



OIG

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Management Assistance Report: U.S. Embassy Tbilisi Employee Association Commissary Accounting Controls

MANAGEMENT ASSISTANCE REPORT

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Summary of Report

The Office of Inspector General (OIG) initiated an investigation at the request of the Tbilisi Embassy Employee Association (TEA) Board (the Board) after the Board uncovered significant cash and accounting system discrepancies from commissary operations at U.S. Embassy Tbilisi, Georgia. The Board's own inquiry revealed missing cash of \$159,700 and accounting software discrepancies caused by the deletion of sales transactions from commercial off-the-shelf (COTS) accounting software over a five-year period from 2010 to 2014.

During the course of the investigation, OIG found that the \$159,700 loss was likely due to the misappropriation of cash from the embassy commissary. Because of a lack of available records and various control weaknesses within the commissary accounting system at the time, the investigation was unable to conclusively identify the individual or individuals responsible for misappropriating the funds. However, the investigation identified vulnerabilities in the accounting software system, which, when combined with control weaknesses in the TEA reporting and recording processes, allowed this fraud to go undetected over an extended period.

Moreover, the identified vulnerabilities and control weaknesses in TEA's use of COTS accounting software, if not mitigated, could continue to make TEA's cash handling and accounting processes susceptible to fraud, waste, and abuse. This report provides five recommendations to eliminate or mitigate those risks.

In its response to a draft of this report (Appendix A), TEA and the embassy's Management Officer agreed with all recommendations offered and identified the steps they would take or had already taken to address those recommendations. Based on these responses, OIG considers one recommendation closed and four recommendations resolved pending further action consistent with the language and intent of those recommendations.

BACKGROUND

U.S. Government employee associations are non-profit, private organizations created to provide morale, welfare, and recreation to Government employees and their families assigned to U.S. missions overseas. Associations are established under the authority of the Secretary of State by the Foreign Service Act of 1980 and are governed by individual boards made up of Government employees and their family members. The operating policies of employee associations are described in Volume 6, Chapter 530 of the U.S. Department of State's Foreign Affairs Manual (FAM).

TEA operates a retail store (commissary) and cafeteria and provides dry cleaning, tailoring, barber/hairdresser, manicure, car wash, and shoe repair services. The majority of TEA's revenue is generated through commissary sales. TEA's total revenue in 2014 was approximately \$443,000.

From 2011 to 2014, TEA experienced consistent, unexplained cash shortages, usually involving the embassy commissary. In January 2015, the Board compared sales data from the commissary cash register to sales data from COTS accounting software and discovered a discrepancy of \$159,700 for the period from 2010 to 2014. The Board's review of the COTS accounting software data also found that 3,116 sales transactions had been deleted during that period. The deleted transactions were cash sales, and the deletions often occurred many weeks or months after the dates of sale.

FINDINGS

The investigation found that the \$159,700 loss was likely due to the misappropriation of cash from the commissary safe by a former TEA employee who had access to funds and managed the COTS accounting software records. The COTS accounting software allows users to "delete" sales transactions from the accounting records. The function is designed to help small business owners correct errors in sales data and is not considered a flaw in the software. Deleted transactions are easily detectable through a report that can be produced by the COTS accounting software. Because TEA did not run that report as part of its normal accounting oversight process, however, the deletions went undetected.

The act of deleting cash sales transactions from the COTS accounting software reduced the amount of cash sales on the books and, therefore, reduced the expected amount of cash on hand. This created the opportunity for a perpetrator to remove physical cash in amounts equal to the deleted sales. This also led to inventory imbalances and variances between the COTS accounting software and the cash register.

Daily cash count controls, surprise cash counts by the Board, and monthly bank reconciliations were conducted during the time period in which the loss occurred.¹ However, these controls did not prevent or detect the loss. The month-end reporting process was also insufficient to detect the deleted transactions or the theft of the cash. Board oversight was lacking, and the Board failed to adequately address concerns raised during previous audits.

As required by 6 FAM 557, TEA was audited annually by external audit companies from 2011 to 2014. In addition, TEA was the subject of two internal reviews by the Department of State's Office of Commissary and Recreation Affairs in 2010 and 2014. While none of these audits or reviews uncovered the ongoing loss, they did identify red flags that indicated more serious issues than those reported in the audit findings.

The Board's January 2015 internal inquiry uncovered the missing cash and deleted transactions shown in the table below.

¹ 6 FAM 531(d) requires employee association boards to conduct monthly random unannounced counts of cash and inventory.

Total Deleted Transactions (2010 – 2014):

Year	Number of Receipts Deleted from COTS	Dollar Amount of Voided Receipts²
2014	586	\$21,800.00
2013	836	\$44,200.00
2012	730	\$46,100.00
2011	833	\$38,900.00
2010	131	\$8,700.00
Total	3,116	\$159,700.00

Source: March 26, 2015 Memorandum from TEA Board Chair to Tbilisi Deputy Chief of Mission.

Red Flags of Potential Fraud

A number of red flags over the years suggested the risk of fraud.

System Discrepancies: The independent auditor findings between 2011 and 2014 included recurring management concerns and recommendations that were not investigated further or adequately addressed by the Board³:

- Audits conducted in 2011 and 2012 identified the variance between the cash register and the COTS accounting software sales reports.
- Significant inventory adjusting entries were required in the COTS accounting software each year to reconcile the accounting information with actual inventory on hand.
- Manual stock counts of goods did not reconcile to the COTS accounting software balance.
- During the Department of State's February 2014 internal review, the review team compared actual stock counts against the system count and found a 50 percent error rate.⁴

Liquidity Issues: TEA was financially unstable and unable to remain current with its outstanding accounts payable.

System Controls Did Not Include Individual User Roles in the COTS Accounting Software

² The actual deletions occurred in the COTS accounting software, not the cash register.

³ Letter from UBC International LLC to TEA Board, re. Audit of 2011 Financial Statements (Mar. 14, 2012); Letter from Georgia Audit and Consulting Company to TEA Board, re. Audit of 2012 Financial Statements (Apr. 1, 2013); Letter from Georgia Audit and Consulting Company to TEA Board, re. Audit of 2013 Financial Statements (Apr. 15, 2014); Letter from AG International Consulting to TEA Board, re. Audit of 2014 Financial Statements (June 26, 2015).

⁴ March 11, 2014 CR Internal Review Report – TEA (MRN 14 State 26362).

No individual user IDs or passwords were assigned to staff that had access to the COTS accounting software; instead, all commissary employees and Board members who accessed the software did so with the Administrator user role. This role gives the user full access to all areas of the software and includes permission to revise the system clock.

The investigation revealed that the system time and date clock showed evidence of tampering on dates corresponding to the deleted transactions. The investigation also revealed that an unidentified user of the TEA computer conducted Internet research on how to change the COTS accounting software date and time stamps. The tampering made it impossible to determine the true dates and times of deleted transactions. Moreover, because of the common usage of the Administrator user ID and password, OIG could not determine which user changed the system clock or deleted the transactions or if anyone else had accessed the system.

Inadequate Cash Controls in Place at the Time of the Loss

There was no valid process to account for the accumulated cash on hand stored in the commissary safe. In particular, there was

- No daily cash deposit to minimize the amount of physical cash on hand.
- No daily cash deposit slip preparation to confirm the daily cash received from actual cash register sales.
- No roll-forward of the daily cash confirmations from the cash register.

The accountant and cashier confirmed the daily cash received from sales using the end-of-day cash register tape but did not compare the cash register data to the COTS accounting software data. The cash accumulated in the safe and was later deposited at various intervals. The Board did perform surprise cash counts that compared the accumulated cash in the safe to the COTS accounting software "cash on hand" report (which reflected the deleted transactions that reduced expected cash on hand value) but did not compare accumulated cash with the daily confirmed cash register tape cash counts. That is, by comparing the cash to the altered system report, the Board member conducting the surprise cash count was falsely reassured. Thus, the theft of the cash remained undiscovered.

Process Controls

Basic accounting segregation of duties requires strict separation of roles for those who have access to cash and those who have the ability to record business transactions. However, because of limited personnel, the TEA operations manager and TEA accountant both had access to physical cash and shared responsibility for cash accounting.

Furthermore, no alternate mitigating controls were in place. For example, end-of-month closing processes did not require a system reconciliation of sales and inventory balances between the COTS accounting software and the cash register. Additionally, end-of-month processes did not require preparation of a standard "deleted transaction report" within the COTS accounting

software. The deleted transaction report, which is not subject to tampering by users, would have readily identified all transactions that had been deleted.⁵

RECOMMENDATIONS

OIG makes four recommendations to TEA and one recommendation to U.S. Embassy – Tbilisi to help mitigate the risks inherent in a minimally staffed accounting operation where duties may not be segregated, as would otherwise be required.

Recommendation 1: OIG recommends that the Board Chair of the Tbilisi Embassy Employee Association develop and implement policies and procedures in accordance with 6 Foreign Affairs Manual (FAM) 531.2 to document, support and control the deleting of accounting transactions in the commercial off-the-shelf accounting software. At a minimum, those procedures should include monthly reviews of deleted transactions, comparisons of opening and closing balances, and review of documentation to support the deletion of transactions.

Management Response: The Board of the Tbilisi Embassy Employee Association agrees with the recommendation and stated that the “Board will implement procedures to conduct monthly reviews of deleted transactions, comparisons of openings and closing balances, and review of documentation to support the deletion of transactions.”

OIG Reply: On the basis of the Board of the Tbilisi Embassy Employee Association’s agreement to implement procedures to conduct monthly reviews of deleted transactions, comparisons of opening and closing balances, and review documentation to support deleted transactions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Board is conducting the monthly reviews of deleted transactions, comparing opening and closing balances and reviewing documentation to support the deleted transactions.

Recommendation 2: OIG recommends that the Board Chair of the Tbilisi Embassy Employee Association develop and implement procedures in accordance with 6 FAM 531.2 to verify that:

- a) Daily cash receipts and deposits are reconciled monthly.
- b) Bank reconciliations are conducted.
- c) Monthly reconciliations are performed between the cash register sales and commercial off-the-shelf accounting software systems.

Management Response: The Board of the Tbilisi Embassy Employee Association agrees with the recommendation. In “action taken,” the response stated that “daily cash receipts and deposits are reconciled monthly” and “bank reconciliations are also conducted.” In “planned action,” the response stated that the “Board will implement procedures to conduct monthly reconciliations

⁵ Transactions should never be deleted from the COTS accounting software; instead, they should only be modified or voided, if necessary, to retain a record of the activity.

of daily cash receipts and deposits, bank reconciliations and monthly reconciliations are performed between cash register sales and commercial off-the-shelf software used by the TEA.”

OIG Reply: On the basis of the Board of the Tbilisi Embassy Employee Association’s agreement to implement procedures to conduct monthly reconciliations of daily cash receipts and deposits, bank reconciliations and monthly reconciliations are performed between cash register sales and commercial off-the-shelf software used by the TEA, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Board Chair is conducting monthly reconciliations of daily cash receipts and deposits, bank reconciliations and that monthly reconciliations are being performed between cash register sales and commercial off-the-shelf software used by the TEA.

Recommendation 3: OIG recommends the Board Chair of the Tbilisi Embassy Employee Association develop and implement cash management procedures in accordance with the internal controls prescribed for cash collection and handling by embassy cashiers in 4 Foreign Affairs Handbook (FAH)-3 H- 396.1 (g) and 4 FAH-3 H-390. Specifically, these procedures should include requirements to:

- a) Prepare daily deposit slips for cash and negotiable instruments.
- b) Deposit cash daily, or as often as needed, to avoid excess “cash on hand” as defined by local accounting and cash management procedures.

Management Response: The Board of the Tbilisi Embassy Employee Association agrees with the recommendation. In “action taken,” the response stated that “daily deposit slips are prepared for U.S. dollars.” In “planned action,” the response stated that the “Board will research ways to limit excess cash on hand, the feasibility of eliminating some local cash transactions, and of opening a local bank account for local currency, and will review these results, at which time we will make such changes to internal controls pertaining to cash as are available in the local economy.”

The response also commented more generally, however, that the “Republic of Georgia is still primarily a cash economy. Credit cards and bank transfers are not accepted by many markets and local vendors from whom TEA purchases goods for the cafeteria and commissary. Currently, the TEA does not have a local bank account for lari, the local currency. Deposits of lari are processed by the Embassy cashier, converted to dollars and sent to the TEA’s State Department Federal Credit Union account. Opening a local bank account is difficult because TEA is not a registered local entity.”

OIG Reply: On the basis of the Board of the Tbilisi Embassy Employee Association’s agreement to research ways to limit excess cash on hand, the feasibility of eliminating some local cash transactions, and of opening a local bank account for local currency, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when

the OIG receives and accepts documentation demonstrating that the Board has developed internal controls and policies that will limit excess cash-on-hand.

Recommendation 4: OIG recommends that the Board Chair of the Tbilisi Embassy Employee Association develop and implement policies and procedures to restrict access to the accounting system by:

- a) Requiring individual user IDs and strong passwords for all users.
- b) Restricting Administrator rights to appropriate staff.

Management Response: The Board of the Tbilisi Embassy Employee Association agrees with the recommendation. In "action taken," the response stated that "individual users have their own account ID's and strong passwords for their accounts" and that the "administrator rights are restricted to an employee in the Embassy's Information Systems Center, on Management staff."

OIG Reply: On the basis of the Board of the Tbilisi Embassy Employee Association's actions to ensure that individual users have their own account ID's and strong passwords for their accounts; and that administrator rights are restricted to an employee in the Embassy's Information Systems Center, on Management staff, OIG considers this recommendation closed.

Recommendation 5: OIG recommends that the Management Officer at the U.S. Embassy - Tbilisi develop and implement on-going monitoring and conduct annual reviews of the Tbilisi Embassy Employee Association's management of the program.

Management Response: "Post Management agrees with this recommendation." In "action taken," the response stated that "informal audits of the cafeteria operation, including purchasing, storage, and disposition of food and supplies, were conducted in the fall of 2016 by members of the Management Section staff." In "planned action," the response stated that the "Management Section will establish a formal schedule of monitoring activities to be conducted on a regular basis, and will design an annual review of TEA's management activities."

OIG Reply: On the basis of the Post Management agreement to establish a formal schedule of monitoring activities to be conducted on a regular basis and design an annual review of TEA's management activities, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when the OIG receives and accepts documentation demonstrating that the Post Management Section is monitoring the TEA activities on a regular basis, and conducting an annual review of TEA's management of the program.

CONSOLIDATED LIST OF RECOMMENDATIONS

Recommendation 1: OIG recommends that the Board Chair of the Tbilisi Embassy Employee Association develop and implement policies and procedures in accordance with 6 Foreign Affairs Manual (FAM) 531.2 to document, support and control the deleting of accounting transactions in the commercial off-the-shelf accounting software. At a minimum, those procedures should include monthly reviews of deleted transactions, comparisons of opening and closing balances, and review of documentation to support the deletion of transactions.

Recommendation 2: OIG recommends that the Board Chair of the Tbilisi Embassy Employee Association develop and implement procedures in accordance with 6 FAM 531.2 to verify that:

- a) Daily cash receipts and deposits are reconciled monthly.
- b) Bank reconciliations are conducted.
- c) Monthly reconciliations are performed between the cash register sales and commercial off-the-shelf accounting software systems.

Recommendation 3: OIG recommends the Board Chair of the Tbilisi Embassy Employee Association develop and implement cash management procedures in accordance with the internal controls prescribed for cash collection and handling by embassy cashiers in 4 Foreign Affairs Handbook (FAH)-3 H- 396.1 (g) and 4 FAH-3 H-390. Specifically, these procedures should include requirements to:

- a) Prepare daily deposit slips for cash and negotiable instruments.
- b) Deposit cash daily, or as often as needed, to avoid excess "cash on hand" as defined by local accounting and cash management procedures.

Recommendation 4: OIG recommends that the Board Chair of the Tbilisi Embassy Employee Association develop and implement policies and procedures to restrict access to the accounting system by:

- a) Requiring individual user IDs and strong passwords for all users.
- b) Restricting Administrator rights to appropriate staff.

Recommendation 5: OIG recommends that the Management Officer at the U.S. Embassy - Tbilisi develop and implement on-going monitoring and conduct annual reviews of the Tbilisi Embassy Employee Association's management of the program.

APPENDIX A: COMBINED RESPONSE FROM BOARD CHAIR, TBILISI EMPLOYEE ASSOCIATION AND POST MANAGEMENT OFFICER



Embassy of the United States of America

May 8, 2017

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MEMORANDUM

TO: OIG/INV – Michael T. Ryan, Assistant Inspector General for Investigations

FROM: Management Officer, Tbilisi – Adam D. Lamoreaux 

SUBJECT: Response to Draft Report – Management Assistance Report: U.S. Embassy
Tbilisi Employee Association Commissary Accounting Controls, INV-17-01

Embassy Tbilisi provides this response to the subject Draft Report, dated April 2017, and the accompanying cover letter. On behalf of Post Management and the Tbilisi Employee Association (TEA) Board, I want to convey thanks to the Office of the Inspector General for their assistance in this case. We concur with the Summary, Background, and Findings portions of the report. Per your cover letter, we do not recommend redactions of any portions of the report prior to publication.

Please find our concurrence with the Report recommendations and completed and planned corrective actions, below.

Recommendation 1: The TEA Board agrees with this recommendation.

Planned Action: The TEA Board will implement procedures to conduct monthly reviews of deleted transactions, comparisons of opening and closing balances, and review of documentation to support the deletion of transactions, by May 31, 2017.

Recommendation 2: The TEA Board agrees with this recommendation.

Action Taken: Daily cash receipts and deposits are reconciled monthly. Bank reconciliations are also conducted.

Planned Action: The TEA Board will implement procedures to conduct monthly reconciliations between the cash register sales and commercial off-the-shelf software used by the TEA, by May 31.

Recommendation 3: The TEA Board agrees with this recommendation.

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Action Taken: Daily deposit slips are prepared for U.S. dollars.

Planned Action: The TEA Board will research ways to limit excess cash on hand, the feasibility of eliminating some local cash transactions, and of opening a local bank account for local currency, and will review these results by June 30, 2017, at which time we will make such changes to internal controls pertaining to cash as are available in the local economy.

Comment: The Republic of Georgia is still primarily a cash economy. Credit cards and bank transfers are not accepted by many markets and local vendors from whom the TEA purchases goods for the cafeteria and commissary. Currently, the TEA does not have a local bank account for lari, the local currency. Deposits of lari are processed by the Embassy cashier, converted to dollars and sent to the TEA's State Department Federal Credit Union account. Opening a local bank account is difficult because the TEA is not a registered local entity.

Recommendation 4: The TEA Board agrees with this recommendation.

Action Taken: Individual users have their own ID's and passwords. The administrator rights are restricted to an employee in the Embassy's Information Systems Center, on the Management staff.

Planned Action: The TEA Board will ensure that individual users have strong passwords for their accounts, by May 31, 2017.

Recommendation 5: Post Management agrees with this recommendation.

Action Taken: Informal audits of the cafeteria operation, including purchasing, storage, and disposition of food and supplies, were conducted in the fall of 2016 by members of the Management Section staff.

Planned Action: The Management Section will establish a formal schedule of monitoring activities to be conducted on a regular basis, and will also design an annual review of TEA's management activities, by June 30, 2017.

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- 2 -

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Drafted: MGT - Adam Lamoreaux
Cleared: POL/ECON – Dwight Nystrom (TEA Board Chair) - x
PAS – Courtney Austrian (TEA Board Treasurer) - x
USAID – Rebecca White (TEA Board Member) - x

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- 3 -

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