OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/HAITI'S INTERNAL CONTROLS OVER THE ADMINISTRATION OF COST-OF-LIVING ALLOWANCES

AUDIT REPORT NO. 1-521-15-002-P
December 8, 2014

SAN SALVADOR, EL SALVADOR

Office of Inspector General

December 8, 2014

MEMORANDUM

TO: USAID/Haiti Mission Director, John Groarke

FROM: Regional Inspector General/San Salvador, Van Nguyen /s/

SUBJECT: Audit of USAID/Haiti's Internal Controls Over the Administration of Cost-of-Living Allowances (Report Number 1-521-15-002-P)

This memorandum transmits our final report on the subject audit. We have carefully considered your comments on the draft report and have included them in their entirety in Appendix II. This report contains 11 recommendations to help USAID/Haiti improve internal controls over the administration of cost-of-living allowances.

USAID/Haiti agreed with all 11 recommendations. Based on comments from the mission and supporting documentation, management decisions have been reached on all recommendations. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action on the recommendations.

I want to thank you and your staff for the cooperation and assistance extended to us during this audit.

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SUMMARY OF RESULTS

Foreign Service officers are expected to serve anywhere in the world, which includes places affected by natural disasters and disease, social and economic instability, and war. To attract and keep Foreign Service employees, the U.S. Government provides special benefits aimed at "minimizing the impact of these hardships, disruptions, and other unusual conditions of service abroad upon the members of the Foreign Service, and mitigating the impact of this lifestyle upon their families." Many of these benefits are extended also to other U.S. citizens employed by the U.S. Government overseas.

In Haiti, Foreign Service officers and U.S. citizens employed as contractors lead USAID/Haiti's $2.2 billion reconstruction and development effort. While working in Haiti, these employees and their families face a lack of adequate local health care, schooling, and transportation. Various cost-of-living allowances, granted by USAID in accordance with 5 U.S. Code 5924, help employees cope with these personal hardships. They include:

- Post allowance: provides employee with additional funds while stationed at a foreign post where the costs of goods and services are substantially higher than in the United States.

- Foreign Service transfer allowance: covers extraordinary, necessary, and reasonable expenses incurred by the employee in establishing himself or herself in any officially assigned foreign post.

- Separate maintenance allowance: helps employee with expenses in keeping their family elsewhere other than at the employee's assigned foreign post.

- Education allowance: considers extraordinary and necessary expenses in providing employee's dependent children an elementary and secondary education comparable to U.S. public school standards.

- Educational travel allowance: pays a dependent child's travel expenses between secondary or post-secondary school and the employee's post once a year.

USAID's Automated Directives System (ADS) 630.3.4.1 "Basic USAID Internal Controls Over Payments" states:

> The United States Code (U.S.C.) and other legislation require that all Federal agencies ensure the accuracy, propriety, and promptness of payments for goods and services that agencies receive and accept. The law specifically emphasizes the responsibility and authority of Certifying Officers in the payment process, but agencies need other steps to ensure adequate internal control.

USAID's financial management systems should have proper internal controls in place to promote economy, efficiency, and effectiveness in the disbursement of employee allowances, while at the same time detect fraud, waste, and abuse of public resources. The controls should cover the eligibility and allowability, application, processing, approval, and payment of cost-of-living allowances.

The purpose of this audit was to determine whether USAID/Haiti has appropriate internal controls to prevent improper use and calculation of the cost-of-living allowances. We found that it did not, because of the problems listed below.

- USAID/Haiti did not use the required documentation or provide proper approval for allowance payments (page 4). Of the $1.6 million in employee allowances the mission processed between October 2010 and September 2013, $922,412 (57 percent) was processed without the required Standard Form (SF)-1190, "Foreign Affairs Application, Grant and Report."

- Some allowances were not paid correctly (page 6).

- USAID/Haiti's filing system for employees' allowances was not organized (page 7). The current file management practices of allowance applications, claims, and documentary evidence do not comply with USAID guidance, and data pertaining to employee eligibility, approvals, and claim history were not readily available.

- Mission employees did not know about the allowances available to them (page 9). They also did not know how to submit a claim properly.

To improve internal controls over the management of the cost-of-living allowances, we recommend that USAID/Haiti:

1. Implement procedures to use the SF-1190 for all allowances as required by the Department of State Standardized Regulations (DSSR) (page 5).

2. Implement procedures to verify employees' and their dependents' eligibility for all cost-of-living allowances (page 5).

3. Implement a plan to improve communication between USAID/Haiti and USAID/Dominican Republic to prevent funds control violations and to obtain proper documentation for approval of allowances (page 5).

4. Determine and document options for calculating the separate maintenance allowance electronically (page 7).

5. Implement a plan to monitor and verify that post allowance rates are updated accurately and in a timely manner in the system to avoid calculation errors (page 7).

6. Collaborate with USAID/Dominican Republic to identify areas and opportunities for increased data verification and improved management oversight over the application, authorization, and payment of the cost-of-living allowances, and document these results (page 7).

7. Review cost-of-living allowances, determine any amounts unallowable, and recover any deemed unallowable (page 7).

8. Implement a system that meets the Agency's record management policy to obtain and store necessary data to track and manage cost-of-living allowances at post (page 9).

9. Provide and document training on the regulations to mission employees involved in approving and paying allowances (page 10).

10. Document in a mission order the allowance process and the roles and responsibilities of those involved with managing cost-of-living allowances (page 10).

11. Implement a plan to educate incoming employees on available allowances and how to make a claim (page 10).

Detailed findings follow. Appendix I describes the audit's scope and methodology. Our evaluation of USAID/Haiti's management comments is on page 11, and the mission's comments are in Appendix II.

AUDIT FINDINGS

Mission Did Not Use Required Documentation or Provide Proper Approval for Allowance Payments

DSSR, Section 077, and the *Foreign Affairs Manual* state that all employees eligible for allowance payments should submit the SF-1190 to have a “uniform method of recording” the authorization and obligation of allowances. This form should be used for all cost-of-living allowances and approved by the respective authorizing official at post.

USAID’S Automated Directives System (ADS) 621.3.2 states that for an obligation to be valid and officially recorded, the person submitting it must include any documents that support the claim as well as the written approval of the appropriate authority as designated by USAID. Furthermore, ADS 630.3.10, “Voucher Examination and Payments,” explains that for a payment claim to be complete, it must be signed by the employee and their reviewing officer, fully documented and supported by receipts if available.

Despite these requirements, the audit found that $922,412 (57 percent) of $1.6 million in employee allowances processed between October 2010 and September 2013 were done without SF-1190s. Furthermore, the audit found that none of the post and separate maintenance allowance claims filed during fiscal years 2011 through 2013 had been approved by the mission’s managers. This occurred because of several reasons.

Mission Used Other Documents. Although the USAID/Dominican Republic Controller explained that all claims, whether submitted in paper or electronic form, should be accompanied by an SF-1190 and a SF-1034, “Public Voucher for Purchases and Services Other Than Personal,” and signed by Haiti’s executive officer as proof of the employee’s eligibility as required by ADS 630.3.10 to receive payment, USAID/Haiti used a journal voucher to reserve funds each quarter to pay post allowances. Mission officials said it was more efficient to process one obligation for a pool of employees rather than many individual ones because all post allowances originate from the same funding source. According to USAID/Dominican Republic, although a journal voucher is considered an approved obligating document, it must be supported by other documentation, such as the SF-1190, which provide critical information about the employee’s eligibility to make a proper payment.

For the educational travel allowance, the mission used a travel authorization to approve and pay for round-trip tickets between the dependent’s educational institution and post. Although the authorization is an approved document, it must be supported by an SF-1190 that describes the eligibility period and other pertinent information to ensure proper payment.

Mission Was Not Familiar With DSSR. USAID/Haiti officials did not always use the SF-1190 in approving all cost-of-living allowances because they did not know it was mandatory.

Mission Relied on Employees to Report Accurate Information. Mission officials said they did not get administrative approvals for some allowances because they relied on the employee to report accurate information. They said it is the employee’s responsibility to report immediately any change in condition that would affect the allowance amount received.

For example, the mission does not require an annual update of the SF-1190 (which has the required administrative approvals) for the separate maintenance allowance because it receives a monthly statement from the employee reporting any changes to their status. However, according to the regional payment center, employees often overlook the information or are not fully aware of the regulations. Therefore, an annual update of the SF-1190 is essential because it contains age requirements for children who may no longer be eligible or other information that is pertinent to determine eligibility. The auditors found that three employees claimed separate maintenance allowance for ineligible dependents costing the U.S. Government $16,759 (these amounts have been recovered).

Additionally, employees submit their monthly post and separate maintenance allowance claims electronically via a Web-based program developed and implemented by USAID/Dominican Republic in 2011. This system does not permit managers to review claims; it does not require a signature by the manager. Cost-of-living allowances are easily misinterpreted and complicated to understand. Relying solely on the employee to report data without a manager's approval or verification of the eligibility increases the risk of errors in the payment process.

Mission and Payment Center Did Not Communicate. In July 2011 USAID/Haiti and USAID/Dominican Republic signed a memorandum of understanding (MOU) in which USAID/Haiti agreed to provide appropriate administrative approvals, and, if needed, prepare the voucher form for allowance payments. In addition, as part of USAID/Haiti's organizational restructuring in FY 2012, the mission designated a payment specialist to make sure payments were accurate. In October 2013 USAID/Haiti agreed to certify funds availability on all SF-1190 applications and verify that all the required data, stamps, and signatures were obtained appropriately before submitting to USAD/Dominican Republic for payment.

Despite these efforts, the staff at USAID/Dominican Republic did not always receive the necessary documentation to process the payments and avoid funds control violations (missions could face disciplinary action if government funds are used improperly), nor were they notified of important changes that may affect payments. USAID/Haiti's controller agreed that communication between the two missions could be improved.

Without obtaining the required documentation needed to approve payments properly, the mission is at an increased risk of making errors resulting in potential overpayments of U.S. funds. Therefore, we make the following recommendations.

> ***Recommendation 1.*** *We recommend that USAID/Haiti implement procedures to use Standard Form 1190 for all allowances as required by the Department of State Standard Regulation.*
>
> ***Recommendation 2.*** *We recommend that USAID/Haiti implement procedures to verify employees' and their dependents' eligibility for all cost-of-living allowances.*
>
> ***Recommendation 3.*** *We recommend that USAID/Haiti implement a plan to improve communication between USAID/Haiti and USAID/Dominican Republic to prevent funds control violations and obtain proper documentation for approval of allowances.*

Some Allowances Were Not Paid Correctly

According to the U.S. General Accounting Office's (GAO) *Standards for Internal Control in Federal Government*, management takes on the responsibility for good internal controls by "setting the objectives, putting the controls mechanisms and activities in place, and monitoring the control." Likewise, the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, and the Improper Payments Act of 2002 require federal agencies to review and "identify programs and activities that may be susceptible to significant improper payments." Improper payments, defined by USAID's ADS 630.3.4.2, can be:

- Over or underpayments
- Duplicate payments
- Payments made to incorrect or ineligible recipients
- Payments made without taking applicable discounts

According to ADS 630.3.10.2, voucher examiners review and process all requests for payments and make sure they have been approved and have the supporting documentation. Guidance under ADS 630.3.4.3 "Internal Controls in the Payment Process," says the accounting office that has the complete obligation record is usually the designated payment office that certifies and makes the disbursement.

The audit determined that $23,518 of $872,709 of allowance payments was paid incorrectly. The errors occurred primarily between October 2010 and September 2011, and significantly decreased in the following years. Mission employees found some of the errors, but not the majority. Some examples of the errors are listed below.

- From February to May 2011 the mission overpaid some employees by using an incorrect separate maintenance allowance rate.[1]

- One employee was approved for education travel between fiscal years 2011 and 2013 although he/she was not eligible.

- Some employees claimed post allowance for children visiting post for more than 14 days and continued to even after the children left.

- One employee received post allowance although he was away on official travel that lasted more than 30 days.

Errors occurred partly because the mission did not have an automated system. Until USAID/Dominican Republic installed an electronic database in 2011, voucher examiners calculated post allowance payments for every employee manually each month, a method they

[1] Separate maintenance allowance rates are different for involuntary and voluntary separations. Under involuntary separation, family members are not allowed to reside at post due to adverse living conditions or health reasons. Under voluntary separation, family members may choose not to accompany the employee to post.

described as time-consuming and highly susceptible to error. Most manual payment errors resulted from miscalculating the number of eligible days. The separate maintenance allowance is still calculated manually.

Another reason for the errors is the frequent fluctuation in post allowance rates. The rate for Haiti has been revised an average of every 5 months, and it changes between 20 and 25 percent. In June 2013 alone, the rate changed three times. To further complicate matters, the allowance payment tables provided by the U.S. Government (used to determine the exact allowance payment for employees with different base salaries and number of people who are eligible) also are revised continuously. Although the post allowance is calculated electronically, errors occur when employees update the rates manually.

Finally, the majority of the errors occurred because the mission's managers did not verify the eligibility for the allowances because it relied on employees to report accurate information. Cost-of-living allowances are complicated and easily misinterpreted by employees and the people who process the claims. Therefore, it is critical for mission management to establish internal controls over the approval and payment process to make sure payments are correct and to avoid future errors.

Without effective management oversight and direction, USAID cannot be sure that improper payments are identified and recovered in a timely manner. We make the following recommendations.

> ***Recommendation 4.*** *We recommend that USAID/Haiti determine and document options for calculating the separate maintenance allowance electronically.*

> ***Recommendation 5.*** *We recommend that USAID/Haiti implement a plan to monitor and verify that post allowance rates are updated accurately and in a timely manner in the system to avoid calculation errors.*

> ***Recommendation 6.*** *We recommend that USAID/Haiti collaborate with USAID/Dominican Republic to identify areas and opportunities for increased data verification and improved management oversight over the application, authorization, and payment of the cost-of-living allowances, and document these results.*

> ***Recommendation 7.*** *We recommend that USAID/Haiti review cost-of-living allowances, determine any amounts unallowable, and recover those amounts deemed unallowable.*

Mission's Filing System for Employee Allowances Was Not Organized

GAO's *Standards for Internal Control in the Federal Government* requires:

> Internal control over all transactions need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

Moreover, USAID's ADS 502.3.3 states that the mission must designate official file stations where all official agency records that have personnel information are stored. The stations must be safe, convenient, and accessible.

ADS 502.3.3 "Files Planning, Organization, and Maintenance: Designating Files Stations," addresses the importance of establishing procedures for maintaining records in the stations to avoid needless and excessive filing. According to the *Records Management Manual* (5 FAH-4 H-215.1) of the *Foreign Affairs Manual,* the decision to centralize files depends on "the needs of the bureau or organization to effectively meet its mission." Nonetheless, regardless of whether records are divided between offices, file contents must be collectively "complete and accurate" to safeguard the integrity of the data. Most importantly, files maintained at one file station should supplement rather than partially duplicate those at another station.

Auditors reviewed employee files in all three offices (USAID/Haiti's executive and financial management offices and USAID/Dominican Republic's regional payment center) and found that required standard forms with signature and stamp approvals, budgetary data, and supporting documentation were missing for more than 50 percent of the files.

Furthermore, documentation related to employees' cost-of-living allowances was scattered and not easily assessible. We asked mission officials for a list of all employees receiving the allowances, but they said they could not provide this information easily. So they compiled a list manually based on data from the Agency's general accounting system, which resulted in an incomplete, inaccurate list. We then performed a review of monthly obligations to gather the necessary data and reconciled it with information gathered from interviews with mission employees, financial reports, and other internal documents provided by USAID/Haiti and USAID/Dominican Republic.

These problems occurred mainly because USAID/Haiti did not have a common database or central information station for allowance information. The mission relied on the Agency's centralized personnel system, Post Administrative System Suite (WebPASS), to gather human resources data, including the number of employees, grade, pay, family size, length of tour, and performance history. However, this database is not exclusive to the mission and does not provide detailed information about specific allowances or other benefits. Generally, USAID uses this system to analyze worldwide staffing patterns of all mission employees, rather than to monitor or oversee allowances.

USAID/Haiti's financial office currently uses the Agency's official electronic filing system, Agency Secure Image and Storage Tracking (ASIST), to transmit pertinent documentation to the regional payment office. This system is linked to USAID's core financial system, Phoenix, and up until 2013 has been used mostly as an electronic repository for award documentation. USAID recently upgraded ASIST to enable a paperless payment process with the use of electronic approvals and to expand its storage of official records for the entire agency, including payment authorizations, invoices, and personnel files.

At the time of the audit, USAID/Haiti's executive and financial offices kept records throughout various offices and stored the same documents in ASIST so they could send them easily to USAID/Dominican Republic. Mission employees said they are more efficient if they store working paper documents in their respective offices.

USAID/Haiti's current filing system for allowances does not comply with the U.S. Government's archiving policy, which discourages duplicating files, omitting vital documents, and not storing all necessary documents. Without an up-to-date, complete, and accessible data repository, USAID/Haiti officials cannot make well-informed decisions about the mission's budget and personnel management. Additionally, inadequate record keeping can lead to mismanagement of USAID employee benefits. Secure records protect the legal and financial rights of the government and the people affected by its activities.

> ***Recommendation 8.*** *We recommend that USAID/Haiti implement a system that meets the Agency's record management policy to obtain and store necessary data accurately to track and manage cost-of-living allowances at post.*

Employees Did Not Know About Allowances Available to Them

ADS Chapter 527.3.1(d), "Functions of the Mission Executive Officer," states that the mission's executive office handles personnel issues and needs for the mission's direct-hire and personal service contract employees. The office also is supposed to educate employees about available allowances.

However, the mission's employees were not trained properly to follow the application or claim processes and were not fully aware of the allowances available. As part of the audit, we contacted 16 USAID/Haiti former and current employees about their experience with claiming benefits. More than half of them said they were not satisfied with the counseling or training received at post. Despite meeting with both the financial and executive office staff upon arrival, the employees we interviewed said the information they got about what allowances were available was not always clear or correct, and they did not know how to get clarification.

One employee said a mission official told him his dependents were eligible for the separate maintenance allowance. After he received this allowance for several months, the mission realized he should not have and deducted the amounts already paid from his paycheck. A second employee said mission staff calculated an allowance amount incorrectly and made him repay those amounts during his tour. A third employee said she did not know she had qualified for an allowance until other employees told her about it informally.

Staff in the executive office confirmed that the mission does not have formal guidance or written practices that clearly document management's expectations for the management and processing of allowances. Although Agency regulations provide policies and essential procedures in authorizing, granting, revising, and terminating allowances, it does not specify the mission's role in processing all of the cost-of-living allowances at post.

Mission officials said employees have a chance to ask questions about their allowances when they arrive, but they rarely do. The officials said it has been difficult to get employees to complete the arrival checklists, which includes meeting with officials knowledgeable about allowances. As a result, employees may submit incomplete, erroneous claims, or may not submit legitimate claims for allowances until long after they have been earned.

Past evaluations of the mission's efforts to comply with the Federal Manager's Financial Integrity Act (FMFIA) (which examines management's responsibility for internal control in federal agencies) identified an internal control risk due to the lack of mission orders or other operating procedures that are consistent with policies and procedures in ADS. USAID/Haiti currently uses a checklist as evidence that the human resources and financial offices have briefed new employees on a number of pertinent administrative matters. But this list alone does not confirm that the employees understand or have been trained by mission staff to follow the allowance process.

Lack of training and clear guidance on post allowances could result in improper payments or missed opportunities for employees who are eligible for certain allowances. To address this situation, we make the following recommendations.

> ***Recommendation 9.*** *We recommend that USAID/Haiti provide and document training on allowance regulations to mission staff involved in approving and paying allowances.*
>
> ***Recommendation 10.*** *We recommend that USAID/Haiti document in a mission order the allowance process and the roles and responsibilities of those involved with managing the cost-of-living allowances.*
>
> ***Recommendation 11.*** *We recommend that USAID/Haiti implement a plan to educate incoming employees on available allowances and how to make a claim.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Haiti agreed with all 11 recommendations. Based on comments from the mission and supporting documentation, management decisions have been reached on all recommendations. Our detailed evaluation of management comments follows.

Recommendation 1. The mission is already implementing this recommendation. The staff plans to link all journal vouchers to the applicable SF-1190s in ASIST by January 31, 2015, to provide the supporting information about the employee's eligibility. We acknowledge the mission's management decision on this recommendation.

Recommendation 2. USAID/Haiti will update the SF-1190 annually starting on December 15, 2014. This should allow the mission to have each employee confirm that they are still eligible for the allowances claimed and that any change of status is documented with an amended SF-1190.

The cost of living allowance (COLA) system has been updated to require each employee to respond to specific questions that may change their allowance amounts. This new system will be implemented in Haiti by January 15, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 3. The mission plans to store all SF-1190s and related journal vouchers in ASIST by January 31, 2015; the missions in Dominican Republic and Haiti will have access to the system. In addition, the MOU, service standards agreement, and list of agreed-upon procedures for both missions will be updated by February 28, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 4. The mission plans to include the calculation for the separate maintenance allowance in COLA by January 31, 2015. The journal vouchers, cables authorizing SMAs, and SF-1190s also will be linked and kept in ASIST by January 31, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 5. The post allowance rates are updated in the Agency's notices. Monitoring and verifying post allowance rates are managed by USAID/Dominican Republic, which serves as the payment processing center and has administrator rights in COLA. That mission currently checks the COLA percentage with the State Department link; if there is a change, it is reported to the system administrators. This new process will be addressed in the updated agreed-upon procedures for USAID/Dominican Republic and should be in place by February 28, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 6. USAID/Haiti will collaborate with USAID/Dominican Republic to find ways to verify the data more often and to improve oversight of the application, authorization, and payment of the cost-of-living allowances. The missions will document what they find in the MOU, service standards agreement, and agreed-upon procedures by February 28, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 7. USAID/Haiti plans to test a sample size of allowances. The target date for completion is May 31, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 8. The mission will maintain all SF-1190s, SMA authorization cables, AID 760-23 forms, assignment cables, and post arrival and departure notices in ASIST by January 31, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 9. The payroll specialist, alternate payroll specialist, and the deputy controller will present a class on allowance regulations to accountants, voucher examiners, and the Executive Office's human resources staff by January 31, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 10. Mission officials plan to draft, clear, and distribute a mission order that documents the allowance process and the roles and responsibilities of those involved with managing the cost-of-living allowances by February 28, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 11. The mission will use an improved checklist and related guidance and required forms by February 28, 2015. We acknowledge the mission's management decision on this recommendation.

SCOPE AND METHODOLOGY

Scope

We conducted this 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 in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Haiti has appropriate internal controls to prevent improper use and calculation of the cost-of-living allowances.

The audit covered cost-of-living allowances processed from October 1, 2010, to September 30, 2013, totaling $1.6 million in disbursements. Of this amount, auditors tested $872,709 (54 percent) of the disbursements made during this period. The audit sample included post, separate maintenance, foreign transfer, education, and education travel allowances.

The audit team conducted fieldwork from November 12, 2013, through April 11, 2014. Auditors conducted work at USAID/Haiti, as well as the regional payment center in USAID/Dominican Republic.

In planning and performing the audit, the team assessed the following significant internal controls used by USAID/Haiti and the regional payment center in approving, certifying, and paying allowances: documentation and data verification, management oversight of the entire allowance process, and official authorization to determine whether transactions were done properly and recorded in a timely manner. To test the effectiveness of these controls, we reviewed obligating documents, personnel records, vendor and payment files, financial and human resources reports, travel requests and authorizations, manual payment and electronic calculations, position descriptions, organizational charts, written agreements, and process and procedures drafted by offices involved in the management of these allowances. In addition, the team reviewed USAID/Haiti's Federal Manager's Financial Integrity Act report for Fiscal Years 2010 to 2013 and past audit reports to identify issues and weaknesses they encountered.

Methodology

To answer the audit objective, we obtained an understanding of the guidance for all allowances classified under the cost-of-living benefits for USAID employees by reviewing criteria that included ADS, the *Foreign Affairs Manual*, and DSSR. We evaluated the mission's management and oversight of approving and paying allowances, the performance of each of the offices and staff involved in this process, and the effectiveness of the controls to prevent incorrect calculations and improper payments. We met with USAID mission employees in Haiti and the Dominican Republic responsible for human resources and financial administration such as the executive officer, the human resources senior specialist, the chief accountant, voucher examiners, and the certifying officer. In addition, we met with the different types of employees, including direct hires and contractors.

The audit team gained an understanding of the mission's procedures for approving, processing, and paying benefits to employees. In addition, we reviewed the mission's guidance for internal controls over funds disbursements. We also coordinated our work with RIG/San Salvador investigators to discuss related issues.

USAID assigned 82 Foreign Service employees to work in Haiti between October 2010 and September 2013. To test the Foreign Service transfer, education, and educational travel allowances, the audit team judgmentally selected 15 Foreign Service employees (10 direct hires and 5 personal services contractors). For post and separate maintenance allowances, we selected an additional 17 employees who were eligible and claimed these allowances.

To determine the adequacy of the internal controls, we examined invoices, vouchers, and other supporting documents. We validated financial transactions (obligations and disbursements) for post and separate maintenance allowances by comparing financial reports provided by the financial management offices in Haiti and the Dominican Republic. We recalculated the payments made to each employee in our audit sample to see whether any discrepancies existed with the actual amounts paid. Because these samples were selected judgmentally, the results cannot be projected to the entire populations. We believe our substantive testing was sufficient to support the audit's findings.

MANAGEMENT COMMENTS

ACTION MEMORANDUM

TO: Van Nguyen, Regional Inspector General
FROM: John Groarke, Mission Director

DATE: November 7, 2014

SUBJECT: Mission response to the draft audit report of USAID/Haiti's Internal Controls over the Administration of Cost-of-Living Allowances

This memorandum represents USAID/Haiti's actions taken to address and reach management decisions for the recommendations reported in the draft Audit of USAID/Haiti's Internal Controls over the Administration of Cost-of-Living Allowances (RIG Draft Report No. 1-521-14-00X-X). The Mission agrees with all eleven recommendations. The responses to these recommendations are below.

Recommendation 1: *We recommend that USAID/Haiti implement procedures to use Standard Form 1190 for allowances as required by the Department of State Standardized Regulations.*

Mission response:
The Mission uses Standard Form 1190 to authorize all allowances for which an employee is eligible as required by the Department of State Standardized Regulations (DSSR). This includes TQSA (as applicable), post, foreign transfer (as applicable), home service transfer (as applicable), SMA (as applicable), educational allowance (as applicable), and differential. In addition, with regard to educational travel, SF-1190s are required to be uploaded into E2 with the travel authorization. Although journal vouchers are still used for obligating allowances, they will be linked to the applicable SF-1190s in the CIO-approved Agency Secure Image Storage and Tracking System (ASIST) by January 31, 2015 in order to provide the supporting information regarding the employee's eligibility, which is necessary to make proper payment.

Plan of Action and Timeline:
Mission agrees with Recommendation 1 and is already implementing this recommendation. As noted above, journal vouchers will be linked to the applicable SF-1190s in ASIST by January 31, 2015 in order to provide the supporting information regarding the employee's eligibility, which is necessary to support a valid obligation and to make proper payment.

Recommendation 2: *We recommend that USAID/Haiti implement procedures to verify employees' and their dependents' eligibility for all cost-of-living allowances.*

Mission response:
USAID/Haiti has implemented the systematic usage of the SF-1190s for all new USDH, TCN, and PSC USAID/Haiti employees and has been ensuring that all eligible allowances for each employee are approved accordingly as stated by the Department of State Standard Regulations. An updated SF-1190 is only required when there is a change in an employee's status since the form is valid for an employee's tour of duty.

Plan of Action and Timeline:
USAID/Haiti agrees with the recommendation to annually update the SF-1190 and will implement this yearly by December 15th this year and by July 15th in subsequent years, This will allow USAID/Haiti to have each employee confirm that they are still eligible for the allowances claimed and that any change of status is documented with an amended SF-1190.

In order to ensure that employees are being responsive to the items that change their COLA amount, the COLA system has been updated to require each employee to respond to specific questions (i.e. Did you travel? Did you receive a promotion? Do you have eligible family members at post?). The responses to these questions will then generate a worksheet that can be seen and approved administratively. The administrative approval of this monthly COLA report will be reviewed by Haiti/OFM and approved by the EXO. This new system will be implemented in Haiti by January 15, 2015.

Recommendation 3: *We recommend that USAID/Haiti implement a plan to improve communication between USAID/Haiti and USAID/Dominican Republic to prevent funds control violations and obtain proper documentation for approval of allowances.*

Mission response:
Both the Dominican Republic and the Haiti Missions are working in agreement toward common objectives. Missions are actively communicating on ensuring that all documents related to COLA are resolved in a timely manner. We agree that we need to align on documentation requirements for obligations and payments.

Plan of Action and Timeline:
By January 31, 2015, all SF-1190s and related JVs will be housed in ASIST with access for both the DR and Haiti. In addition, the MOU, Service Standards and Agreed Upon Procedures for both Missions will be updated by February 28, 2015.

Recommendation 4: *We recommend that USAID/Haiti determine and document options for calculating the separate maintenance allowance electronically.*

Mission response:
Currently, the SMA monthly verification of allowance is submitted by each eligible employee in Haiti and then processed in the DR. The cable from HR/Washington authorizing SMA will be housed with the employee's SF-1190 in ASIST and linked to the JV obligating the SMA. This will be the supporting documentation for the DR to make payment. We agree that an electronic mechanism for this allowance would improve the process.

Plan of Action and Timeline:
By January 31, 2015, the current online COLA system will also include SMA. The JVs, cables authorizing SMA, and SF-1190s will also be linked and housed in ASIST by January 31, 2015.

Recommendation 5: *We recommend that USAID/Haiti implement a plan to monitor and verify that post allowance rates are updated accurately and in a timely manner in the system to avoid calculation errors.*

Mission response:
The post allowance rate changes are updated in the Agency Notices and the monitoring and verification of the post allowance rates is managed by the DR, who serves as the payment processing center and has administrator rights in the COLA system.

Plan of Action and Timeline:
USAID/DR currently checks the COLA Percentage in the following link each month: http://aoprals.a.state.gov/Web920/location.asp?menu_id=95 If there is a change, it is reported to the system administrators.

Recommendation 6: *We recommend that USAID/Haiti collaborate with USAID/Dominican Republic to identify areas and opportunities for increased data verification and improved management oversight over the application, authorization, and payment of the cost-of-living allowances, and document these results.*

Mission response:
USAID/Haiti agrees with the recommendation and has actively collaborated with USAID/Dominican Republic to establish corrective actions in response to the audit's findings. Please note that this recommendation is addressed throughout all other recommendations.

Plan of Action and Timeline:
Please see the Mission response noted above.

Recommendation 7: *We recommend that USAID/Haiti review cost-of-living allowances, determine any amounts unallowable, and recover those amounts deemed unallowable.*

Mission response:
The Mission has already collected the amount that was deemed unallowable for SMA and COLA as mentioned in the audit report.

Plan of Action and Timeline:
As noted in the Mission response, we have already collected the amount deemed unallowable for SMA and COLA as mentioned in the audit report. In conjunction with our semi-annual MCRC meeting, USAID/Haiti will perform a testing of a sample size of allowances each year by May 31, 2015.

Recommendation 8: *We recommend that USAID/Haiti implement a system that meets the Agency's record management policy to get and store the data necessary to track and manage cost-of-living allowances at post.*

Mission response:
ASIST will maintain all SF-1190s, which contain *cost-of-living allowances at post, including employee biographical data, information about dependents, and the employee's approved allowances.* ASIST will also maintain all cables authorizing SMA, AID 760-23 travel and leave

forms which authorize leave, assignment cables, and post arrival and departure cables with the employee’s file in ASIST. This will be finalized by January 31, 2015.

<u>Plan of Action and Timeline</u>:
As noted above, ASIST will maintain all SF-1190s, SMA authorization cables, AID 760-23 forms, assignment cables, and post arrival and departure notices by January 31, 2015.

Recommendation 9: *Provide and document training on the regulations to mission employees who are involved in approving and paying allowances.*

<u>Mission response:</u>
Our payroll staff have or are planning to attend the *Overseas Payroll Course at CGFS Charleston* trainings, Our payroll specialist attended the training on *June 16- 20, 2014*, The alternate payroll specialist is scheduled to attend the training March 9 - 13, 2015.

<u>Plan of Action and Timeline</u>:
The payroll specialist, alternate payroll specialist, and the deputy controller will present a training on allowance regulations to accountants, voucher examiners, and EXO HR staff by January 31, 2014.

Recommendation 10: *Document in a mission order the allowance process and the roles, and responsibilities of those involved with managing the cost-of-living allowances.*

<u>Mission response:</u>
A mission order will be drafted, cleared, and disseminated at-large that documents the allowance process, roles and responsibilities of those involved with managing the cost-of-living allowances by February 28, 2015.

<u>Plan of Action and Timeline</u>:
As noted above, a mission order will be drafted, cleared and disseminated at-large by February 28, 2015.

Recommendation 11: *Implement a plan to educate incoming employees on available allowances and how to make a claim.*

<u>Mission response:</u>
The Mission recognized the need to improve the overall orientation process and has created an Orientation Solutions Group composed of employees from various offices to address this concern. The scope of the Orientation Solutions Group includes reviewing the current in-processing procedures and working in tandem with the EXO office to streamline and enhance the process. The check-in list will be updated and the mission order outlining the USAID/Haiti Mission allowance process and the roles and responsibilities of those involved with managing the cost-of-living allowances will be provided with the in-processing materials.

<u>Plan of Action and Timeline</u>:
The Mission will roll out an improved checklist, which provides for discussion and education of allowances by the EXO and OFM and the related guidance and required forms by February 28, 2015. This enhanced process will ensure that all new USAID/Haiti employees are meeting with the Mission Controller or representative as part of their check-in to go over the mission order and any questions that the employee may have regarding their allowances as part of the standard check-in procedures.

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