohibits the intermingling of Government funds with any other funds. This occurred because, after collection of the funds, Mission officials were not aware of the Agency's instructions on processing the contributions. As a result, the funds remained in the Cashier's safe and the Mission faces the risk of potential loss or misuse of these funds.

The Foreign Affairs Handbook prohibits the intermingling of U.S. Government funds with any other funds.<sup>4</sup> Nevertheless, cash contributions that the Mission collected for the FSN Emergency Relief Fund were left in the cashier's safe.

Monies collected for the FSN Emergency Relief Fund were being maintained in the cashier's safe from December 2006. These funds totaled 4,808 South African rand (approximately \$687). This occurred because, after collection of the funds, Mission officials were not aware of the Agency's guidance, which was provided in a USAID general notice regarding the replenishment of the FSN Emergency Relief Funds

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<sup>3</sup> 4 FAH-3 H-393.4-2e

<sup>4</sup> 4 FAH-3 H-393.3-4c



collected to assist FSNs globally. The USAID general notice stated that FSN cash contributions in dollars, local currency, cash or check should be taken to the Embassy cashier, who would prepare an OF-158 general receipt for the contributions. Because Mission officials were unaware of this guidance, the funds collected by USAID/South Africa remained in the Mission cashier's safe together with the cash advance funds, instead of being deposited with the Embassy cashier.

Although the FSN Emergency Relief Funds were kept in the cashier's safe for safekeeping, they are not part of the Mission's imprest fund accountability and are not included in the cashier's daily reconciliation worksheets. As a result, the Mission faces the risk of potential loss, misuse or diversion of the FSN Emergency Relief Funds without any indication being raised in the USAID accounting system. Additionally, the commingling of these funds in the same safe as the cash advance funds increases the risk of loss or misuse of the cash advance funds. Therefore, we are making the following recommendation:

*Recommendation No. 3: We recommend that USAID/South Africa take action to prohibit the commingling of U.S. Government imprest funds with other funds.*

# EVALUATION OF MANAGEMENT COMMENTS

The Mission's comments and our evaluation of those comments are summarized below.

In response to Recommendation No. 1, concerning, establishing procedures to conduct monthly unannounced cash verification and maintaining documentation of the verifications, USAID/South Africa concurred with the recommendation. The Mission reported that it was in the process of implementing controls to ensure that cash counts are conducted and documented. Based on this, we consider that a management decision has been reached for Recommendation No. 1.

In response to Recommendation No. 2, concerning establishing procedures to conduct periodic reviews of the amount of the imprest fund cash advance and maintaining records of the completed reviews, USAID/South Africa concurred with the recommendation. The Mission proposed conducting periodic semi-annual reviews of the amount of the imprest fund cash advance. Based on this, we consider that a management decision has been reached for Recommendation No. 2.

In response to Recommendation No. 3, concerning establishing procedures to prevent other funds from being in the same secure container designated for the U.S. Government imprest funds, USAID/South Africa accepted the finding and has indicated that it would take action to prevent commingling Government funds with any other funds. As a result, we consider that management decision has been reached on Recommendation No. 3.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/Pretoria performed this audit in accordance with generally accepted government auditing standards. The objective of the audit was to determine if the Mission managed its cashiering operations efficiently, economically and in accordance with Agency policies and procedures.

In planning and performing this audit, we obtained an understanding and assessed the Mission's internal control related to cashiering operations that were in place at the time of our audit. Internal controls included the establishment of the imprest fund; designation of cashiers; establishment of cashier authorities; safeguarding of imprest fund assets; separation of duties; and unannounced cash counts of the imprest fund. In order to determine the extent of internal control weaknesses noted during the audit, such as lack of monthly cash counts and lack of analysis of the cash advance level, we reviewed the Mission's controls in these areas during calendar years 2005 and 2006 and also reviewed the fiscal years 2005 and 2006 Federal Manager's Financial Integrity Act annual certification for any related management control weaknesses.

Our audit covered the \$165,000 imprest fund and \$100,000 temporary advance for a total of \$265,000 maintained by the primary cashier and alternate cashiers. Audit field work was conducted at USAID/South Africa Mission facilities in Pretoria and Silverton, South Africa, from January 12, 2007 to March 7, 2007.

## Methodology

To answer the audit objective, we obtained an understanding of the cashiering requirements as described in the Department of Treasury's Manual of Procedures and Instructions for Cashiers, the Department of State's Foreign Affairs Handbook, and USAID published guidance.

We assessed the Mission's internal control over cashiering operations by interviewing appropriate Mission officials and staff. We reviewed the physical security of the cashier's office for compliance with requirements specified in the guidance. In order to test internal control, we judgmentally selected transactions to verify that all payments in excess of \$500 were approved by the Controller, that disbursements were made for authorized purposes and that signed receipts were obtained for all payments. We reviewed the accommodations exchange transaction documents for December 2006 to determine if they were processed and transmitted to Charleston, South Carolina, within the month.

Finally, we conducted a non-scheduled cash count with the principal cashier at the Mission in Pretoria and with the subcashier at GSO warehouse in Silverton. We counted the cash held by each person accountable and verified that it was accurate and tied to the amounts on the system-generated reconciliation worksheet report.

# MANAGEMENT COMMENTS



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## UNITED STATES GOVERNMENT ACTION MEMORANDUM

**DATE** : May10, 2007

**TO** : Nathan Lokos, Regional Inspector General/Pretoria

**FROM** : Carlene Dei, Mission Director /s/

**SUBJECT** : Management Comments – Audit of USAID/South Africa’s Cashiering Operations (Report No. 4-674-07-XXX-P)

The Mission has reviewed the subject audit report. The following is our management response and comments:

**Recommendation #1:** We recommend that USAID/South Africa establish procedures to conduct monthly unannounced cash verification and maintain documentation of the verifications indicating the date reviewed.

**Recommendation #2:** We recommend that USAID/South Africa establish procedures to conduct periodic reviews of the amount of the Imprest Fund Cash Advance maintain records of the completed reviews.

**Recommendation #3:** We recommend that USAID/South Africa establish procedures to prevent other funds from being in the same secure container designated for the U.S. Government Imprest Fund.

### Management Response:

USAID/ South Africa concurs with recommendation #1. The Controller has given instructions that periodic cash counts be conducted at least monthly. Since the issuance of the draft audit report, one cash count has been conducted. Position Descriptions of employees eligible to be designated Cash Verification Officers are being amended to include Cash Count as part of regular duties. Additionally, Cashier Operation Procedures

are being reviewed to ensure that regular cash counts are conducted and documented. The cash verification report is now listed among the mandatory monthly FM reports to be submitted to the Controller.

USAID/South Africa concurs with recommendation #2. In accordance with the Department of Treasury's Manual of Procedures and Instructions for Cashier, and the Foreign Affairs Handbook, Periodic Cashier reviews will be conducted semi-annually and documented. The review will be based on actual usage of cash, types and frequency of payments to determine needs and level of cash required. Shortly after the audit, a cashier review was conducted and adjustment was made to the level of cash advance accordingly. The Cashier Operation Procedure Manual is being revised to include the semi-annual Cashier Review as a requirement.

Recommendation #3 – USAID/South Africa accepts the finding and will take actions to prevent reoccurrence. According to the Foreign Affairs Handbook – Volume 4 FAH -3 H393.4-3-e, Cashiers are prohibited from safeguarding and/or disbursing funds or personal checks of employees, contractors, official visitors, or anyone else, unless received in authorized transactions such as accommodation exchange, reimbursement, repayment of advances. USAID/South Africa does not intend to establish procedures for transactions not authorized under the Cashier Operating Procedure. USAID/South Africa will, however, take actions to reinforce the procedure, already in place, prohibiting commingling of US Government Imprest funds with other funds and will ensure strict adherence through regular monthly Cash Verifications. Consequently, USAID/South Africa requests that recommendation #3 be modified to call for implementation of the established Cashier Operating Procedures.

Please consider the above as USAID/South Africa's Management Decisions with regards to the recommendations.

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