OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/AFGHANISTAN'S CASHIERING OPERATIONS

AUDIT REPORT NO. 5-306-06-001-P
January 10, 2006

Manila, Philippines

Office of Inspector General

January 10, 2006

MEMORANDUM

TO: USAID/Afghanistan, Director, Alonzo Fulgham

FROM: Acting RIG/Manila, George R. Jiron Jr. /s/

SUBJECT: Audit of USAID/Afghanistan's Cashiering Operations
(Audit Report No. 5-306-06-001-P)

This memorandum transmits our final report on the subject audit. In finalizing this report, we considered your comments on our draft report and have included the comments in Appendix II.

This report does not contain any recommendations for your action.

Once again, I want to thank you and your staff for the cooperation and courtesy extended to us during the audit.

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SUMMARY OF RESULTS

The Regional Inspector General/Manila conducted this audit to determine whether USAID/Afghanistan managed its cashiering operations in accordance with established regulations, policies and procedures. (See page 2.)

The audit found that USAID/Afghanistan did manage its cashiering operations in accordance with established regulations, policies and procedures. (See page 3.)

USAID/Afghanistan concurred with the contents of this report; its comments are included at Appendix II. (See page 8.)

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.

A Mission cashier typically (1) maintains an imprest fund in amounts prescribed by USAID/Washington; (2) makes cash disbursements from the imprest fund against properly authorized documents; (3) accepts payments on behalf of the U.S. Government, such as on bills of collection; (4) deposits funds collected into the U.S. Disbursing Office's dollar account; and (5) maintains records of cash payments made by the alternate cashier and replenishes the imprest fund of the alternate cashier.

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. Also, cash on hand must be kept to the minimum needed to meet normal requirements.

At the time of our audit (September 26-28, 2005), USAID/Afghanistan's authorized imprest fund level was $300,000 and the actual level was $230,587. The Mission needed such a large imprest fund to meet its normal operating requirements because Afghanistan lacked an established banking system. The Mission had a principal cashier, an alternate cashier, and four subcashiers. Cash disbursements could be made for such purposes as payrolls, utilities payments, and accommodation exchange transactions.

AUDIT OBJECTIVE

The Regional Inspector General/Manila conducted this audit as part of its fiscal year 2006 annual audit plan to answer the following question:

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

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

AUDIT FINDING

USAID/Afghanistan managed its cashiering operations in accordance with established regulations, policies and procedures.

The Code of Federal Regulations, Title 31, Part 208; the U.S. Department of Treasury's Manual of Procedures and Instructions for Cashiers; the U.S. Department of State's Foreign Affairs Handbook; and USAID-published guidance such as the Automated Directives System, Chapter 630 establish the principal requirements to be followed by missions in managing their cashiering operations. These requirements address such issues as making cash payments when a country's infrastructure does not support payment by a non-cash mechanism, establishing imprest funds at appropriate levels, designating cashiers, establishing roles and responsibilities for cashiers and their supervisors, and installing adequate physical security and separation of duties.

USAID/Afghanistan provided guidance to cashiers, and implemented a number of other internal controls to carry out its cashiering operations according to established requirements. For example, the Mission:

- Followed appropriate procedures in establishing its imprest fund.
- Formally designated its cashiers.
- Established authorities for its cashiers commensurate with the size of the imprest fund.
- Provided training to its cashiers.
- Issued its own policies and procedures to provide its cashiers with supplemental guidance.
- Implemented adequate segregation of duties.
- Periodically performed and documented unannounced cash counts.
- Periodically reviewed and adjusted the level of its imprest fund.

In addition to the above, USAID/Afghanistan installed physical safeguards that were commensurate with the size of its imprest fund. For example, the cashiers' office was segregated from other Mission offices. Additionally, the principal and the alternate cashiers each had a U.S. government-approved safe for storing cash, paid vouchers, checks, and other cashiering documentation. The two safes had different combinations that were appropriately safeguarded. The Mission also installed a security camera to monitor the cashiers' office 24 hours a day, 7 days a week. Moreover, the Mission routinely requested the Regional Security Officer to provide armed escorts when Mission cashiers went to the bank to replenish the imprest fund.

As part of the testing of the internal controls implemented by USAID/Afghanistan, we performed an unannounced cash count of the imprest fund maintained by the principal and alternate cashiers. Specifically, we verified the accuracy of the cashiers' reconciliation statement to account for the imprest fund total of $230,587.[1] Our cash count found that the $230,587—consisting of cash and other cashiering documentation such as paid vouchers, cash advances to subcashiers, and accommodation exchange transactions—was accounted for and properly documented except for an immaterial shortage of $22. Additionally, our testing found that the size of the imprest fund was not excessive but in line with the Mission's needs.

[1] Of the $230,587, the principal cashier maintained $149,000 and the alternate cashier maintained $81,587.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Afghanistan concurred with the contents of this report. The Mission's written comments are included in their entirety as Appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila audited USAID/Afghanistan's cashiering operations in accordance with generally accepted government auditing standards. The objective of the audit was to determine whether the Mission managed its cashiering operations in accordance with established regulations, policies and procedures. The audit fieldwork was performed at USAID/Afghanistan in Kabul, Afghanistan from September 26-28, 2005.

To conduct the audit, we gained an understanding of and assessed the Mission's significant internal controls over its cashiering operations. These 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. Additionally, we reviewed the Mission's fiscal year 2005 Federal Manager's Financial Integrity Act annual certification for any management control weaknesses related to cashiering operations. We also reviewed the OIG's most recent audit report on the Mission's cashiering operations to determine whether there were any prior audit findings that could impact this audit.

Our audit covered the $230,587 imprest fund maintained by the principal cashier, the alternate cashier, and the four subcashiers.[2] However, we did not perform unannounced cash counts of the combined total of $11,000 in cash advanced to the four subcashiers because the amount held by each subcashier was immaterial and did not warrant the securitiy risks and arrangements that would be involved in traveling to where the subcashiers were located. We did review their cash advance vouchers and the interim receipts that they had submitted at the time of our fieldwork.

Methodology

To answer the audit objective, we interviewed appropriate Mission officials and staff; reviewed relevant regulations, policies and procedures, including those established by the Mission; reviewed cashier designations and authorities; performed an unannounced cash count of the imprest fund; reviewed the physical security of the cashiers' office; and reviewed other documentation, such the Mission's own reviews of its cashiering operations. Furthermore, we reviewed a judgmentally selected sample of cash reconciliation statements to verify their accuracy by reconciling each line item on the statements to their supporting documents and to evaluate whether the size of the imprest fund was excessive.

To determine the significance of our audit findings, we used the following methodology:

- We would conclude that the Mission managed its cashiering operations in accordance with established requirements if we noted no material weaknesses.

[2] The four subcashiers were located in the provinces of Badakhshan, Helmand, Herat, and Kabul.

- We would conclude that the Mission managed its cashiering operations in accordance with established requirements, but with certain exceptions, if we noted no material weaknesses but identified one or more reportable conditions.

- We would conclude that the Mission did not manage its cashiering operations in accordance with established requirements if we noted one or more material weaknesses.

We used the definitions of “material weakness” and “reportable conditions” as follows:

- A material weakness is a reportable condition (see below) in which the design or operation of one or more of the internal controls components does not reduce to a relatively low level the risk that waste, loss, unauthorized use or misappropriation of funds, property or other assets may occur and not be detected within a timely period by employees in the normal course of their assigned duties.

- Reportable conditions are matters coming to the auditors’ attention that in the auditors’ judgment should be communicated because they represent significant deficiencies in the design or operation of an internal control, which could adversely affect the entity’s ability to meet the internal control objectives described in the report.

MANAGEMENT COMMENTS

USAID | AFGHANISTAN
FROM THE AMERICAN PEOPLE

December 11, 2005

MEMORANDUM

TO: Acting RIG/Manila, George R. Jiron Jr.

FROM: USAID/Afghanistan Mission Director, Alonzo Fulgham /s/

SUBJECT: Management Comments RIG/Manila draft report on the Audit of USAID/Afghanistan's Cashiering Operations (Audit Report No. 5-306-06-XXX-P)

We appreciate the opportunity to respond to the subject draft report. The Mission concurs with the report and requests you to issue the same.

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