



Office of the Inspector General U.S. Department of Justice

OVERSIGHT ★ INTEGRITY ★ GUIDANCE



Audit of the Bureau of Alcohol, Tobacco, Firearms and Explosives' Controls over Agent Cashier Funds



Executive Summary

Audit of the Bureau of Alcohol, Tobacco, Firearms and Explosives' Controls Over Agent Cashier Funds

Objectives

The objectives of this audit were to assess whether the Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF): (1) policies and procedures effectively mitigate the risk of fraud, waste, and abuse in the agent cashier fund; (2) field divisions comply with these policies and procedures; (3) agent cashier funds have been accounted for appropriately; and (4) headquarters and field division management are providing appropriate oversight of the agent cashier fund expenditures.

Results in Brief

We found that the ATF's controls over agent cashier funds are reasonably well designed to mitigate most risks. However, we determined that the ATF could improve controls for transactions involving related persons who witness each other's transactions and for the accountability over refundable deposits.

At ATF field divisions we visited, we identified some areas of noncompliance with ATF policy, but we judged the errors to be predominantly minor in nature. At ATF headquarters, we found that the ATF should improve its practices for monitoring agent cashier funds policies to more quickly identify and correct common issues.

Recommendations

This report makes five recommendations to assist the ATF in improving its controls over agent cashier funds. In its response to a draft of this report (see Appendix 2) the ATF concurred with all five recommendations. Further, with its response the ATF provided evidence of corrective actions that we determined to sufficiently address four of the five recommendations.

Audit Results

ATF's agent cashier funds are accounts with small amounts of cash for routine expenses that are periodically replenished up to a fixed balance. These accounts enable field agents to pay for investigative expenses where it is necessary to conceal the role of the government in the transaction or where use of a government charge card is not possible. As are all cash accounts, these funds are an inherently high-risk area because cash can be stolen, misused, or inappropriately tracked.

We evaluated aspects of the ATF's internal controls over agent cashier funds to determine whether those controls were adequate to provide reasonable assurance regarding the appropriate and intended use of the funds.

Policies and Procedures – We reviewed the design of the ATF's internal controls and found that the control policies and procedures were reasonably well designed to mitigate risks of fraud, waste, and abuse. However, we identified two instances in which a task force officer's spouse, also a law enforcement officer, acted as a witness on the officer's agent cashier fund transactions. ATF policy did not prohibit this practice, but we believe it should be prohibited to eliminate the inherent risk with such a practice. We also determined that the ATF did not have a policy regarding return of refundable deposits made for temporary lodging. While we identified only three deposits totaling \$300 that were apparently lost, ATF should develop a policy to prevent any future losses.

Compliance with Established Policies – We tested 722 agent cashier expenditures across 12 different offices. We identified some errors but we determined that the errors were predominantly minor in nature and, while such errors should not occur, they did not call into question the legitimacy of the transactions.

Accounting for Agent Cashier Funds – We found no exceptions in our testing of the ATF's accounting of agent cashier transactions. For agent cashier transactions tested, we determined that records in the accounting system were both complete and accurate



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and pertained to valid transactions that actually occurred.

ATF Headquarters Oversight – We assessed ATF headquarters' monitoring processes for agent cashier funds and found that there were no formal processes in place to identify and communicate trends or common inspection findings among field divisions. In response to this audit's results and the results of a prior OIG audit, the ATF implemented a new procedure to more reliably identify potentially systemic issues. We believe that this new process, once formalized, will make ATF managers more aware of issues affecting the agency so they can take more timely and effective remedial action.

**AUDIT OF THE BUREAU OF ALCOHOL, TOBACCO, FIREARMS
AND EXPLOSIVES' CONTROLS OVER AGENT CASHIER FUNDS**

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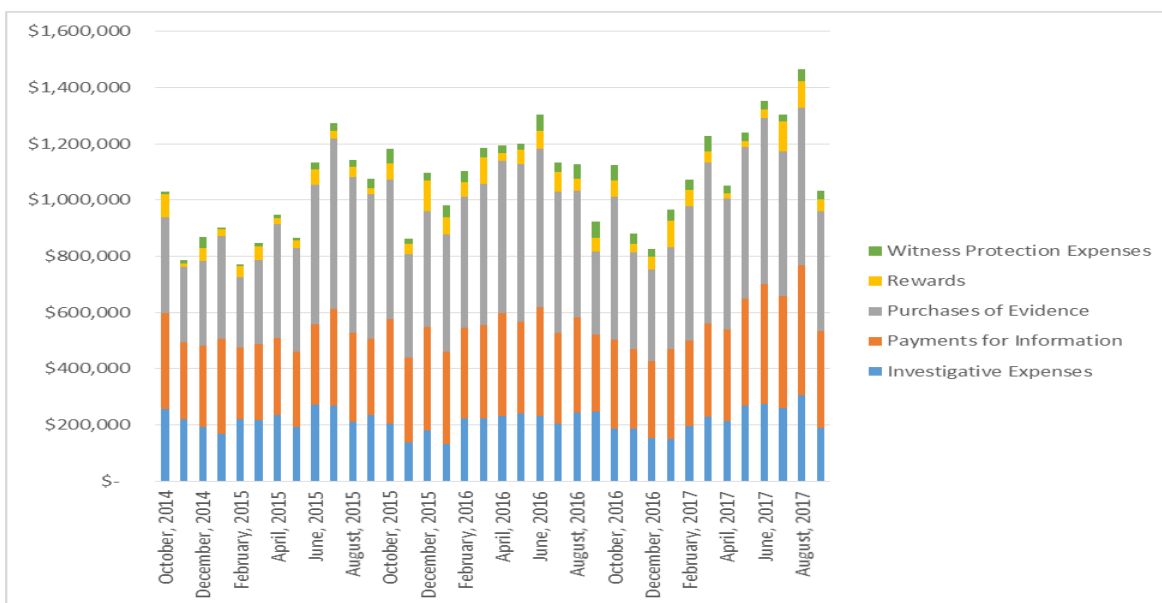
INTRODUCTION

An imprest account is one that holds small amounts of cash for routine expenses and is periodically replenished up to a fixed balance. Imprest accounts, such as the Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF) agent cashier funds, are considered an inherently high-risk area for organizations because cash can be stolen, misused, or inappropriately tracked. Adequate controls are needed to ensure that funds are used for permissible purposes and properly accounted for at all times. The ATF considers the use of these funds essential to conducting much of the agency's investigative work because they enable field agents to pay for investigative expenses where it is necessary to conceal the role of the government in the transaction or where use of a government charge card is not possible.

Background

Agent cashier funds are 1-year funds budgeted from the ATF's general appropriation for salaries and expenses. The agent cashier funds are intended to be used for five primary purposes. Figure 1 shows use of funds by expenditure type for each month during fiscal years 2015 through 2017. During this period, the ATF expended approximately \$39 million in agent cashier funds.

Figure 1
Agent Cashier Fund Spending by Expense Type
for Fiscal Years 2015 through 2017

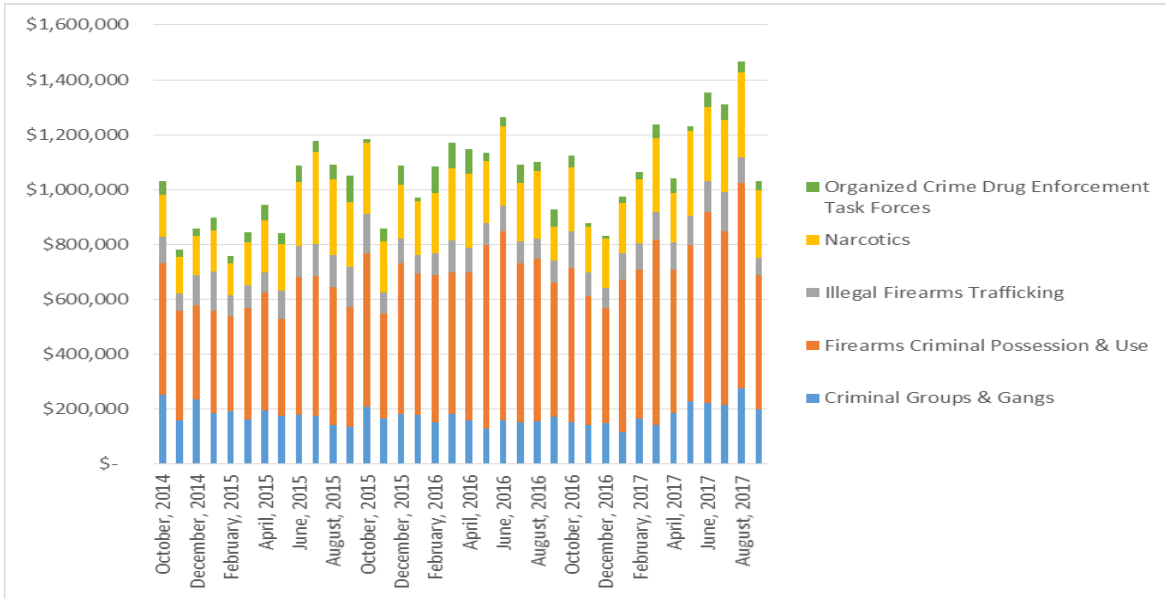


Note: Categories of spending that did not meet a 1-percent materiality threshold (based on total agent cashier fund spending) were omitted from this chart.

Source: OIG analysis of ATF spending data

Field agents use agent cashier funds to support many of the ATF's operational objectives. Figure 2 summarizes the use of agent cashier funds during our audit scope by mission type.

Figure 2
Agent Cashier Fund Spending by Mission Type
for Fiscal Years 2015 through 2017



Note: Categories of spending that did not meet a 1-percent materiality threshold (based on total agent cashier fund spending) were omitted from this chart.

Source: OIG analysis of ATF spending data

At the time of our audit, agent cashier funds were set up as a system of 276 cashboxes dispersed across 28 ATF divisions throughout the United States and in several of the ATF's international offices.¹ At the beginning of our audit, these cashboxes contained a balance totaling about \$4,574,000. Program-wide, the average monthly spending per cashbox was \$3,897 and the average cashbox balance was \$16,693. Although the average cashbox balance is more than four times the average monthly spending, we believe this is reasonable given the unpredictable nature of investigative needs and the inconsistent spending rates we found for individual field offices.

The Special Agent-in-Charge of each field division issues formal memoranda to designate the division's Group Supervisors as "subcashiers." Group Supervisors involved in ATF activities requiring the use of agent cashier funds maintain a

¹ Subsequent to our audit work, the number of divisions using agent cashier funds was reduced to 27 as a result of organizational realignments.

cashbox and a documentation binder to account for funds given to field agents.² An Assistant Special Agent-in-Charge in a field division is generally designated as the primary cashier and oversees all the subcashiers within that division. These primary cashiers generally do not maintain a cashbox of their own. Rather, the primary cashiers oversee the management of the subcashiers, perform monthly reconciliations, and maintain a bank account to facilitate monthly reimbursements of cashbox balances.

Agent cashier fund transactions typically begin when field agents submit a "Request for Advance of Funds" to their Group Supervisor to obtain funds for a specific investigative purpose. Once the request is approved by the Group Supervisor, the funds are disbursed and the agents can use the cash to pay for the investigative expenses.

Upon returning to the office, agents must return any unused funds and complete a "Report of Expenditures for Investigative Purposes," which provides an explanation of each expense.³ This expense report is submitted to the Group Supervisor along with any receipts.⁴ Commercial receipts are required whenever available, and hand receipts are also required for any transfer of cash from a field agent to any other party, such as a second agent or a confidential informant. This hand receipt is formally titled the "Payment Receipt for Investigative Expenses and/or Transfer of Funds." If evidence was acquired with agent cashier funds, it must be entered into N-Force and placed in the local evidence vault.⁵

Office of the Inspector General Audit Approach

The objectives of this audit were to assess whether: (1) policies and procedures effectively mitigate the risk of fraud, waste, and abuse in the agent cashier fund; (2) field divisions comply with these policies and procedures; (3) agent cashier funds have been accounted for appropriately; and (4) ATF headquarters and field division management are providing appropriate oversight of the agent cashier fund expenditures.

To accomplish our objectives, we conducted interviews with ATF headquarters officials as well as field division management and Special Agents. In addition, we conducted site visits at the ATF's offices in Atlanta, Georgia, and Kansas City, Missouri; and at the ATF's Undercover Branch location. We analyzed

² Group Supervisors are also known as Resident Agents in Charge when assigned to a field office that is geographically outside of the main division office.

³ A "Report of Expenditures for Investigative Purposes" must be prepared by the field agent for each agent cashier transaction. This form describes the nature of each actual expenditure of funds, and it requires approvals by both the Group Supervisor and the Special Agent-in-Charge.

⁴ In the ATF organizational structure, a "group" is one of the operational units within a field division. Groups are known as field offices when they are located geographically outside of the field division city.

⁵ N-Force is a case management database used by the ATF to record details about open investigations.

agent cashier fund transactions and confirmed evidence purchased with the funds by either physically observing the evidence or requesting that the responsible Group Supervisors certify the reported status of the items. In total, we reviewed 722 transactions valued at \$1,333,344 or 3.4 percent of the approximately \$39 million spent in agent cashier funds during fiscal years 2015 through 2017. We also reviewed ATF Inspection Division reports, ATF guidance, and OIG reports of investigations. See Appendix 1 for further discussion of the audit objectives, scope, and methodology.

AUDIT RESULTS

Overview of Internal Controls

The Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF) Agent Cashier Manual, last updated in November 2016, outlines the procedures that agents follow to request and use agent cashier funds. The manual also outlines the ATF-wide controls designed to provide for the ongoing monitoring of agent cashier operations. We found that the control policies and procedures were reasonably well designed to manage most significant risks of fraud, waste, and abuse, but we identified opportunities for the ATF to improve its policy to mitigate two additional risks. Specifically, and as in detail described below, we noted that persons related to each other sometimes acted as witnesses on each other's agent cashier documents; and agent cashier funds were sometimes used as deposits for temporary lodging, but those funds were never returned.

Improvements to Internal Controls

We reviewed 722 transactions and identified 2 instances in which related persons acted as witnesses on each other's agent cashier fund transactions valued at \$512 and \$308, respectively. Both instances involved an ATF task force officer who requested agent cashier funds to make two payments to a confidential informant. For these transactions, the only documented witness was the task force officer's spouse, who was a local police officer not directly affiliated with the task force. While we found no indications of any impropriety with these transactions and while the frequency and dollar figures identified in our testing are low, the fact that this practice has occurred is cause for concern.

A second person signing payment receipts as a witness to a transaction is a mechanism to provide independent assurance to management that the funds are being used appropriately and as intended. Having individuals who are related to each other witness the other's transactions weakens the credibility of the assurance provided by those certifications because it increases the opportunity and risk for collusion or concealment of the misuse of funds. ATF's Agent Cashier Manual does not address requirements to mitigate risks associated with personnel who are related.

We believe the ATF could mitigate these risks with additional guidance. Therefore, we recommend that the ATF modify the Agent Cashier Manual to prohibit spouses and other closely-related persons from signing as witnesses to each other's agent cashier fund transactions.

During our review of the 722 transactions, we also identified 3 instances in which confidential informants were provided agent cashier funds for the purpose of posting \$100 cash deposits associated with temporary lodging. The Agent Cashier Manual provides that confidential informants may receive payments for lodging when concealment of the government's involvement is critical to an investigation. Temporary housing may be made available to the confidential informant for protection or use during an investigation in which the confidential informant was

actively involved. However, the deposits we identified appear to have never been refunded or returned, and the Agent Cashier Manual does not contain guidance to address the specifics of how field agents should recover agent cashier funds used for deposits. We found that these transactions are documented the same as other agent cashier fund expenditures, where the funds are spent and never expected to be refunded.

We followed up with ATF officials about the disposition of these deposits, but the officials were not able to tell us if the deposits had been recovered. Although the deposits we identified represented a small amount of apparently lost funds, we believe that, absent requirements that such deposits be recovered, it is likely that additional deposits will be lost in the future. We recommend that the ATF modify the Agent Cashier Manual to provide more specific guidance on the appropriate use of agent cashier funds for refundable deposits.

Monthly Reconciliations and Reimbursements

ATF policies require monthly reconciliations for every cashbox. Each subcashier prepares a monthly reconciliation of their cashbox to ensure all funds have been fully accounted for and to confirm the mathematical accuracy of the supporting documents. These reconciliations also serve as the group's reimbursement request for each month's expenses. The monthly reconciliation and associated supporting documents are submitted electronically to the primary agent cashier of the field division on the first workday of the next month.

The primary agent cashier at the field division compiles the reimbursement requests from each group for which they are responsible and prepares a consolidated reimbursement request for the entire division. The primary agent cashier also is responsible for retaining a second copy of all the supporting documents and receipts for a period of 6 years past the end of the applicable fiscal year. The consolidated request and supporting documents are then sent to ATF headquarters.

The Accounting Branch reviews the reimbursement request for accuracy. The Accounts Payable Section initiates a reimbursement of the requested amount. The reimbursement is transferred electronically to the division's bank account. The primary agent cashier then prepares physical checks to reimburse each subcashier in their division.

During this audit, ATF field divisions were able to provide support for the monthly reimbursement requests we tested.

Inspections and Cash Counts

The ATF has four inspection processes that provide internal control over its agent cashier funds, as summarized in Table 1.

Table 1

Summary of the ATF's Inspection Processes for Agent Cashier Funds

	Quarterly Cash Counts Initiated by the Special Agent-in-Charge	Annual Self-Inspection Program	Formal Inspections	Unannounced Cash Counts
Performed by	Two individuals designated by the SAC (independent)	Group Supervisors	ATF Inspection Division (independent)	ATF Inspection Division (independent)
Frequency	Quarterly	Annually	Every 3-4 Years	Approximately 24 conducted each year for 28 divisions
Scheduling	Unscheduled	Scheduled	Scheduled	Unscheduled
Coverage	Cashbox is counted and reconciled to pending expenditures and reimbursements. Division records are also reconciled.	For agent cashier funds, the cashbox is counted and detailed compliance reviews are conducted for physical security, separation of duties, and designations of authority. Documentation is reviewed for 48 transactions.	For agent cashier funds, the cashbox is counted and detailed compliance reviews are conducted for physical security, separation of duties, and designations of authority. Documentation is reviewed for 48 transactions. Separate checklists are used to review group and division functions. A formal report is produced.	Cashbox is counted and risk-focused reviews are conducted for physical security, separation of duties, and designations of authority. Documentation is reviewed for 12 transactions with a focus on risk.

Source: OIG analysis of ATF inspection processes

Individually, these inspection processes have some shortcomings; however, taken together, it is our judgment that the four inspection processes complement each other and provide ATF headquarters with an adequate level of oversight and control over agent cashier funds. Regarding the shortcomings, the Group Supervisors' Self-Inspection Program is a scheduled review procedure performed by the same supervisors who are responsible for compliance. This inspection therefore does not constitute an independent review and it depends on the Group Supervisor to disclose noncompliance by his or her own supervisees. For that reason, the Self-Inspection Program alone would not provide ATF headquarters with truly objective evidence that subcashiers comply with established controls. Similarly, the formal inspections conducted by the Inspection Division are scheduled approximately 2 years in advance. The scheduled nature of these inspections and the limited 12-month scope means that approximately 67-75 percent of all months will never be eligible for review, and field agents are aware of which months will be reviewed. Nevertheless, the four inspections processes, taken collectively, cover a broad enough range of control issues, and focus strongly enough on some of the greatest risk areas such as physical security and accounting for cashbox balances, to provide an adequate level of oversight and control over agent cashier funds.

Testing of Internal Controls

We performed testing of ATF field divisions' compliance with the Agent Cashier Manual policy and related controls.

We assessed ATF's use of agent cashier funds to purchase 135 evidence items by either physically observing the evidence or requesting that the responsible ATF officials certify the reported status of the items. We confirmed that all 135 evidence items were properly accounted for and in ATF possession, in drug laboratory possession, or properly disposed.

We also reviewed 722 agent cashier funds transactions totaling \$1,333,344. Our transaction testing consisted of the review of supporting documentation to determine if proper procedures were followed to request, approve, receive, and report fund usage. We performed onsite testing at the Atlanta Field Division, Kansas City Field Division, and the Special Operations Division. We also performed remote testing of selected transactions for other ATF locations with high spending amounts or unusual spending patterns.

As shown in Table 2, we found that 5.1 percent of the 722 transactions tested were noncompliant with some aspect of the Agent Cashier Manual. These errors were predominantly minor in nature and, while such errors should not occur, they did not call into question the legitimacy of the transactions. The noncompliant transactions totaled \$62,974, which represents 4.7 percent of the total value of the transactions we tested. This error rate cannot be projected to the entire universe of transactions because we employed a risk-based, non-statistical approach to our sample selection and, consequently, the rate of noncompliance for the entire universe may be lower or higher. However, given the overall error rate, the dollar amounts, and the nature of the errors, we determined that further testing was not warranted. Table 2 summarizes the results of our transactions testing.

Table 2
Summary of OIG Testing Results

	Types of Noncompliance				Total Issues	Percent of Transactions with Issues
	Transactions Tested	Separation of Duties	Missing Documents	Incomplete or Inaccurate Documents		
Onsite Testing						
Atlanta	21 (\$9,307)	0	0	0	0	0.0%
Special Operations	133 (\$609,707)	14 (\$30,342)	0	0	14 (\$30,342)	10.5%
Kansas City	120 (\$110,638)	0	5 (\$12,925)	2 (\$1,873)	7 (\$14,798)	5.8%
Remote Testing						
Boston	9 (\$34,500)	0	0	0	0	0.0%
Charlotte	6 (\$1,500)	0	0	0	0	0.0%
Detroit	90 (\$54,206)	0	1 (\$360)	2 (\$350)	3 (\$710)	3.3%
Louisville	32 (\$11,309)	0	0	0	0	0.0%
Miami	27 (\$79,842)	0	0	0	0	0.0%
New York	44 (\$111,262)	0	0	0	0	0.0%
Philadelphia	76 (\$49,736)	0	0	0	0	0.0%
San Francisco	94 (\$222,758)	0	3 (\$2,000)	4 (\$12,094)	7 (\$14,094)	7.4%
St. Paul	70 (\$38,579)	0	0	6 (\$3,030)	6 (\$3,030)	8.6%
Grand Total	722 (\$1,333,344)	14 (\$30,342)	9 (\$15,285)	14 (\$17,347)	37 (\$62,974)	5.1%

Source: OIG analysis

Issues Identified During Testing

Our testing revealed some concerns. At the Undercover Branch of the Special Operations Division, we identified a unique concern regarding separation of duties. This concern affected 14 of the 133 transactions valued at \$30,342 that we tested at the Division.

Because it supports undercover operations, the Special Operations Division's mission is unique and requires some deviations from funds management practices in other divisions. The Division's Undercover Branch is led by a Branch Chief who serves as the agent cashier and also is the approving supervisor for agents who use the funds. The Branch Chief often uses an undercover credit card to pay for certain expenses that would normally be paid with agent cashier funds.

The Undercover Branch adopted a process that requires one agent to prepare fund requests, including those involving credit card payments, for the entire branch. Those requests are approved by the Branch Chief as the agent cashier. This process ensures that two individuals are involved in every agent cashier transaction, and the practice is reasonable except when the Branch Chief has cashier fund purchases that have to be approved for payment on a credit card. When this occurs, there is a lack of separation of duties in that the Branch Chief self-approves expenditures on that card.

We discussed the separation of duties concern with the Deputy Chief of the Special Operations Division. The official agreed that the process for requesting funds to pay the Branch Chief's credit card should be modified. In August 2018, the Deputy Chief, Special Operations Division, directed the Undercover Branch to route all future requests for payments of the Branch Chief's expenditures to the next level of supervision, the Deputy Chief or a designee, who is not directly involved with the expenditure. Because this updated policy provides for appropriate separation of duties, it is sufficient to correct the internal control weakness. However, this change was made only in the Branch's procedures, and we believe the Agent Cashier Manual should be updated to clarify the need for independent supervision of agent cashier transactions across all divisions. We recommend that the ATF revise the Agent Cashier Manual to require that all agent cashier fund requests must be approved by a supervisor above the level of the agent intending to use the funds.

Our testing identified 14 transactions valued at \$17,347 across 4 divisions for which the supporting documents were incomplete or inaccurate to some extent. Examples of these problems included: (1) a confidential informant payment was not properly receipted (Detroit); (2) an agent used a credit card without proper authorization (San Francisco); (3) an agent receipt for returned funds did not include a witness signature (St. Paul); and (4) funds used were not reported correctly (Kansas City).

We also identified 9 transactions valued at \$15,285 in 3 offices where certain required documents were missing from the files. Examples of these problems included: (1) transfers of funds between two agents were not properly documented

(Kansas City and Detroit); and (2) transfer of funds between agents and a local task force officer was not properly documented (San Francisco).

We identified other problems, including signatures missing for one group's monthly reimbursement request and also missing for 29 reports of expenditures (San Francisco). Additionally, we found that 16 fund requests were approved 1 month prior to the responsible Group Supervisor receiving a designation of authority from the Special Agent-in-Charge to sign such documents (St. Paul).

Finally, we identified one transaction not included in Table 2 for which it appeared that a receipt for \$10,000 paid to a confidential informant had been altered in pen-and-ink from what was originally a \$1,000 payment. Although the change was initialed, there was no explanation of when and why the change was made to the hand receipt. We followed up and found that the revised hand receipt supported the actual payment. However, we believe pen-and-ink changes to hand receipts present a risk that the subcashier would not detect unauthorized changes made after the confidential informant and witness signed the hand receipt. We recommend that the ATF ensure that subcashiers confirm the validity of any alterations made to a completed hand receipt.

While the ATF officials with whom we interacted during our audit generally demonstrated strong familiarity with the requirements of their individual roles in the agent cashier process, based on our testing results, we recommend the ATF communicate to all field divisions the importance of adhering to the established internal controls for agent cashier funds.

Accounting Practices for Agent Cashier Funds

We found that the ATF's accounting practices for agent cashier funds provided adequate assurance to ATF managers and other stakeholders that the fund balances are accounted for and transactions are tracked appropriately. In addition to reviewing the existing internal controls, we assessed the accuracy, completeness, and occurrence of reported transaction amounts. The agent cashier processes appeared to be well designed to generate a reliable audit trail.

We reviewed the established accounting procedures for agent cashier funds to determine whether those procedures ensure accurate and reliable accounting of the funds. As discussed earlier in this report, the agent cashier cashboxes are counted and confirmed against reported balances during each inspection. We therefore focused our audit efforts on the ATF's accounting for agent cashier transactions.

An agent cashier transaction is any type of expenditure or loss resulting from an approved disbursement of funds. During each monthly cashbox reconciliation, all of the transactions that occurred during the month are consolidated according to the individual offices that made the expenditure and by expenditure purpose. The totals are then recorded as "spending lines" in the Unified Financial Management System (UFMS). This means that each spending line recorded in the UFMS represents one or more individual agent cashier transactions.

We conducted testing to confirm the accuracy of the spending lines reported in UFMS. First, to verify that UFMS was not missing records related to transactions, we selected our transaction samples at Atlanta and Kansas City by selecting specific months and reviewing all of the source documents for transactions in those months. We then traced each source document to UFMS spending lines to ensure that each transaction was accurately accounted for in that system. We traced 21 Atlanta transactions and 114 Kansas City transactions and confirmed that each was properly accounted for.⁶ Second, to confirm that the spending lines reported in UFMS were supported, we selected our transaction sample at the Undercover Branch of the Special Operations Division by first selecting specific spending lines from UFMS and then tracing the transactions that comprise each spending line to the Branch's supporting documents. We found that all of the 133 transactions we tested for the Undercover Branch were supported by appropriate source documents. Consequently, we performed no further testing and make no recommendations in this area.

⁶ We tested 120 total transactions at Kansas City, but only 114 of those were cash-based agent cashier transactions that we wanted to trace to a UFMS spending line. Certain credit-card based expenditures have the same documentation requirements as agent cashier transactions, so a small number of those transactions are sometimes included in groups' agent cashier files as well.

ATF Headquarters Oversight

ATF headquarters supplements the day-to-day control procedures for agent cashier funds by conducting the inspection and cash count procedures previously discussed in the Overview of Internal Controls section of this report. It also periodically updates its agent cashier fund policies to enhance oversight of the funds. We reviewed the ATF's procedures for assessing recurring inspection and cash count findings, and we found that those procedures could be improved to correct common issues more quickly and reliably.

The Agent Cashier Manual was first issued in July 2015 as the ATF's primary handbook for the use of agent cashier funds. The Agent Cashier Manual is updated on an as-needed basis by the Policy Development and Evaluation Branch, which collects policy-related information from multiple ATF directorates and uses that information to develop practical policy changes. These changes could stem from new management directives or from research conducted internally by the branch on current or emerging problem areas.

To identify emerging problem areas during our audit period, we reviewed 22 formal inspections of ATF divisions and unannounced cash counts within 19 divisions. We assessed whether the ATF communicated recurring findings to other field offices in an effort to reduce the occurrence of the findings in those offices. We also assessed whether the recurring findings were used to revise established policies.

We determined that inspections for 14 of 22 divisions identified issues involving incomplete or inaccurate agent cashier documentation, and inspections for 4 of the 22 divisions identified issues involving missing documentation. Cash counts for 3 of 19 divisions identified issues involving incomplete or inaccurate documentation, and cash counts for 5 of the 19 divisions identified issues involving missing documentation. We discussed these results with officials in the ATF Inspection Division. Those officials told us that, because the causes for each issue varied significantly, the issues were not systemic problems. The officials also said that while such inspection results may be communicated informally to the Office of Field Operations, which supervises the field divisions, there was not a consistent process for assessing inspection trends and reporting on those trends within the ATF. Despite the multiple underlying causes, it appeared to us that ATF would be well-served to summarize and share across its offices the results of its inspection and cash count results pertaining to agent cashier funds.

We also asked ATF officials how the common findings from inspections and cash counts are used to improve the agent cashier funds policies and procedures. We were told that the Policy Development and Evaluation Branch sometimes receives information about commonly-cited agent cashier errors directly from the

Inspection Division. When that happens, the information is used to make any necessary updates to the Agent Cashier Manual and Order.⁷

Prior to the issuance of this report, the ATF took actions to address our concerns about its use of inspection and cash count results. In July 2018 the ATF Inspection Division initiated a process to formally analyze recurring findings on an annual basis. This included issuing a memorandum describing common findings identified among the field divisions to the Assistant Director, Field Operations, who was expected to emphasize those issues as priority areas for improvement. ATF officials told us that this new process had been initiated following a recent OIG report on the ATF's tracking of payments made to confidential informants.⁸ The officials said they had decided to expand the original scope of that corrective action to cover additional areas of concern, including agent cashier funds.

We reviewed the ATF's initial common finding memorandum and determined from it that the Inspection Division reviewed its recent inspection results and provided their findings to Field Management Staff. The Field Management Staff forwarded those findings to all field divisions and encouraged the divisions to prioritize improvements in the finding areas. We believe this new process will make ATF managers more aware of issues affecting the agency so they can take more timely remedial actions. ATF officials told us they planned to formally establish the annual common finding reviews and associated memoranda in the next revision of the Inspection Division's Order.⁹ Although the new practice has begun, we believe a formal policy is necessary to ensure the continuation of these reviews. Therefore, we recommend that the ATF finalize the policy requiring annual reviews by the Inspection Division of trends and common findings among field divisions and communication of those issues to the responsible parties.

⁷ ATF Order 3251.1A, "Expenditure of Funds for Investigative Purposes and Agent Cashier Manual," is the directive that officially introduces and implements the Agent Cashier Manual as binding guidance for the handling of investigative funds.

⁸ U.S. Department of Justice Office of the Inspector General, [*Audit of the Bureau of Alcohol, Tobacco, Firearms and Explosives' Management and Oversight of Confidential Informants*](#), Audit Report 17-17 (March 2017).

⁹ ATF Order 8100.2B, "Responsibilities and Procedures for Conducting Inspections," is the directive that outlines the Office of Professional Responsibility and Security Operations' responsibilities and procedures for conducting the ATF's Inspection Program.

CONCLUSION AND RECOMMENDATIONS

The ATF considers agent cashier funds to be an essential tool in many of its operations where the use of a standard government charge card is not accepted or appropriate. However, there are significant risks involved in maintaining large amounts of cash on hand as well as in tracking cash-based expenditures. Strong internal controls and regular monitoring are necessary to ensure that such funds are accounted for appropriately and used only for approved purposes.

We found that the ATF's controls over agent cashier funds are reasonably well designed to manage most risks inherent to imprest-type accounts, but there are still opportunities for improvement in the areas of related persons and deposits. In addition, at ATF field divisions we visited, we identified some areas of noncompliance with ATF policy, but we judged the errors to be predominantly minor in nature. Finally, we found that the ATF's efforts to oversee agent cashier funds could benefit from the sharing of common inspection findings across its field offices.

We recommend that the ATF:

1. Modify the Agent Cashier Manual to:
 - a. Prohibit spouses and other related persons from signing as witnesses to each other's agent cashier fund transactions.
 - b. Provide specific guidance on the appropriate use of agent cashier funds for refundable deposits.
2. Revise the Agent Cashier Manual to require that all requests for agent cashier funds be approved by a supervisor above the level of the agent intending to use the funds.
3. Ensure that subcashiers confirm the validity of any alterations made to a completed hand receipt.
4. Communicate to all field divisions the importance of adhering to the established internal controls for agent cashier funds.
5. Finalize the policy requiring annual reviews by the Inspection Division of trends and common findings among field divisions and communication of those issues to the responsible parties.

STATEMENT ON INTERNAL CONTROLS

As required by the *Government Auditing Standards*, we tested, as appropriate, internal controls significant within the context of our audit objectives. A deficiency in an internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to timely prevent or detect: (1) impairments to the effectiveness and efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations. Our evaluation of the ATF's internal controls was not made for the purpose of providing assurance on its internal control structure as a whole. The Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF) management is responsible for the establishment and maintenance of internal controls.

As noted in the Audit Results section of this report, we identified deficiencies in the ATF's internal controls that are significant within the context of the audit objectives and based upon the audit work performed that we believe may affect the ATF's ability to achieve its objectives. Specifically, there were deficiencies in the design of the ATF's internal controls pertaining to related parties acting as witnesses, the use of agent cashier funds as deposits, separation of duties, and monitoring for trends. The effect of these deficiencies is that the ATF remains exposed to heightened risks of fraud, waste, and abuse. We consider these risks to be significant enough to merit the attention of ATF leadership. However, we do not believe the issues discussed in the report represent a material weakness to the agency based on their nature, likelihood, and the potential magnitude of the risks.

Because we are not expressing an opinion on the ATF's internal control structure as a whole, this statement is intended solely for the information and use of the ATF. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

STATEMENT ON COMPLIANCE WITH LAWS AND REGULATIONS

As required by the *Government Auditing Standards* we tested, as appropriate given our audit scope and objectives, selected transactions, records, procedures, and practices, to obtain reasonable assurance that the Bureau of Alcohol, Tobacco, Firearms, and Explosives' (ATF) management complied with federal laws and regulations for which noncompliance, in our judgment, could have a material effect on the results of our audit. The ATF's management is responsible for ensuring compliance with applicable federal laws and regulations. In planning our audit, we identified the following laws and regulations that concerned the operations of the auditee and that were significant within the context of the audit objectives:

- 31 U.S.C. § 1301, Application of Appropriations
- 28 U.S.C. § 524, Availability of Appropriations

Our audit included examining, on a test basis, the ATF's compliance with the aforementioned laws and regulations that could have a material effect on the ATF's operations, through interviewing agency personnel, assessing internal controls, and analyzing transaction-level documentation. Nothing came to our attention that caused us to believe that the ATF was not in compliance with the aforementioned laws and regulations.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of this audit were to assess whether the Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF): (1) policies and procedures effectively mitigate the risk of fraud, waste, and abuse in the agent cashier fund; (2) field divisions comply with these policies and procedures; (3) agent cashier funds have been accounted for appropriately; and (4) headquarters and field division management are providing appropriate oversight of the agent cashier fund expenditures.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This was a performance audit of the ATF's internal controls over agent cashier funds. The audit generally covered, but was not limited to, the period October 1, 2014 through September 30, 2017. To complete our objectives, we interviewed ATF headquarters personnel and assessed the system of internal controls that was in place during the audit period.

We conducted on-site substantive tests of transactions for 5 field offices across 3 field divisions during which we analyzed 274 transactions and confirmed 68 evidence purchases. We also performed off-site testing for 13 field offices in 9 field divisions that we were not able to visit in person. During that off-site testing, we analyzed an additional 448 transactions and confirmed 67 evidence purchases.

During the audit, we utilized computer-processed data from the Unified Financial Management System (UFMS) and from N-Force, the ATF's case management database. For each type of data, we reviewed existing information about the data, interviewed auditee officials knowledgeable about the data, and assessed the reliability of the data as follows.

We utilized agent cashier fund spending line data from UFMS. We assessed the reliability of that data by performing substantive testing on a sample of transactions from twelve different field divisions. As a result of that testing, we determined that the data were sufficiently reliable for the purposes of this report. The details of our testing and results are discussed in the Financial Accounting section of this report.

Sampling Methodology

We utilized non-statistical sampling methods to determine the field offices visited and transactions tested. The specific methodology used to select the field divisions, field offices, and transactions varied in order to achieve multiple goals for our audit coverage. The approach employed for each segment of our sample is described below.

On-Site Testing

We selected three locations for on-site testing. The first of those was the Atlanta Field Division. We chose this division because its geographical proximity to the audit team allowed us to return multiple times to plan our testing methodology and refine the specific audit procedures performed during the audit.

Within the Atlanta Field Division, we selected Atlanta Group III for testing because of the number of referrals to internal affairs during our audit scope. In addition, it had the second largest balance of agent cashier funds on-hand within the Division. We tested the month of August for each year of our audit scope. For those 3 months, we tested 100 percent of the agent cashier transactions processed by Atlanta Group III, which resulted in 21 total transactions.

The second location we selected for on-site testing was the Undercover Branch of the ATF's Special Operations Division. We selected this site because the Special Operations Division manages its use of agent cashier funds differently than the other field divisions. The Undercover Branch also spent the highest amount of agent cashier funds across the ATF. For this location, we started with the accounting records in UFMS. We identified the universe of spending lines associated with the Undercover Branch within our scope. Using professional judgment, we ranked the spending lines into four categories by perceived risks and tested 100 percent of the top two categories. This resulted in 10 spending lines tested, which comprised a total of 133 individual agent cashier transactions.

To select our final on-site testing location, we performed a risk assessment of the remaining 24 field divisions that spent a material amount of agent cashier funds during our audit scope. This assessment was based on five risk-based attributes for each field division. The five risk factors included the: (1) total amount of agent cashier funds spent during the audit scope, (2) total balance of agent cashier funds approved to be maintained on-hand, (3) number of recent internal inspections, (4) number of recent incidents reported to ATF Internal Affairs, and (5) number of recent internal investigations initiated by Internal Affairs. As a result of this risk assessment, we selected the Kansas City Field Division as our third on-site testing location because that division exhibited the greatest risk.

Within the Kansas City Field Division, we tested each of the field offices within proximity to the field division with significant agent cashier expenditures. The groups meeting that criteria were Groups I, II, and V. We analyzed the agent cashier expenditures for these field offices to identify any unusual patterns for

testing. Consequently, we tested 2 months from Groups I and II, and 1 month from Group V. We tested 100 percent of the transactions, a total of 120 transactions.

Off-Site Testing

To obtain audit coverage of the remaining 23 field divisions that were not selected for on-site testing, we performed a second risk assessment to identify a sample of high-risk transactions from those locations for off-site testing. This risk assessment consisted of two parallel methodologies.

First, we evaluated each division's agent cashier expenditures by category of spending, which is identified by the budget object codes, to identify unusual patterns. We identified four divisions with the most unusual expenditure patterns for a particular budget object code. For each of those divisions, we selected one field office located physically within the division and one satellite office located outside the division according to which field offices contributed most to the unusual spending pattern. We then selected 3 months to test for each field office, focusing on the months associated with the identified unusual spending patterns. For each month, we tested 100 percent of the transactions, a total of 280 transactions.

For the second portion of our risk assessment, we reviewed agent cashier expenditure data for each field office and assessed whether or not there were any statistical trends or anomalies in the data. The five field divisions that exhibited such trends or anomalies were selected for testing. For each of those, we tested 100 percent of the 3 months most closely associated with the irregularities identified. This resulted in a total of 168 transactions tested.

Because we were not able to visit the remote testing locations in person, we identified a sub-sample of evidence-related transactions that we confirmed remotely through emailed certifications. We randomly selected five evidence-related transactions from each of the four ATF field offices that had the most evidence items included in the initial remote testing sample. The four offices were Sacramento I with 33 evidence transactions, Detroit II with 29 evidence transactions, New York IV with 19 evidence transactions, and Flint with 13 evidence transactions. We randomly selected five evidence transactions from each of these locations, resulting in a total sample of 20 transactions. Because each transaction could have more than one item of evidence purchased, the total number of evidence items we confirmed for those 20 transactions was 67 items. We confirmed each of those items of evidence by obtaining documentary evidence remotely. We also requested that the responsible Group Supervisors certify to the reported status of the sampled items.

**THE BUREAU OF ALCOHOL, TOBACCO, FIREARMS AND
EXPLOSIVES' RESPONSE TO THE DRAFT AUDIT REPORT**



U.S. Department of Justice

Bureau of Alcohol, Tobacco,
Firearms and Explosives

Assistant Director

Washington, DC

www.atf.gov

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May 2, 2019

MEMORANDUM TO: Ferris B. Polk
Regional Audit Manager
Atlanta Regional Audit Office
Office of the Inspector General

FROM: Assistant Director
(Office of Professional Responsibility and Security Operations)

SUBJECT: Initial Status Response - Office of the Inspector General's Report on the
Review of ATF's Controls over Agent Cashier Funds

This memorandum serves to transmit ATF's response to the above-cited report. Attached is a summary of the status of the actions taken relative to the open recommendation.

Should you have any questions or need additional information, please contact the Chief of ATF's Audit Liaison Office, Adam Pallotto at (202) 648-8706.

Celinez Nunez

Attachments

cc: Director
Assistant Director Office of Field Operations
Assistant Director (Office of Management)
Chief Counsel
Assistant Director, Audit Liaison Group, Department of Justice



U.S. Department of Justice

Bureau of Alcohol, Tobacco,
Firearms and Explosives

Assistant Director

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May 1, 2019

MEMORANDUM TO: Assistant Director
Office of Professional Responsibility and Security Operations

FROM: Assistant Director
Office of Field Operations

SUBJECT: Draft Audit Report Official Response - Audit of the Bureau of
Alcohol, Tobacco, Firearms and Explosives' Controls
over Agent Cashier Funds

This memorandum responds to the recommendations contained in the Office of Inspector General's (OIG) report titled "Audit of the Bureau of Alcohol, Tobacco, Firearms and Explosives Controls Over Agent Cashier Funds." We welcome OIG's constructive comments and appreciate the opportunity to respond.

Recommendation 1: Modify the Agent Cashier Manual to:

- a. **Prohibit spouses and other related persons from signing as witnesses to each other's agent cashier fund transactions.**

ATF concurs with this recommendation. ATF issued a policy memo with the subject "Payment Verifications to Confidential Informants", dated March 27, 2019 (see attached). In addition, this policy update has been incorporated into the revised version of the Agent Cashier Manual and can be found under the following headings; Policies and Procedures (Chapter A, section 4.f.), Ability to Obtain Agent Cashier Funds from Another Criminal Enforcement Group (Chapter A, section 6.b.), ASAC/Deputy Chief Responsibilities and Procedures (Chapter B, section 13.d.), Alternate Sub-Cashier in a

Satellite Office (Chapter B, section 18), Use and Return of Sub-Cashier Funds (Chapter B, section 19.a), Payments to Confidential Informants (Chapter D, section 41.g) and also in Payment of Rewards from Agent Cashier Funds (Chapter D, section 43.b).

b. Provide specific guidance on the appropriate use of agent cashier funds for refundable deposits.

ATF concurs with this recommendation and has written Reporting Procedures for a Refundable Deposit (Chapter D, Section 54) into the revised version of the Agent Cashier Manual.

Recommendation 2: Revise the Agent Cashier Manual to require that all requests for agent cashier funds be approved by a supervisor above the level of the agent intending to use the funds.

ATF concurs with this recommendation. In November of 2017, ATF's Undercover Branch Chiefs were informed of the requirement for Division approval of all charges. This policy update has been incorporated into the revised version of the Agent Cashier Manual and can be found under the heading Special Agent Responsibilities and Procedures (Chapter B, sections 24 a. & f.).

Recommendation 3: Ensure that sub-cashiers confirm the validity of any alterations made to a completed hand receipt.

ATF concurs with this recommendation. This policy update has been incorporated into the revised version of the Agent Cashier Manual and can be found under the heading Special Agent Responsibilities and Procedures (Chapter B, section 24b).

Recommendation 4: Communicate to all field divisions the importance of adhering to the established internal controls for agent cashier funds.

ATF concurs with this recommendation. All ATF employees were advised of this policy update and requirement to adhere to the Agent Cashier Manual through an ATF Broadcast email message. See attached.

Recommendation 5: Finalize the policy requiring annual reviews by the Inspection Division of trends and common findings among field divisions and communication of those issues to the responsible parties.

ATF concurs with this recommendation. The OPRSO Inspection Division will formalize the process of communicating its annual reporting of common findings from Field Division Inspections and the Self Inspection Program via memorandum to Field Operations. This policy

update will be incorporated into the next version of ATF O 8100.2C - Responsibilities and Procedures for Conducting Inspections.

Please let me know if I can be of further assistance on this or any other matter.



William McMullan

Attachments

**OFFICE OF THE INSPECTOR GENERAL
ANALYSIS AND SUMMARY OF ACTIONS
NECESSARY TO CLOSE THE REPORT**

The Office of the Inspector General (OIG) provided a draft of this audit report to the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). The ATF's response is incorporated in Appendix 2 of this final report.¹⁰ In response to our audit report, the ATF concurred with our recommendations and discussed the actions it has implemented and will continue to implement in response to our findings. As a result, the status of the audit report is resolved. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

Recommendations for the ATF:

1. Modify the Agent Cashier Manual to:

- a. Prohibit spouses and other related persons from signing as witnesses to each other's agent cashier fund transactions.**
- b. Provide specific guidance on the appropriate use of agent cashier funds for refundable deposits.**

Closed. This recommendation is closed. The ATF concurred with the recommendation and provided a policy memorandum dated March 27, 2019, directing that agents who are related by family or marriage may no longer serve as a witness for payments made to confidential informants. The ATF also provided a copy of its revised Agent Cashier Manual dated April 2019, which included several new prohibitions against related-party transactions. Additionally, the ATF also incorporated into its revised Agent Cashier Manual a new section designed to provide better tracking and oversight of funds used for refundable deposits.

We reviewed the ATF's policy memorandum and revised Agent Cashier Manual and determined that these actions adequately address our recommendation.

2. Revise the Agent Cashier Manual to require that all requests for agent cashier funds be approved by a supervisor above the level of the agent intending to use the funds.

Closed. This recommendation is closed. The ATF concurred with the recommendation and provided documentation of its revised Agent Cashier Manual dated April 2019. The revised Agent Cashier Manual included a new

¹⁰ The ATF provided voluminous attachments in its response. The OIG reviewed the provided attachments, but we did not include them in this final report.

requirement that all requests for agent cashier funds must be approved by a supervisor above the level of the agent intending to use the funds.

We reviewed the ATF's revised Agent Cashier Manual and determined that it adequately addresses our recommendation.

3. Ensure that subcashiers confirm the validity of any alterations made to a completed hand receipt.

Closed. This recommendation is closed. The ATF concurred with the recommendation and provided documentation of its revised Agent Cashier Manual dated April 2019. The revised Agent Cashier Manual included a new requirement that the validity of any alterations to a completed hand receipt must be confirmed by the subcashier.

We reviewed the ATF's revised Agent Cashier Manual and determined that it adequately addresses our recommendation.

4. Communicate to all field divisions the importance of adhering to the established internal controls for agent cashier funds.

Closed. This recommendation is closed. The ATF concurred with the recommendation and provided documentation of an ATF-wide broadcast email issued on May 1, 2019, notifying all employees of the issuance of the revised Agent Cashier Manual. The email also reminded ATF field divisions that they must adhere to the revised Agent Cashier Manual and the procedures established therein.

We reviewed the ATF's broadcast email and determined that it adequately addresses our recommendation.

5. Finalize the policy requiring annual reviews by the Inspection Division of trends and common findings among field divisions and communication of those issues to the responsible parties.

Resolved. The ATF concurred with our recommendation. The ATF stated in its response that its Office of Professional Responsibility and Security Operations plans to formalize the process of communicating its annual report of common findings from Field Division Inspections and the Self Inspection Program via memorandum to the Office of Field Operations. The ATF also stated that it planned to incorporate this policy update into the next version of ATF Order 8100.2C, "Responsibilities and Procedures for Conducting Inspections."

This recommendation can be closed when we receive documentation demonstrating that the ATF has finalized policy requiring annual reviews of trends and common findings and communication of those issues to the responsible parties.



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