



OFFICE OF INSPECTOR GENERAL

ADDITIONAL CONTROLS HAVE IMPROVED USAID'S ADMINISTRATION OF INVOLUNTARY SEPARATE MAINTENANCE ALLOWANCE IN AFGHANISTAN

REVIEW REPORT NO. F-306-16-001-S
JUNE 28, 2016

KABUL, AFGHANISTAN



Office of Inspector General

June 28, 2016

MEMORANDUM

TO: USAID/Afghanistan Mission Director, Herbert Smith
Acting Chief Human Capital Officer, Lawrence Hardy

FROM: OIG/Afghanistan Country Director, Rob Mason /s/

SUBJECT: Additional Controls Have Improved USAID's Administration of Involuntary Separate Maintenance Allowance in Afghanistan (Report No. F-306-16-001-S)

This memorandum transmits our final report on the subject review. The objective of the review was to determine whether USAID's implementation of Recommendations 1, 2, 4, and 9 from the Audit of USAID/Afghanistan's Internal Controls in the Administration of the Involuntary Separate Maintenance Allowance has prevented improper use of ISMA. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix II.

The final report contains three recommendations to help USAID/Afghanistan further improve its internal controls in administering involuntary separate maintenance allowance benefits. Having evaluated the mission's comments, we acknowledge management decisions and final action on all three recommendations, which are closed upon issuance of this report. No recommendations are addressed to the Office of Human Capital and Talent Management.

Thank you and your staffs for the cooperation and assistance extended to us during this review.

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SUMMARY

USAID employees assigned to Afghanistan and other especially dangerous foreign posts may not bring their dependents, whom they have to maintain at home or in other locations. These employees are therefore eligible to receive involuntary separate maintenance allowance (ISMA).¹ In fiscal year (FY) 2015, USAID paid nearly \$1.5 million in ISMA to 134 employees in Afghanistan.²

In 2012, the Office of Inspector General (OIG) conducted an audit to determine whether USAID/Afghanistan had appropriate internal controls to prevent improper use of ISMA.³ The audit concluded that (1) USAID lacked internal controls over the approval of applications, (2) employees signed for their spouses on applications, (3) controls over allowance payments were insufficient, and (4) USAID had no controls to prevent some incompatible benefits. The audit made four recommendations in these areas, and the mission took the actions outlined below.⁴

1. *Strengthen internal controls at USAID/Afghanistan for properly authorizing ISMA for personal services contractors* (Recommendation 1).⁵ The mission acted on the recommendation by requiring contractors to submit a notarized certification of dependency when claiming family members other than a spouse or child, and requiring mission staff to contact each contractor's previous USAID mission to verify family members' eligibility.
2. *Adopt procedures to verify the signatures of spouses and domestic partners on ISMA applications* (Recommendation 2). Officials in USAID/Washington's Office of Human Capital and Talent Management⁶ said they would require applicants to certify the authenticity of their spouse's or partner's signature and submit a copy of the signature from another form of ID (driver's license or passport) for comparison.
3. *Strengthen internal controls for preventing improper ISMA payments* (Recommendation 4). The mission required employees to certify their eligibility for ISMA more frequently (monthly instead of quarterly) and provide more information in those certifications. The mission also included dependents' birth dates on spreadsheets that staff used to calculate payments, so that staff would not mistakenly approve payments to children once they reached the age of 21 and were no longer eligible.

¹ Although married USAID employees are permitted to bring their spouses to Afghanistan, they are still eligible to receive ISMA if they choose not to. Department of State Standardized Regulation 260 authorizes ISMA and two other types of separate maintenance allowance, voluntary and transitional, which are not included in this review.

² "Employees" in this report collectively refers to USAID/Afghanistan's U.S. direct-hire employees, U.S. personal services contractors (PSCs), and third-country national personal services contractors.

³ *Audit of USAID/Afghanistan's Internal Controls in the Administration of the Involuntary Separate Maintenance Allowance*, Report No. F-306-12-003-P, June 25, 2012.

⁴ There were ten recommendations resulting from the 2012 audit, but only the four described above pertained to internal controls.

⁵ Personal services contractors are treated like employees in that they are "subject to [USAID's] continuous supervision and control" (USAID's Acquisition Regulation, Appendix D).

⁶ Formerly referred to as the Office of Human Resources.

4. *Adopt internal controls to help prevent the payment of other benefits that are prohibited in conjunction with ISMA* (Recommendation 9). The mission said that it would create a database of employees receiving ISMA that would alert financial staff not to approve requests for these other, incompatible benefits.

OIG conducted this review to determine whether USAID's implementing Recommendations 1, 2, 4, and 9 from the 2012 audit has prevented improper use of ISMA. We found that, for the most part, it has. Many employees surveyed provided positive feedback on the ISMA application and approval process. Still, we noted one exception and a few additional weaknesses:

- The mission made improper payments to a PSC whose 6-month contract made her ineligible for the allowance (page 3).
- The mission did not verify some spouses' signatures (page 3).
- The mission approved some incomplete application packages (page 4).

We recommend that USAID/Afghanistan issue a notice to do the following:

1. Remind all PSCs and Office of Management personnel of ISMA eligibility requirements, including minimum tour lengths, and incorporate this reminder into the new employee orientations held at post (page 6).
2. Adopt the human capital office's policy of requiring ISMA applicants to submit a copy of their spouse or domestic partner's signature for comparison with the one on the standard form (page 6).
3. Remind all employees applying for ISMA of the requirement to file the Foreign Service Residence and Dependency Report, and encourage them to use the supplemental checklist to verify that their packages are complete (page 6).

Detailed findings appear in the following section, and Appendix I contains the scope and methodology. Management comments are in Appendix II, and our evaluation of them begins on page 7.

REVIEW FINDINGS

Mission Made Improper Payments to a Personal Services Contractor on a 6-Month Contract

USAID/Afghanistan employs a large number of personal services contractors. Agency guidance entitles them to receive ISMA, but not for tours of less than a year.⁷

Despite the guidance and the controls the mission added after the 2012 audit to ensure proper authorization of ISMA for contractors, staff in the mission's management office—which approves ISMA for personal services contractors—paid a contractor on a 6-month tour⁸ ISMA amounting to \$6,538. Mission officials discovered the error before we conducted this review and issued a bill of collection to recover these funds, but the contractor has appealed the bill.

Two factors explain why the mission did not catch the mistake immediately:

- The 6-month contract incorrectly stated that separate maintenance allowance was authorized.
- Nothing in the mission's processes for approving ISMA reminded approving officials to check a contractor's length of tour.

Without periodically reminding contractors and management office employees of eligibility requirements, such as minimum tour lengths, the mission risks approving ISMA in violation of USAID policy. Trying to recoup ISMA after erroneously approving it creates additional administrative burdens and damages morale of contractors who thought they were eligible for these benefits. Our recommendation addressing this issue is on page 6.

Mission Did Not Verify Some Spouses' Signatures

Employees are not eligible for separate maintenance allowance, including ISMA, if they are legally separated from their spouse or have ended a domestic partnership. To help enforce this requirement, USAID requires joint signatures on Standard Form 1190, "Foreign Allowances Application, Grant and Report" when employees seek ISMA on behalf of a spouse or domestic partner.⁹

⁷ USAID Acquisition Regulation, Appendixes D and J. Appendix D is for U.S. citizens and resident aliens, while Appendix J covers contractors from other countries (called third-country nationals or TCNs). The contractor in this case was a TCN. Although the regulation distinguishes between TCN and non-TCN PSCs, making TCNs ineligible for ISMA, USAID/Afghanistan eliminated the distinction (Mission Order 302.02, 2003) to boost TCN recruitment and retention.

⁸ October 18, 2014, to April 20, 2015.

⁹ "A Guide to Authorizing Separate Maintenance Allowance," a mandatory reference for Automated Directives System (ADS) 477.

That requirement was in effect in 2012 when OIG found that more than one-third of spouses' signatures on 35 applications tested resembled those of the employees, and three employees acknowledged signing for their spouses.

In response to Recommendation 2 of the 2012 audit, the USAID human capital office, which approves ISMA applications for U.S. direct hires, instituted an additional requirement: providing a copy of the spouse's passport or driver's license to verify the signature on the standard form. The office informed its staff of the requirement by e-mail.

The human capital office had fully adhered to this requirement, but the mission had not. In our random sample, all the applications examined in the human capital office involving U.S. direct-hire employees with spouses or partners had the required documents, enabling verification of signatures; at USAID/Afghanistan, in contrast, 4 of 16 contractor applications we examined lacked a copy of the spouse's signature.¹⁰

One-fourth of the contractor applications were missing a copy of the spouse's signature because there was no clear guidance on whether this requirement applied to contractors. Although the human capital office's e-mail was addressed mainly to its staff, it was also addressed to a mission official who, believing the mission needed to follow this guidance, forwarded it to the management office but got no response. Asked why these documents were missing, a senior official in that office wrote, "The authorizing/certifying officials in the past determined that there was no such requirement." However, since the mission obtained copies of partners' signatures for three-fourths of contractor applications, some approving officials in the management office clearly considered the practice advisable.

The guidance requiring copies of signatures for comparison purposes was intended to deter fraud. The results of this review indicate the guidance has been effective when utilized. Officials approving applications without verifying signatures for one-fourth of applicants are not utilizing a prudent control to help deter fraud. Page 6 contains our recommendation on this matter.

Mission Approved Some Incomplete Applications

USAID's "A Guide to Authorizing Separate Maintenance Allowance" states that all employees and PSCs applying for ISMA must submit a Foreign Service Residence and Dependency Report (Optional Form 126 or OF-126). It contains detailed information regarding the employee's residence of record and the eligibility of dependents.

In response to Recommendation 2 of the 2012 audit, the human capital office said it would not only pay more attention to spouses' signatures but would also review required documents including the residence and dependency form before authorizing ISMA. As for USAID/Afghanistan, a management office official acknowledged that this requirement also applies to all PSCs applying for ISMA.

Despite these requirements, 6 of 28 contractors whose ISMA applications we examined had not submitted the OF-126 or the supplemental checklist specifying items needed for a complete application package. Mission officials could not explain why they did not check all ISMA

¹⁰ Although we examined 43 U.S. direct-hire applications, only 34 requested ISMA for a spouse or partner; similarly, of the 28 contractor applications we examined, only 16 claimed a spouse or partner.

applications for completeness. However, when mission officials do not review the Foreign Service Residence and Dependency Report, they may miss information affecting their decision to approve ISMA. For example, the report requires applicants to disclose whether a spouse or domestic partner is an active-duty member of the U.S. military, a status that precludes receipt of ISMA. Our recommendation is on page 6.

RECOMMENDATIONS

Recommendation 1. We recommend that USAID/Afghanistan remind all personal services contractors and Office of Management personnel of eligibility requirements for the involuntary separate maintenance allowance, including minimum tour lengths, and incorporate this reminder into the new employee orientations held at post.

Recommendation 2. We recommend that USAID/Afghanistan adopt the Office of Human Capital and Talent Management's policy requiring applicants for the involuntary separate maintenance allowance to submit a copy of their spouse's or domestic partner's passport or driver's license signature for comparison with the one on the standard form.

Recommendation 3. We recommend that USAID/Afghanistan remind all employees applying for involuntary separate maintenance allowance of the requirement to file a Foreign Service Residence and Dependency Report and encourage them to use the supplemental checklist.

EVALUATION OF MANAGEMENT COMMENTS

In responding to the draft report, USAID/Afghanistan agreed with all three recommendations, and we acknowledge management decisions and final action on them. Our evaluation of management comments and supporting documentation follows.

Recommendation 1. The mission agreed and issued a mission notice on April 18, 2016, reminding all personnel of ISMA eligibility requirements and the mandatory documentation required when applying for ISMA. We acknowledge the management decision and final action.

Recommendation 2. The mission agreed with this recommendation. The notice issued on April 18, 2016, required employees applying to USAID/Afghanistan for ISMA to attach a copy of the spouse or partner's passport, driver's license, or other document showing the dependent's signature. The mission also revised various checklists to incorporate this requirement. We acknowledge the management decision and final action.

In addition, the mission said that all contractors currently claiming a spouse or domestic partner for ISMA had provided a copy of their partner's passport or driver's license for signature verification. Of the four recipients that we identified during the review as not having provided those documents, two subsequently furnished them, and two had departed post.

Recommendation 3. The mission agreed with this recommendation. The notice issued on April 18, 2016, requires ISMA applicants to include Form OF-126, Foreign Service Residence and Dependency Report. We acknowledge the management decision and final action. In addition, the mission said that it had received an OF-126 from all PSC employees.

SCOPE AND METHODOLOGY

Scope

We conducted this review following internally established OIG policies that govern the planning, conducting, and reporting of this work product. Those policies require that the review team be competent and independent, conduct its work using reasonable care, and follow established quality control procedures. Those policies also require that we obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our review objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this review was to determine whether USAID's implementation of Recommendations 1, 2, 4, and 9 from the *Audit of USAID/Afghanistan's Internal Controls in the Administration of the Involuntary Separate Maintenance Allowance* has prevented improper use of ISMA. The review covered all ISMA payments made by USAID/Afghanistan to 134 recipients in FY 2015. The total amount of ISMA paid for October 1, 2014, through September 30, 2015, was \$1,483,914.

Fieldwork took place at USAID/Afghanistan in Kabul and in teleconferences and correspondence with the human capital office in Washington, D.C., from December 7, 2015, to February 10, 2016.

The focus of this review was the internal controls implemented as a result of the 2012 audit, which included the human capital office approval of ISMA for U.S. direct-hire employees; verification of spouse or domestic partner signatures; USAID/Afghanistan approval of ISMA for PSCs; and internal controls to prevent improper ISMA payments and authorization of benefits incompatible with ISMA. The only scope impairment noted was that almost half the employees in the random sample did not answer a survey because USAID/Afghanistan no longer employed them. This did not affect the review results because we only used the questionnaire to cross-check information obtained from other sources.

Methodology

We used the following methods to answer the review objective:

- Interviewed key personnel from the mission's Office of Financial Management and Office of Management, plus the approving official in the human capital office in Washington, D.C.
- Conducted a walk-through of the ISMA payment process with relevant officials from the Office of Financial Management.
- Obtained and reviewed a random sample of ISMA applications submitted to the human capital office and USAID/Afghanistan.
- Obtained and reviewed the spreadsheets used to process monthly ISMA payments.

- Obtained copies of all monthly e-mail certifications for each employee in the random sample.
- Sent questionnaires to all 71 employees in the random sample.

We used the information from these sources to test

- A random sample of 43 of 88 U.S. direct-hire employees who received ISMA. We tested for eight attributes of compliance with the internal controls implemented as a result of the 2012 audit, or which are required by policy.
- A random sample of 28 of 41 PSCs who received ISMA. We tested for nine attributes of compliance.

If we identified a single deviation from the stated internal controls, we noted it. The 71 employees included in our sample received \$741,027 in ISMA during FY 2015.

Employees' names appeared in the spreadsheets used to process payments from the time employees began receiving ISMA. We selected the first U.S. direct hire, first U.S. PSC, and first third-country national PSC from the respective spreadsheets and then selected every other employee thereafter until the required number was reached. This random sample of 71 employees was large enough to project the results to all USAID/Afghanistan employees receiving ISMA in FY 2015 with a confidence level of 95 percent and an error rate of 5 percent or less.

This review relied on computer-processed data to a limited extent. The mission uses monthly e-mails in which employees certify their continuing eligibility for ISMA and report any changes. Mission officials also enter ISMA information in one of three Excel spreadsheets—one for U.S. direct-hire employees, one for U.S. PSCs, and one for third-country national PSCs. When mission officials receive monthly e-mail certifications, officials update spreadsheets and use both to generate a payment voucher in USAID's accounting system. We tested the data entered into a dummy voucher request for one USAID employee and found no errors. After information is entered into the accounting system, it is routed to the appropriate officials for review and certification. Mission staff also place copies of the monthly e-mail certifications and updated spreadsheets into USAID's electronic document storage system. Mission staff walked the review team through the process for placing these documents in that system, providing screen shots for each step.

We confirmed that none of the 71 employees in the random sample received ISMA without submitting a monthly e-mail certification. We also confirmed that the information in the e-mail certifications matched that in the spreadsheets. We consulted other OIG auditors regarding the Audit of USAID's Fiscal Year 2015 Compliance With the Federal Information Security Management Act of 2002, as amended, issued September 25, 2015. That audit tested 16 of the accounting system's security controls, grouped into four categories: access controls, security assessments, contingency planning, and security planning. We did not find any concerns related to the processing of financial data like those involved in ISMA.

MANAGEMENT COMMENTS



MEMORANDUM

April 20, 2016

TO: Robert Mason, OIG/Afghanistan Director

FROM: Herbert Smith, Mission Director

SUBJECT: Draft Report on the Follow-Up Review of Selected Recommendations from the Audit of USAID/Afghanistan's Internal Controls in the Administration of the Involuntary Separate Maintenance Allowance (Review Report No. F-306-16-001-S of 3/23/2016)

REFERENCE: Robert Mason memo dated March 23, 2016

Thank you for providing USAID/Afghanistan with the opportunity to review the subject draft audit report. Discussed below are the Mission comments on the findings and recommendations in the report.

Recommendation No.1: *We recommend that USAID/Afghanistan remind all personal services contractors and Office of Management personnel of eligibility requirements for the involuntary separate maintenance allowance, including minimum tour lengths, and incorporate this reminder into the new employee orientations held at post.*

Mission Comments: The Mission concurs with Recommendation No.1.

Actions Taken: USAID/Afghanistan – Executive Office (EXO) in collaboration with the Office of Financial Management (OFM) issued a Mission Notice on April 18, 2016 to all Mission personnel addressing the eligibility/non-eligibility requirements and the mandatory documentation. This notice is available for review. (Attachment a)

Closure Request: Based on the above actions and the documentation supplied, we request OIG's concurrence to the closure of Recommendation 1.

Recommendation No.2: *We recommend that USAID/Afghanistan adopt the Office of Human Capital and Talent Management's policy requiring applicants for the involuntary separate maintenance allowance to submit a copy of their spouse's or domestic partner's passport or driver's license signature for comparison with the one on the standard form.*

Mission Comments: The Mission concurs with Recommendation No. 2.

Actions Taken: USAID/Afghanistan's EXO conducted an internal compliance assessment on

all PSC employee records who are receiving ISMA and any other elective benefits in conjunction with ISMA. Based on the assessment, EXO has ensured that we are obtaining the following supporting documents: passport or driver's license of spouse or domestic partner for signature verification to match with the SF-1190, birth certificates for dependent children, and notarized attestations for direct support and dependent parents residing with the employee for a period of 12 months immediately prior to the date of application (from a country-specific, recognized institution).

Furthermore, EXO and OFM have established and implemented a pre-clearance process that will minimize the burden of the authorizing officer when approving allowances for ineligible applicants. Additional preventive steps have been taken to revise the PSC Contract Checklist and Official Personnel File Checklist, establishing an internal guideline for requisite documentation and outlining the criteria for eligibility.

Closure Request: Based on the above actions and the documentation supplied, we request OIG's concurrence to the closure of Recommendation 2.

Recommendation No. 3: *We recommend that USAID/Afghanistan remind all employees applying for involuntary separate maintenance allowance of the requirement to file a Foreign Service Residence and Dependency Report and encourage them to use the supplemental checklist.*

Mission: The Mission concurs with this recommendation.

Actions Taken: USAID/Afghanistan's EXO has completed the securing and filing of Foreign Service Residence and Dependency Report OF-126 forms from all PSCs at Post. This requirement is now also included in the pre-deployment documentation process for incoming personnel. The approved forms are also provided to the USAID/Afghanistan EXO-Travel Office, OFM, and the respective USPSC and TCNPSC payroll centers for recordkeeping.

Closure Request: Based on the above actions and the documentation supplied, we request OIG's concurrence to the closure of Recommendation 3.

Attachments:

- a) Mission Notice
- b) Separate Maintenance Allowance (SMA) Checklist

cc: OAPA:HDorcus
M/CFO:GWhite

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
<http://oig.usaid.gov/>
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