OFFICE OF INSPECTOR GENERAL

AUDIT OF INTERNAL CONTROLS OVER THE SEPARATE MAINTENANCE ALLOWANCE AT SELECTED MISSIONS IN THE MIDDLE EAST BUREAU

AUDIT REPORT NO. 6-263-10-003-P
January 14, 2010

CAIRO, EGYPT

Office of Inspector General

January 14, 2010

MEMORANDUM

TO: USAID/Egypt Director, Hilda M. Arellano
USAID/Jordan Director, Jay L. Knott
USAID/West Bank and Gaza Director, Howard J. Sumka

FROM: Regional Inspector General/Cairo, Jacqueline Bell /s/

SUBJECT: Audit of Internal Controls over the Separate Maintenance Allowance at Selected Missions in the Middle East Bureau
(Audit Report No. 6-263-10-003-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report, and we have included the Missions comments in their entirety in appendix II.

The report includes 13 recommendations for your action. Based on management comments, the audit considers that management decisions have been reached on 12 of the 13 recommendations and final action has been taken on recommendations nos. 2, 3, 5, 6, 10, 11, 12, and 13. Determination of final action will be made by the Audit, Performance and Compliance Division (M/CFO/APC) upon completion of the planned corrective actions for recommendations nos. 1, 4, 7, 8, and 9.

Thank you for the cooperation and courtesy extended to the audit team during this audit.

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SUMMARY OF RESULTS

The separate maintenance allowance (SMA) is a nontaxable cost-of-living allowance that USAID may provide to "assist an employee to meet the additional expenses of maintaining members of family elsewhere than at the employee's foreign post of assignment."[1] USAID has three types of SMA benefits for its employees: involuntary, voluntary, and transitional. (Transitional benefits are not addressed in this report.) The Agency may grant involuntary SMA benefits to an employee when there are dangerous, notably unhealthful, or excessively adverse living conditions at post, or for the convenience of the Government. USAID may grant voluntary SMA benefits to an employee based on personal special needs or hardship involving eligible family members including spouses, domestic partners, and dependent children (page 3).

In accordance with USAID Automated Directives System 477, *Allowances and Differentials*, the USAID/Washington Office of Human Resources appears to be the only approving authority for the SMA benefit (page 10). The missions' offices of the Executive Officer and Financial Management are responsible for assisting employees on matters regarding the SMA benefit. Specifically, within the missions' executive offices, the Office of Human Resources may receive, review, and forward employees' grant applications to USAID/Washington for approval. Routinely, human resources staff members forward USAID/Washington's approved SMA cables and applications to a mission's Office of Financial Management to obligate funds and process payments (page 3).

The audit focused on assessing control activities over SMA for selected USAID missions in the Middle East Bureau[2]—USAID/Egypt and its client missions (USAID/Lebanon, USAID/Morocco, and USAID/Yemen), USAID/Jordan, and USAID/West Bank and Gaza (page 3). The audit reviewed 208 payments valued at $160,904 in voluntary and involuntary SMA benefits that missions paid to 19 employees from May 1, 2005, to June 30, 2009, as shown in appendix III (page 33). As shown in appendix IV (page 34), the audit identified questioned costs valued at $7,370 in unallowable separate maintenance allowance payments that missions provided to four USAID employees. These unallowable payments resulted from inadequate management oversight over verification of data, continued eligibility, and approvals (pages 5–17).

Specifically, the audit found that USAID/Egypt, USAID/Jordan, and USAID/West Bank and Gaza should strengthen their internal controls regarding (1) management oversight and data verification, (2) verification of continued SMA eligibility, (3) appropriate USAID approvals, (4) documentation, and (5) the use of updated documents (pages 5–17).

The audit team provided a summary of other findings discussed in this report to the Office of Inspector General/Washington staff of the Performance Audit Division. The audit staff briefed USAID officials about weaknesses identified in USAID Automated Directives System 477, *Allowances and Differentials*. Although the Regional Inspector General/Cairo's summary identified improvements that could help strengthen

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[1] As stated in the Department of State Standardized Regulations, Chapter 260, Section 261.1 a, as of August 30, 2009.
[2] The audit included all missions within the Middle East Bureau except USAID/Iraq.

management controls regarding specific weaknesses in USAID documentation requirements, employee recertification, suspension and termination of SMA benefits, and the need to synthesize voluminous guidance, the Performance Audit Division will address these issues in a separate report to USAID/Washington's Office of Human Resources Office of Foreign Services' Personnel Division (page 4).

Management comments are included in their entirety in appendix II.

BACKGROUND

The separate maintenance allowance (SMA) is a nontaxable cost-of-living allowance that USAID may grant to "assist an employee to meet the additional expenses of maintaining members of family elsewhere than at the employee's foreign post of assignment." USAID has three types of SMA benefits for its employees: involuntary, voluntary, and transitional. (Transitional benefits are not addressed in this report.) The Agency may grant involuntary SMA benefits to an employee when there are dangerous, notably unhealthful, or excessively adverse living conditions at post, or for the convenience of the Government. For voluntary SMA (VSMA), USAID may grant benefits to an employee based on personal special needs or hardship involving eligible family members, including spouses, domestic partners, and dependent children.

As of May 2008, the annual rates for VSMA benefits were $8,400 for one adult and $10,700 for an adult and one additional family member. These rates increased in May 2008 to $11,300 for one adult and $15,300 for an adult and one additional family member for family separations at the convenience of the Government.

Much of the U.S. Government guidance about the SMA benefit is documented in law, regulations, and Secretary of State (SECSTATE) cables, as illustrated in appendix V. Although USAID has published guidance on the SMA benefit in Automated Directives System (ADS) 477, *Allowances and Differentials*, March 2002, and updated it in September 2002, the guidance does not contain much specificity about USAID procedures. USAID's guidance is more of a reference tool that refers employees to other substantive and voluminous guidance contained in the Department of State Standardized Regulations 260, *Separate Maintenance Allowance*, and the U.S. Department of State Foreign Affairs Manual (FAM) Volume 3, Chapter 3200, *Allowances*.

Selected USAID missions within the Middle East Bureau—USAID/Egypt and its client missions (USAID/Lebanon, USAID/Morocco, and USAID/Yemen), USAID/Jordan, and USAID/West Bank and Gaza—provided 208 payments valued at $160,904 in voluntary and involuntary[3] SMA benefits to 19[4] employees from May 1, 2005, to June 30, 2009. The audit identified questioned costs valued at $7,370 in unallowable SMA payments to four USAID employees. The unallowable SMA payments resulted from inadequate management oversight over the verification of data, continued eligibility, and approvals.

The missions' offices of the Executive Officer and Financial Management are responsible for assisting employees on matters regarding the separate maintenance allowance benefit. Specifically, within the missions' executive offices, the Office of Human Resources may receive, review, and forward employees' grant applications to USAID/Washington for approval. Routinely, human resources staff members forward supporting document and payment requests to a mission's Office of Financial

[3] Twenty of the 21 employees received voluntary SMA, and the remaining employee received involuntary SMA while posted at USAID/Yemen.
[4] Twenty-one employees applied for SMA benefits. Of the 21 applicants, the missions made SMA payments to 19 employees. The two remaining employees did not request benefit payments during the audit period.

Management for processing and payment.

Although missions' Executive Office and Financial Management staff were knowledgeable about much of the SMA payments guidance, the missions have not established sufficient internal controls to prevent improper use of the SMA. Specifically, the audit found that missions should strengthen their internal controls over (1) management oversight and data verification, (2) verification of continued SMA eligibility, (3) appropriate USAID approval, (4) documentation, and (5) the use of updated documents.

The audit team provided a summary of other findings discussed in this report to the staff of the Performance Audit Division at the Office of Inspector General/Washington. The audit staff briefed USAID officials about the lack of guidance in ADS 477, *Allowances and Differentials*, regarding mission requirements to provide informational copies of employee SMA benefits to appropriate gaining missions and supporting documentation for employees requesting and receiving SMA benefits. Although the Regional Inspector General/Cairo's (RIG/Cairo) summary identified improvements that could help strengthen management controls regarding specific weaknesses in USAID documentation requirements, employee recertification, notification procedures for suspension and termination of the SMA benefit, and the need to synthesize voluminous guidance regarding SMA data, the Performance Audit Division will address these issues in a separate report to USAID's Office of Human Resources Foreign Service Personnel Division.

AUDIT OBJECTIVE

This audit was added to RIG/Cairo's 2009 audit plan at the request of the Inspector General after a former USAID contracting officer pled guilty to making a false claim from USAID seeking more than $14,000 for SMA benefits between December 2006 and July 2008. In response, USAID's Inspector General requested an Agencywide audit to assess USAID's internal controls over SMA benefits. RIG/Cairo performed this audit to determine whether selected missions located in the Middle East Bureau have established internal controls over SMA to prevent improper use of the benefit. The audit was designed to answer the following question:

- Have selected missions in the Middle East Bureau adopted appropriate internal controls to prevent improper use of the separate maintenance allowance?

The audit's scope and methodology are described in appendix I.

AUDIT FINDINGS

Selected missions within the Middle East Bureau provided thousands of dollars in separate maintenance allowance (SMA) benefits to employees working overseas at USAID/Egypt and its client missions, USAID/Jordan, and USAID/West Bank and Gaza. Although the staff at these missions demonstrated knowledge of the numerous regulations that govern SMA benefit, the audit found that internal controls were inadequate to prevent its improper use. Consequently, the missions covered by the audit should strengthen their internal controls over management oversight and data verification, verification of continued SMA eligibility, approvals, documentation, and the use of updated documents.

From May 2005 to June 2009, the missions made 208 SMA payments to 19 employees valued at $160,904. Of the total SMA payments at the six missions reviewed in the Middle East Bureau, the audit questioned $7,370 or 5 percent of these benefit payments as unallowable because mission officials did not verify both data and continued eligibility, and obtain appropriate USAID approval.

In general, most of the missions' staff were familiar with the regulations and guidance. However, some mission officials encountered difficulties implementing appropriate procedures to prevent improper use of the benefit because of the lack of specific USAID guidance and ambiguities in the Agency's policy on the SMA benefit.

Consequently, USAID/Egypt, USAID/Jordan, and USAID/West Bank and Gaza should strengthen their internal controls regarding (1) management oversight and data verification, (2) verification of continued SMA eligibility, (3) appropriate USAID approval, (4) documentation, and (5) the use of updated documents.

Missions Should Improve Management Oversight and Data Verification

Summary: Automated Directives System (ADS) 596.3.1, *Establishing Management Controls*, states that management control activities include top-level and functional-level management reviews as well as the accurate recording and proper execution of transactions and events. In addition, Federal Government regulations govern SMA benefits provided to employees and define other disallowed travel benefits while SMA is payable. In 2005, USAID/Jordan's Office of Human Resources inappropriately approved travel entitlements for an employee's spouse's home leave and transfer. This occurred because management reviews and verification of SMA documentation were not adequate to detect that the travel expenses were unallowable for a family member for whom SMA is payable. Consequently, USAID cannot be assured that unallowable costs are identified and recovered in a timely manner.

Automated Directives System (ADS) 596.3.1, *Establishing Management Controls*, states that management control activities include top-level and functional-level management reviews as well as the accurate recording and proper execution of transactions and events. In addition, the Department of State establishes specific regulations for the separate maintenance allowance in its Standardized Regulations 260. Specifically, the Department of State Standardized Regulations (DSSR) 264.2.b, *Voluntary Separate Maintenance Allowance (VSMA) – Based on Special Needs or Hardship of the Employee*, requires an employee to elect to have an eligible family member either included on the employee's travel orders or not placed on the travel orders and instead placed on voluntary SMA (VSMA) at the time of assignment. After this initial election, the employee may request that VSMA either commence or terminate (depending on the initial election) only once for each family member during a tour. This change cannot occur during the employee's first or last 90 days at post.

Moreover, the Foreign Affairs Manual (3 FAM 3232.3-3.b) stipulates that certain travel benefits are not granted for eligible family member(s) for whom SMA is payable. Accordingly, family members would not be allowed to receive such benefits as home leave or educational and visitation travel.

Although numerous regulations describe the requirements and standards that USAID missions should follow, the audit found that USAID/Egypt and USAID/Jordan need to improve their management oversight and verification of data.

USAID/Jordan – In 2005, USAID/Jordan's Office of Human Resources did not provide adequate management oversight in verifying an employee's approved travel entitlements for a home leave/transfer and did not review SMA documentation that included the employee's family member's arrival and departure dates on the grant application.

The employee and his spouse arrived at USAID/Jordan on August 8, 2002. On December 7, 2002, the employee elected to place the spouse on SMA. From December 7, 2002, to June 30, 2005, the employee received SMA benefits valued at $21,449. At the end of the employee's tour at USAID/Jordan, USAID/Washington's Office of Human Resources Personnel Operations Division issued a transfer cable for the employee on June 28, 2005. However, USAID/Jordan issued a travel authorization to cover travel expenses for both employee and spouse from the mission to Washington, DC, with a reassignment to USAID/Egypt. On July 5, 2005, USAID/Jordan's executive officer approved travel expenses that included an airline ticket and per diem for the employee's spouse to travel from Jordan to the United States with continuation travel to Cairo, Egypt. On July 6, 2005, the employee and spouse left post from USAID/Jordan on travel authorization issued by USAID/Jordan and funded by both USAID/Jordan and USAID/Egypt, the follow-on mission.

According to the incumbent USAID/Jordan executive officer in September 2009, the mission normally sends a copy of an employee's unofficial personnel folder to a gaining mission. However, USAID/Egypt's human resources officer stated that the office did not receive any SMA-related records from USAID/Jordan in 2005. As a result, USAID/Egypt was not able to identify USAID/Jordan's improper authorization for the spouse's travel. Consequently, USAID/Egypt processed the travel voucher in accordance with the travel authorization, and inappropriately paid previously authorized travel expenses of $3,706 for the spouse's travel from Jordan to Washington, DC, and then to USAID/Egypt. On October 12, 2009, USAID/Egypt agreed to issue a bill for collection for excess travel expenses paid on behalf of one employee who was identified and questioned by the audit.

Since SMA places additional demands on USAID's resources, missions are obliged to establish management controls to ensure that any employee requests for the benefit are properly processed and authorized before benefits are paid. Without effective management oversight to ensure the accuracy of travel authorizations and financial entitlements, USAID cannot ensure that unallowable costs are identified and recovered in a timely manner. Accordingly, this audit makes the following recommendation:

Recommendation No. 1: We recommend that USAID/Egypt coordinate with USAID/Jordan to determine the allowability of $3,706 paid to cover travel expenses for the employee's spouse and issue a bill for collection for amounts deemed unallowable.

Missions Should Verify Continued Separate Maintenance Allowance Eligibility

Summary: Federal Government regulations require an employee to suspend or terminate separate maintenance allowance based on specific events and to document such suspension or termination on the grant application. Moreover, ADS 596.3.2, *Assessing the Adequacy of Internal Controls*, requires managers to assess internal controls and improve effectiveness of those associated with operations. USAID/Egypt and USAID/West Bank and Gaza paid excess SMA benefits because the two missions did not establish management controls to verify continued eligibility status and did not use the appropriate application form to document termination of SMA benefits. Although our audit work did not identify any regulations requiring missions to verify the status of SMA eligibility on a continual basis, as a management control, USAID officials should continually perform due diligence to verify continued eligibility to safeguard the Agency's resources.

Department of State Standardized Regulations, *General Provisions*, Section 077.3, *Granting Allowances and Difficult to Staff Incentive Differential on SF-1190* (Foreign Allowances Application, Grant, and Report), Subsection 077.31, *General*, states that each agency shall grant, revise, and terminate SMA benefits on the SF-1190. The guidance requires employees to suspend or terminate grant based on specific events. In addition, DSSR Chapter 260, Section 266, *Suspension/Termination of Grant*, also requires that the grant be suspended or terminated based on specific events that include:

- A visit from a family member to post that is in excess of 30 consecutive days.
- An employee's transfer from post.
- When an employee is separated from the agency while assigned at post where benefits have been granted.

Continued eligibility can be negatively affected when an employee becomes legally separated from a spouse or when a dependent child reaches a specific age. Moreover, ADS 596.3.2, *Assessing the Adequacy of Internal Controls*, requires managers to assess the adequacy of internal controls and improve the effectiveness of those associated with operations.

USAID/Egypt – USAID/Egypt did not require staff to use the grant application to terminate or suspend SMA grants. The mission processed 12 SMA grants and made payments totaling $76,303 to 9 employees from May 2005 to June 2009. Of the 12 SMA grant applications, one employee had a change in condition, but USAID/Egypt's Office of Financial Management did not terminate the benefit payments when this change in condition occurred.

The employee arrived at post in July 2004, while his eligible family members receiving the SMA benefit remained in the United States. The employee had not included the eligible family members on the travel order to the mission. However, a year later on August 2, 2005, the employee's family members moved to Egypt, at which time the SMA benefit payments should have been terminated. USAID/Egypt's Office of Financial Management continued to make payments for an additional 29 days (until August 31, 2005). Consequently, USAID/Egypt overpaid the employee $1,049 after the end of the benefit period.

Although human resources staff maintained documentation about the employee's SMA benefits, staff from USAID/Egypt's offices of Human Resources and Financial Management relied on the employee to notify the authorizing office of any change in conditions that might affect the benefits granted. Mission officials stated that it was the responsibility of the employee to notify them of any changes in condition. However, although our audit work did not identify any regulations requiring the offices of Human Resources and Financial Management to follow up on the status of eligibility until the employee notifies either office of any change in condition, the mission offices should continually perform due diligence to verify continued eligibility.

On September 3, 2009, USAID/Egypt's Office of Financial Management requested a refund of $1,121 for unallowable SMA payments from the employee, after the audit identified $1,049 in unallowable payments. The employee agreed to refund the amount of excess SMA benefits.

On September 10, 2009, USAID/Egypt's Office of Financial Management developed a monthly recertification form that the office plans to attach to SMA payment requests. The form includes an agreement to notify the Office of Human Resources of any changes to the status of eligible family members.

USAID/Jordan – From May 2005 to June 2009, the mission paid four employees SMA benefits valued at $41,011. For confirmation of continued eligibility, USAID/Jordan's Office of Financial Management used a control measure. While human resources staff relied on the employees to notify the office of any change in conditions that might impact the SMA eligibility status, financial management officials either telephoned or e-mailed staff to make this confirmation before the office made benefit payments. Although confirming the continued eligibility by calling or e-mailing the employee is a sort of management control, as a result of this audit, in August 2009, the mission's executive officer developed a recertification form for employees receiving SMA benefits to certify monthly as a personal requirement for continued eligibility before USAID/Jordan processes payments.

USAID/West Bank and Gaza – USAID/West Bank and Gaza continued to pay SMA benefits for an employee's dependent child even after the child turned 18 years of age in November 2005. The employee's SMA benefits for a spouse and dependent child began in April 2005. However, from November 2005 to May 2006, the mission continued to pay the employee benefits valued at $1,090. Neither the mission's Office of Human Resources nor the employee receiving the benefit notified the mission's Office of Financial Management to reduce SMA payments when the dependent child reached age 18, resulting in unallowable payments for the child. Although the employee noted that the eligible family member would turn age 18 on the original SMA grant application, management reviews did not identify the child's subsequent ineligibility.

The mission's human resources office staff did not require mission staff to terminate SMA payments using the SMA grant form, as required by DSSR 077.3. Historically, USAID/West Bank and Gaza's human resources staff forwarded copies of employees' SMA documentation to the mission's Office of Financial Management for obligation of funds, certification, and payment. USAID/West Bank and Gaza's human resources staff did not document or forward information to the financial management staff regarding employees' terminations of the benefit.

As a proactive measure during the audit, in August 2009 USAID/West Bank and Gaza's Deputy Controller developed a recertification form for staff to use on a monthly basis when requesting SMA payments. USAID/West Bank and Gaza plans to use the recertification form for multiple purposes to document the start of SMA benefits, changes in election and conditions, and benefit termination. Moreover, the Deputy Controller stated that the mission's recertification form provides more internal control, which will allow the mission flexibility to use it to document and verify eligibility of other employee benefits, such as post differential, as additional funds paid to employees to offset costs at post.

USAID missions in the Middle East Bureau pay employees thousands of dollars in SMA benefits annually. Since the Agency relies on employees to provide information by which to grant, process, and pay the benefit allowance, the missions should establish management controls to safeguard Government assets against fraud, waste, or abuse. This audit makes the following recommendations:

Recommendation No. 2: We recommend that USAID/Egypt request that employees submit signed written statements to the Office of Financial Management to recertify continued eligibility for separate maintenance allowance benefits prior to processing payments.

Recommendation No. 3: We recommend that USAID/Egypt determine the allowability of $1,049 paid in excess separate maintenance allowance benefits and issue a bill for collection for any amounts deemed unallowable.

Recommendation No. 4: We recommend that USAID/Egypt document the use of the appropriate grant form to terminate separate maintenance allowance benefits, as required.

Recommendation No. 5: We recommend that USAID/West Bank and Gaza determine the allowability of $1,090 paid in excess of separate maintenance allowance paid and issue a bill for collection for any amounts deemed unallowable.

Recommendation No. 6: We recommend that USAID/West Bank and Gaza *document the use of the appropriate grant form to terminate separate maintenance allowance benefits, as required.*

Mission Should Obtain Appropriate USAID Approval

Summary: ADS E477.5.3, *Separate Maintenance Allowance*, appears to require missions to obtain USAID/Washington's Office of Human Resources approval of SMA requests for employees. In addition, the Government Accountability Office's *Standards for Internal Control in the Federal Government* state that transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. In 2009, USAID/West Bank and Gaza inappropriately approved SMA benefits for one employee and paid unallowable SMA benefits valued at $1,525. This occurred because USAID/West Bank and Gaza did not seek proper approval from the authorities designated by the Agency. If appropriate approvals are not obtained, it is not certain that mission officials perform due diligence to safeguard Agency resources.

ADS E477.5.3, *Separate Maintenance Allowance*, appears to require USAID missions to obtain USAID/Washington's Office of Human Resources approval of SMA requests for employees, in that it requires "employees stationed overseas" to forward SMA requests directly to "the appropriate bureau with an information copy of the action taken on SMA requests." USAID authors wrote this particular sentence in passive voice without explicitly naming the office that is required to complete the action of approving the SMA requests. Nevertheless, we interpret ADS E477.5.3, together with the ADS glossary definition of "employee" as "all USAID U.S citizen direct-hire personnel and personal service contractors," to mean that USAID/Washington's Office of Human Resources is the only office authorized to approve SMA benefits. Further guidance regarding SMA benefits for U.S. personal service contract employees is set forth in USAID Acquisition Regulation, Appendix D[5].

As previously discussed, DSSR 264.2.b, *Voluntary Separate Maintenance Allowance (VSMA) – Based on Special Needs or Hardship of the Employee*, requires an employee to elect to have an eligible family member either included on the employee's travel orders or not placed on the travel orders and instead be placed on VSMA at the time of assignment. After this initial election, the employee may request that VSMA either commence or terminate, depending on the initial election, only once for each member of family during a tour. However, unless specified exceptions apply, this change cannot occur during the employee's first or last 90 days at post.

Further, the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* state that transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of ensuring that transactions to exchange, transfer, use, or commit resources and other events are valid.

[5] See http://www.usaid.gov/policy/ads/300/aidar.pdf.

Moreover, USAID Acquisition Regulation, Appendix D, Section 1.b.1 and 12.6.a state that personal services contractors are Government employees and are treated on par with other Government employees who may receive benefits such as SMA, which are granted by the DSSR on the same basis as they are granted to U.S. direct-hire employees at the mission.

USAID/West Bank and Gaza – Because we interpret ADS E477.5.3 as meaning that USAID/Washington's Office of Human Resources is the only office authorized to approve SMA benefits, we conclude that the USAID/West Bank and Gaza Office of Human Resources Executive Officer inappropriately approved SMA benefits for an employee whose family departed the mission in May 2009. In a second case, the mission's Office of Human Resources approved SMA benefits for a U.S. personal services contractor. As explained above, because the ADS glossary definition of "employee" includes personal service contract employees as well as direct-hire employees, it appears that under ADS E477.5.3, USAID/Washington's Office of Human Resources should have approved the SMA benefits for the personal service contract employee, instead of the mission's Office of Human Resources.

In one case, USAID/West Bank and Gaza's Office of Human Resources Executive Officer inappropriately approved SMA benefits for an employee whose family departed the mission in May 2009. The employee's family members (a spouse and child) left the mission for Washington, DC, in May 2009, about 75 days before the employee transferred to the United States in July 2009. Although the employee had not requested the SMA benefit during the majority of the tour at the mission, the employee's request for SMA effected a change of election, which was not allowed according to the regulations. Moreover, as required by USAID guidance, USAID/Washington's Office of Human Resources is the only office authorized to approve SMA benefits. Consequently, the executive officer inappropriately approved the benefits and forwarded the application for processing to the mission's Office of Financial Management. The Office of Financial Management, in turn, paid unallowable SMA benefits valued at $1,525 to the employee from May 2009.[6]

According to the executive officer, the mission approved the employee's request for SMA benefits after determining that it would be cheaper to pay the employee the SMA benefit as a "family-friendly approach," rather than having the mission pay approximately $3,260 in travel benefits for two dependent children. However, in a September 30, 2009, correspondence, the executive officer stated that the mission did not obtain USAID/Washington's approval owing to an oversight.

Although the executive officer was not authorized to make this determination to approve SMA benefits at the mission, USAID/West Bank and Gaza's Office of Financial Management officials stated that the office relied on the human resources staff to provide other staff with completed and appropriately approved SMA grant applications.

According to mission officials, during August 2009, USAID/West Bank and Gaza requested that USAID/Washington's Office of Human Resources Foreign Service Personnel Division retroactively approve SMA benefits paid to an employee since May 2009. However, as of November 23, 2009, USAID/West Bank and Gaza had notified the

[6] The mission paid additional SMA benefits to this employee after June 2009; these payments are outside the scope of this audit.

audit team that a retroactive approval had not yet been granted.

In the second case, USAID/West Bank and Gaza's human resources staff approved SMA benefits for a U.S. personal services contractor. As explained above, because the ADS glossary definition of "employee" includes personal service contract employees as well as direct-hire employees, it appears that under ADS E477.5.3, USAID/Washington's Office of Human Resources should have approved the SMA benefits for the personal service contract employee, instead of the mission's Office of Human Resources.

USAID/Washington's Office of Human Resources Foreign Service Personnel Division has approved employees' requests for SMA benefits for U.S. direct-hire employees. According to USAID/West Bank and Gaza human resources staff, the mission typically approves SMA benefits for personal service contractors in accordance with USAID acquisition regulations. As the responsible mission office, USAID/West Bank and Gaza's Office of Human Resources staff assists employees in preparing the grant application and forwarding the documentation to the USAID/Washington division for approval.

USAID/West Bank and Gaza did not forward its SMA requests to the appropriate USAID/Washington Office of Human Resources for approval, as required. Instead, after the executive officer received the grant application for processing and payment, the officer routed the documents to USAID/West Bank and Gaza's Office of Financial Management to verify availability of funds. After the Office of Financial Management verified that funds were available, the executive officer signed the forms that obligated funds to pay SMA benefits.

USAID managers must follow established guidance to ensure that SMA grant applications are appropriately authorized and approved before benefits are paid. If managers do not seek appropriate approvals, it is not certain that mission officials perform due diligence to safeguard Agency resources. Therefore, this audit makes the following recommendations:

Recommendation No. 7: We recommend that USAID/West Bank and Gaza determine the allowability of $1,525 and other separate maintenance allowance benefits paid after June 2009 to the employee and issue a bill for collection for amounts deemed unallowable.

Recommendation No. 8: We recommend that USAID/West Bank and Gaza document direction to the human resources' staff to submit requests for separate maintenance allowance benefits for all employees to USAID/Washington's Office of Human Resources for approval.

Missions Should Improve Controls Over Documentation

Summary: Department of State Standardized Regulations Chapter 260, Section 265*, Commencement and Continuation of Grant*, provides guidance on the determination of the start date for the SMA benefit. Additionally, the Government Accountability Office's *Standards for Internal Control in the Federal Government* includes the control activity of appropriate documentation of transactions and internal control, for which transactions and significant events should be clearly documented with readily available documentation. The USAID/Egypt and USAID/West Bank and Gaza missions did not document the start and end dates for employees' SMA benefits and did not share information with the Office of Financial Management on a regular or timely basis. Consequently, the financial management staff processed some of the benefit payments without having access to or reviewing the supporting documentation to discern the propriety of the payments. This occurred because missions' financial management officials relied on the human resources staff to monitor and verify employee eligibility. As a first line of defense to safeguard USAID's assets, missions should maintain accurate records of transactions and events to prevent and detect errors and fraud.

DSSR Chapter 260, Section 265*, Commencement and Continuation of Grant*, requires mission officials to determine an employee's SMA benefit start date based on the latest of the (1) the submission date of grant application, (2) date that official travel began, or (3) date of separation from eligible family members. In addition, ADS 596.3.1, *Establishing Internal Controls*, requires USAID control activities to include the appropriate documentation of transactions and internal control. Moreover*,* the GAO's *Standards for Internal Control in the Federal Government* includes the control activity of appropriate documentation of transactions and internal control, for which transactions and significant events should be clearly documented with readily available documentation.

USAID/Egypt – Mission officials in USAID/Egypt's offices of Human Resources and Financial Management did not document the critical start and end dates for employees' SMA benefits in employee files or attached to financial documents. USAID/Egypt's financial management officials stated the office relied on the later of the effective date on the cable or dates on the grant application after receiving the human resources office's confirmation. However, human resources staff stated that the office referred to the DSSR 260 to establish the start date to begin an employee's SMA benefit. To exacerbate this problem, the offices did not communicate or share information on the start and end dates for the benefits on a regular and timely basis.

For example, one employee had a change in condition that should have terminated his benefit payments. However, financial management staff did not document this critical end date or attach supporting documentation with the last voucher. As a result, the financial management staff continued to make benefit payments for an additional 29 days, resulting in the employee being overpaid approximately $1,049.

ADS 477, *Allowances and Differentials*, and DSSR 260, *Separate Maintenance Allowance*, lack clear guidance on the required supporting documentation for SMA benefits. However, as a prudent management practice, financial management staff should communicate with human resources staff on a regular basis to obtain additional information about an employee's status. The financial management staff should retain and include supporting documentation for continued eligibility decisions that are included in the mission's records retention system for management review.

On September 29, 2009, USAID/Egypt's Office of Human Resources submitted a draft checklist to document its review of SF-1190 applications. This checklist addresses the documentation issues that were identified during the audit.

USAID/West Bank and Gaza – USAID/West Bank and Gaza's financial management staff relied on the human resources staff decisions and documentation with little management oversight before the mission processed and paid SMA benefits to employees. Consequently, the financial management staff processed some of the SMA payments without reviewing the supporting documentation to discern the propriety of the payments. In some cases, the financial management staff processed payments without the benefit of supporting documents that included USAID/Washington SMA approval cables and verification of continued eligibility. This occurred because the mission's financial management officials relied on the human resources staff to monitor and verify employee eligibility.

In one example, USAID/West Bank and Gaza's human resources staff forwarded monthly payment request documents for an employee's SMA to financial management staff for processing and payment. In 8 of 11 monthly payment requests, the date on the request was for the years 1908 and 1909 instead of the correct years, 2008 and 2009. Despite the incorrect dates, financial management staff processed the requests and made payments to the employee without requiring correction of the date errors.

In a second example at USAID/West Bank and Gaza, although not material, mission financial management staff could not provide supporting documentation for the SMA payment of $46 as a final payment to one employee for benefits due from November 2005. According to financial management officials during the audit, the mission payment was not included in the official accounting records because mission staff paid the employee benefits using petty cash funds as an alternative method of payment. The incumbent deputy controller stated that the mission paid the employee's monthly SMA using petty cash because the employee had closed a personal bank account used for the monthly deposit. Since this payment was not classified in the official accounting system records as a SMA payment, it was difficult to reconcile the mission's benefit payments to employees for the period.

Although the mission payments were not material, the broad spectrum of examples demonstrates the need for increased controls based on the limited sample reviewed. As a first line of defense to safeguard USAID's assets, management controls help to prevent and detect errors and fraud. Relevant supporting documentation that is readily available for management review serves as a strong management control to ensure that appropriate and allowable SMA benefits are processed and paid to employees in a timely manner. This documentation memorializes events that may affect the employee's eligibility and subsequent payment authorizations. Moreover, missions should record these payments in the official accounting records to present accurate payment information to stakeholders. Accordingly, this audit makes the following recommendations:

Recommendation No. 9: We recommend that USAID/Egypt's Offices of Human Resources and Financial Management establish internal controls that require documentation of separate maintenance allowance start and end dates.

Recommendation No. 10: We recommend that USAID/West Bank and Gaza's Office of Financial Management develop procedures to ensure that separate maintenance allowance payments are accurately recorded and adequately tracked in its official accounting systems records.

Missions Should Use Updated Documents

Summary: Department of State Standardized Regulations 077.1, *Applying for Payment of Allowances and Difficult to Staff Incentive Differential on SF-1190*, require the use of this form when an employee requests a separate maintenance allowance. The department updated the form in December 2006 and in July 2009 to include spousal and domestic partner signatures, respectively. However, with the exception of one updated application at USAID/Egypt, none of the other missions audited from the Middle East Bureau required employees receiving the benefit to use the updated form, because mission officials stated that they were not aware of the updated 2006 or 2009 separate maintenance allowance grant application form. Consequently, an internal control designed to ensure that eligible family members were aware of benefits paid on their behalf was rendered ineffective to prevent fraud or abuse.

According to DSSR 077.1, *Applying for Payment of Allowances and Difficult to Staff Incentive Differential on SF-1190*, the standard form 1190 grant application must be used when an employee requests SMA. As supplemental guidance, the Department of State issued an official cable (SECSTATE cable 118557) to notify posts about standard operating procedures for obtaining the signatures of both an employee and an employee's spouse or domestic partner in the grant application.

The DSSR periodically updates the grant application for SMA benefits that some Federal agencies are required to use when employees request SMA. The Department of State updated the grant application in December 2006 and again in July 2009. In August 2007, the Department of State provided instructions to diplomatic and consular posts using SECSTATE 118557 to notify its posts about the revised grant application. The cable sent to USAID missions communicated information about the revised grant application form and the importance of management controls to ensure that eligible spouses were aware of and had access to SMA payments.

Although the Department of State updated its guidance in May 2008, USAID has not updated its guidance since September 2002. As an internal control, the December 2006 application form made an important change from earlier versions of the grant application by adding a signature block for an employee's spouse. The revised July 2009 grant application included a signature block for an employee's domestic partner. However, some of the USAID missions in the Middle East Bureau did not establish control procedures to require employees to use the appropriate grant application that included an eligible family member's spouse or domestic partner signature, as required.

USAID/Egypt – Four of 12 employees at USAID/Egypt or its client missions did not use the updated grant application form, although the mission processed SMA requests after December 2006. Only one employee used the updated grant application, which the executive officer approved without the required spouse's signature. Mission officials stated that they were not aware of the revised grant application that the Department of State issued in December 2006 because USAID/Washington had not notified the staff of the revision. Moreover, USAID/Washington did not update the grant application form on the Agency's Web site.

USAID/Jordan – The mission does not have current SMA grants. The four grant applications reviewed were submitted prior to the issuance of the updated form in December 2006.

USAID/West Bank and Gaza – USAID/West Bank and Gaza human resources staff did not require staff to use the updated grant application form, although they requested SMA benefits after December 2006. Although two of five employees at USAID/West Bank and Gaza requested SMA benefits after the Department of State required the use of the new grant application form, mission officials processed the applications and paid the employees. Typically, USAID/West Bank and Gaza's human resources staff made copies of an employee's original grant application and forwarded it and a payment voucher to the mission's financial management staff for processing and payment.

Consequently, mission staff stated that they were not aware of the requirements to use a revised grant application form from either December 2006 or July 2009 that included a signature block for spouses and domestic partners as eligible family members.

Officials at each of the missions have acknowledged notification about the updated form and the new grant application requirements for eligible family members' signatures on the SMA applications from USAID/Washington on August 20, 2009. The updated form includes a signature block for a spouse or domestic partner that is to be signed when the employee is applying for SMA benefits. The notice recommended that USAID personnel download the form from the Agency's intranet site and submit completed grant application to USAID/Washington's Office of Human Resources for review and appropriate action.

Requiring an employee's spouse or domestic partner to certify, in writing, that he or she qualifies to receive the SMA is an important internal control to help prevent the improper use of the allowance. Since the intent of the requirement to include spouses' or domestic partners' signatures on the grant application form was to make beneficiaries aware of the SMA, without the required signatures, USAID officials cannot be assured that eligible family members are knowledgeable about payments for the entitlement. Moreover, since there is much guidance regarding the benefit, USAID should make timely efforts to synthesize and publish the necessary information for staff. Accordingly, this audit makes the following recommendations:

> *Recommendation No. 11: We recommend that USAID/Egypt notify its staff about the required use of the updated separate maintenance allowance grant application and required appropriate signatures of eligible family members prior to processing applications and making payments*.

Recommendation No. 12: We recommend that USAID/Jordan notify its staff about the required use of the updated separate maintenance allowance grant application and required appropriate signatures of eligible family members prior to processing applications and making payments.

Recommendation No. 13: We recommend that USAID/West Bank and Gaza notify its staff about the required use of the updated separate maintenance allowance grant application and required appropriate signatures of eligible family members prior to processing applications and making payments.

EVALUATION OF MANAGEMENT COMMENTS

In their response to the draft report, USAID/Egypt, USAID/Jordan, and USAID/West Bank and Gaza mission officials agreed with 12 of the 13 recommendations. As a result, management decisions have been made for 12 recommendations. The three missions took final actions on recommendations nos. 2, 3, 5, 6, 10, 11, 12, and 13. USAID/Egypt agreed with three of the recommendations, but did not take the recommended actions necessary to constitute final actions for recommendations nos. 1, 4, and 9. In addition, USAID/Jordan did not take corrective action for recommendation no. 1. Finally, USAID/West Bank and Gaza did not take final actions for recommendations nos. 7 and 8.

Recommendation no.1 required cooperation and coordination between the USAID/Egypt and USAID/Jordan to determine the allowability of $3,706 in travel expenses paid for an employee's spouse who had received separate maintenance allowance (SMA) benefits. In response to recommendation no. 1, USAID/Jordan agreed to work with and provide all information needed to enable USAID/Egypt to determine the allowability of $3,706 and to issue a Bill for Collection for amounts deemed unallowable. Although in an October 2009 e-mail USAID/Egypt's controller agreed with the recommendation and acknowledged that both missions recognize that the employee received benefits in excess of the entitlement, USAID/Egypt's controller now reports that USAID/Jordan should recover excess travel payments and issue the Bill for Collection because USAID/Jordan authorized the improper travel expenses.

Although USAID/Jordan improperly authorized travel expenses for employee's spouse by inappropriately adding the spouse—for whom SMA was payable—to the travel authorization, USAID/Egypt paid the post assignment claim filed by the employee. In this case, either mission could assume the responsibility for collecting any travel expenses deemed unallowable. Since USAID/Egypt paid the travel expenses that USAID/Jordan authorized, the recommendation does not imply exclusive culpability for USAID/Egypt, since both mission controllers are accountable for the stewardship of Government resources. As a result, the Regional Inspector General/ Cairo (RIG/Cairo) considers that final action has not been taken on this recommendation.

To address recommendation no. 2, USAID/Egypt agreed with the recommendation to develop a "SMA Certification Form." The mission's controller requested the Executive Office and Financial Management to ensure that all employee requests for separate maintenance allowance payments include a signed copy of the "SMA Certification." In addition, the form includes an agreement to notify the office of human resources of any changes to the status of eligible family members.

In response to recommendation no. 3, USAID/Egypt agreed with the recommendation and issued a Bill for Collection for unallowable SMA benefit costs valued at $1,121. The employee paid the bill for collection in full by check #2458 dated December 14, 2009, for $1,121.

In response to recommendation no. 4, USAID/Egypt did not agree with the recommendation to use the grant form to terminate SMA benefits and did not agree with the recommended action that would constitute final action. Mission officials stated that they were not aware of the requirement to use the grant form to terminate the benefit and believe that the newly developed SMA Certification form will provide adequate staff documentation and certification to SMA eligibility before USAID/Egypt makes any payments. On the contrary, inasmuch as the Department of State Regulations 264, *Application and Supporting Data*, references DSSR section 077.3, *Granting Allowances and Difficult to Staff Incentive Differential on SF-1190*, subsection 077.31, *General*, which requires agencies to grant, revise, and terminate separate maintenance allowance on SF-1190s, continued eligibility and termination are distinctly different. Consequently, the mission should use the appropriate form to terminate employees' SMA benefits, as required. RIG/Cairo considers that final action has not been taken for this recommendation.

In response to recommendation no. 5, USAID/West Bank and Gaza agreed with the recommendation and issued a Bill for Collection on December 18, 2009, to recover questioned SMA amount of $1,090.

To address recommendation no. 6, USAID/West Bank and Gaza agreed with the recommendation and issued a notice to staff emphasizing the use of the updated SF-1190 for terminating SMA benefits on December 21, 2009.

In response to recommendation no. 7, USAID/West Bank and Gaza agreed with the recommendation, but requested that USAID/Washington's Office of Human Resources (HR/Washington) retroactively approve the questioned costs for SMA benefits. The mission stated that it will take the proper action to recover amounts deemed to be unallowable based on HR/Washington's decision. Consequently, RIG/Cairo considers that final action has not been taken for this recommendation.

In response to recommendation no. 8, USAID/West Bank and Gaza agreed with the recommendation and implemented updated procedures requiring its human resources office to submit requests for SMA for U.S. direct hires to HR/Washington for approval. The mission plans to continue to approve SMA benefits for U.S. personal services contractor employees until USAID/Washington provides written clarification or revises Automated Directives System 477, *Allowances and Differentials*, to include U.S. personal services contractor employees stationed overseas. As a result, RIG/Cairo does not consider a final action has been taken for this recommendation.

To address recommendation no. 9, although USAID/Egypt agreed in general with the recommendation, it proposed a corrective action that does not specifically address the requirement to definitively establish a management control to document the start dates that can be easily reviewed by the offices of Human Resources and Financial Management, as well as other viewers. While the use of SMA Certification may document the SMA end dates, USAID/Egypt did not address how the mission would document the start dates to mitigate the likelihood of overpayments that have occurred in the past. Consequently, RIG/Cairo does not consider a final action has been taken for this recommendation.

In response to recommendation no. 10, USAID/West Bank and Gaza agreed with the recommendation. On December 21, 2009, the Controller's Office issued a memorandum to the financial management staff, to record and to track all financial transactions, including those related to SMA payments, in the official accounting system records.

In response to recommendation no. 11, USAID/Egypt agreed with the recommendation, and the controller provided to mission financial management staff a copy of the updated grant application form that included the required the signature of eligible family members. Moreover, the mission controller instructed financial management staff to process SMA grant claims documented on the updated form only.

To address recommendation no. 12, USAID/Jordan agreed with the recommendation. The mission implemented an operational procedure that includes verification and approval from HR/Washington using the updated SMA grant application form with the spouse's signature. In addition, USAID/Jordan developed a flow chart to illustrate the adapted SMA payment process and designed a monthly recertification form.

In response to recommendation no. 13, USAID/West Bank and Gaza agreed with the recommendation and issued a notice to staff on December 21, 2009, promulgating the use of the updated SF-1190 as a condition for receiving SMA benefits.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Cairo (RIG/Cairo) 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to determine whether selected missions in the Middle East Bureau have adopted the appropriate internal controls to prevent improper use of the separate maintenance allowance (SMA).

In planning and performing the audit, we assessed internal controls related to management oversight, documentation and data verification, proper execution of transactions, and timely recording of events. Specifically, the audit reviewed human resources and financial data related to approving, certifying, and paying SMA benefits.

The audit reviewed supporting documentation to support 208 SMA payment transactions valued at $160,904 made to 19 employees at USAID/Egypt and its client missions (USAID/Yemen, USAID/Morocco, and USAID/Lebanon), USAID/Jordan, and USAID/West Bank and Gaza from May 1, 2005, to June 30, 2009. We conducted the audit at the missions from July 20 through October 15, 2009.

Methodology

To obtain an understanding of the guidance for SMA benefits for USAID employees, we reviewed voluminous criteria that included the following:

- USAID Automated Directives System (ADS) Chapter 101, *Agency Programs and Functions*
- USAID's ADS Chapter 477, *Allowances and Differentials*
- Department of State Standardized Regulations 260, *Separate Maintenance Allowance* as of May 11, 2008; updated on August 30, 2009, and November 22, 2009
- Department of State Standardized Regulations, Section 077, *Use of SF-1190, Foreign Allowances Application, Grant, and Report*
- USAID Acquisition Regulation, Appendix D, 4(c), *Withholding and Fringe Benefits*
- 3 FAM 3232, *Separate Maintenance Allowance*
- 3 FAH-1 H-3232, *Separate Maintenance Allowance*.

To review management control standards, the audit reviewed ADS Chapter 596, *Management's Responsibility for Internal Control*; the U.S. Government Accountability Office *Standards for Internal Control in the Federal Government*, dated November 1999; and Office of Management and Budget Circular No. A-123, *Management Accountability and Control*. Additional criteria reviewed are listed in appendix V.

To determine whether missions covered by this audit adopted appropriate internal controls to prevent the improper use of SMA benefits, RIG/Cairo interviewed staff from the offices of Human Resources and Financial Management at USAID/Egypt, USAID/Jordan, and USAID/West Bank and Gaza. The audit team gained an understanding of the procedures for approving, processing, and paying SMA benefits to employees on behalf of eligible family members. In addition, we reviewed mission procedures for obligating funds and processing benefit payments. We also coordinated our work in discussions with RIG/Cairo investigators to discuss related issues.

To determine the adequacy of the internal controls that the missions used, we reviewed the entire universe of 21 SMA applications and approval cables for SMA benefits, monthly payment vouchers, and financial documents that provided an audit trail for the missions' transactions from May 1, 2005, through June 30, 2009.

MANAGEMENT COMMENTS

USAID | EGYPT
FROM THE AMERICAN PEOPLE

December 21, 2009

Memorandum

To: Jacqueline Bell, Regional Inspector General/Cairo

From: Jed Barton, Controller, USAID/Egypt /s/

Subject: Audit of Internal Controls over the Separate Maintenance Allowance at Selected Missions in the Middle East Bureau (Audit Report No. 6-263-10-00x-P) dated November 30, 2009

Following is the Mission's response to the audit report Recommendations Nos. 1, 2, 3, 4, 9 and 11 addressed to USAID/Egypt.

Recommendation No. 1:

We recommend that USAID/Egypt coordinate with USAID/Jordan to determine the allowability of $3,706 paid to cover travel expenses for the employee's spouse and issue a bill for collection for amounts deemed unallowable.

Mission Response:

The documents received by USAID/Egypt Mission regarding subject employee's travel **(Attachment 1)** was the assignment cable state 120018 dated June 28, 2005, **(Attachment 2)** departure cable from Jordan, Amman 05359 and **(Attachment 3)** Travel Authorization which authorized the travel of the spouse.

In as much as all post assignment documents were in the standard format and did not authorize anything unusual or out of the ordinary, USAID/Egypt Mission had no way of knowing that the post assignment travel for the employee's spouse was improperly authorized. The post assignment claim filed by the employee was paid by USAID/Egypt in accordance with the authorizing documents. Therefore USAID/Egypt, should not be included in the recommendation as having or sharing responsibility for the improperly authorized travel expenses for the employee spouse. Since the employee involved is no longer stationed in Egypt, responsibility for issuance of Bill of Collection should appropriately be assigned to USAID/Jordan and recommendation for USAID/Egypt action should be removed from this report.

Based on the information provided above, no further USAID/Egypt should be required.

Recommendation 2:

We recommend that USAID/Egypt request that employees submit signed written statements to the Office of Financial Management to recertify continued eligibility for separate maintenance allowance benefits prior to processing payments.

Mission Response:

In an email dated September 10, 2009, the Mission Controller requested the Executive Office and Financial Management to ensure that all Separate Maintenance Allowance (SMA) payment requests processed by Accounts Payable (AP) should be accompanied by a copy of the attached "SMA Certification", duly signed and presented by the SMA claim recipient, **(Attachment 4).** The form includes an agreement to notify EXO/HR of any changes to the status of eligible family members.

The audit report confirmed that the Mission has taken the corrective action mentioned above by stating that USAID/Egypt's Office of Financial Management developed a monthly recertification form that the office plans to attach to SMA payment requests. The report has also stated that the form includes an agreement to notify the Office of Human Resources of any changes to the status of eligible family members.

In view of the above, the Mission requests closure of Recommendation 2 upon final report issuance.

Recommendation 3:

We recommend that USAID/Egypt determine the allowability of $1,049 paid in excess separate maintenance allowance benefits and issue a bill for collection for any amounts deemed unallowable.

Mission Response:

The report confirmed that on September 3, 2009, USAID/Egypt's Office of Financial Management determined the allowability of the amount questioned by requesting a refund of $1,121 for the unallowable SMA payments.

The report added that the employee agreed to refund the excess SMA benefits. A recent follow up was made during which the employee mentioned that the he will be sending the amount due via check to USAID/Egypt. The Mission issued Bill for Collection No. 91811 dated 12/15/2009 for $ **1,121.10, (Attachment 5).**

In view of the above, the Mission believes that a management decision has been made regarding the $1,121. By issuance of the BFC, the Mission has implemented the recommendation, thus, the Mission that requests closure of Recommendation 3 upon final report issuance.

Recommendation 4:

We recommend that USAID/Egypt document the use of the appropriate grant form to terminate separate maintenance allowance benefits, as required.

Mission Response:

While the Mission acknowledges the need to validate eligibility for continued SMA payments, we are not aware of any regulatory or policy requirement to use the grant form to terminate SMA benefits. Please note that there is also no termination section on the SF-1190. Under normal circumstances eligibility for SMA payment may not be continuous due to events such as family visitation, even while the grant remains active. The Mission believes that the "SMA Certification" form implemented in response to recommendation 2 provides adequate assurance that eligibility conditions for SMA payments will be met prior to payment. The DSSR specifically outlines the conditions which terminate an SMA authorization. If the auditors believe that, in addition to those events listed in the DSSR, a formal grant amendment needs to be issued to terminate SMA then this should be a recommendation to all Foreign Affairs agencies rather than one that is specific to USAID/Egypt.

In view of the above, the Mission does not believe that Recommendation 4 is appropriately addressed to USAID/Egypt and therefore requests that this recommendation be eliminated from the final report.

Recommendation 9:

We recommend that USAID/Egypt's Offices of Human Resources and Financial Management establish internal controls that require documentation of separate maintenance allowance start and end dates.

Mission Response:

USAID/Egypt Mission notes that while SMA cannot start and funds cannot be obligated prior to issuance of the SF 1190 grant form, grant eligibility frequently begins only after one or more additional DSSR specified conditions are met. Likewise, a variety of events can lead to suspension or termination of the grant. Mission does not believe that these conditions can be adequately anticipated at the time of grant approval. Therefore, the mission believes that payment eligibility is more appropriately controlled through the evaluation and review of the grantee's "SMA Certification" submissions.

The Mission will utilize the information provided in the certification to determine eligibility for payment and to appropriately start and terminate the payment of SMA benefits in accordance with the latest of the dates listed in DSSR sections 265 and 266.

In view of the above, the Mission believes that final action has been made and requests closure of Recommendation 9 upon final report issuance.

Recommendation 11:

We recommend that USAID/Egypt notify its staff about the required use of the updated separate maintenance allowance grant application and required appropriate signatures of eligible family members prior to processing applications and making payments.

Mission Response:

USAID/Egypt believes that the announcing and implementation of form updates is an Agency responsibility, that therefore this recommendation should be appropriately addressed to the Agency. An Agency General Notice announced the updated SF-1190 form on August 20, 2009, during the audit process **(Attachment 6)**. However, the link contained in the notice continued to bring up the old version of the SF-1190 until the end of September 2009 when it was updated to reflect the revised grant form. Now that, USAID/Egypt has been advised of the updated form, the Mission will not approve any future SMA grant not submitted on the updated grant form. Additionally, a copy of the revised form has been provided to all financial management personnel with responsibilities involving SF 1190 grant instructing them to only process grant claims supported by the updated form (**Attachment 7**).

Based on the information provided above, USAID/Egypt does not consider the need to take further action.

Distribution:

USAID/A/DIR
EXO
OFM/AP

USAID | JORDAN
FROM THE AMERICAN PEOPLE

MEMORANDUM

TO: Jacqueline Bell, Regional Inspector General/Cairo

FROM: Dana Mansuri, Acting Mission Director ***/s/***

DATE: December 15, 2009

SUBJECT: Management comments on the Audit of Internal Controls over the Separate Maintenance Allowance at Selected Missions in the Middle East Bureau.
(Draft report No. 6-263-10-00x-P dated November 30, 2009)

USAID/Jordan would like to thank the RIG/Cairo audit team for their efforts on this audit. The hard work of the audit team has provided our Mission managers with a very useful management tool that will strengthen our ability to manage and monitor our SMA.

The Mission has reviewed and is in agreement with both of the report's recommendations that relate to USAID/Jordan. The following represents Mission Management's comments and documents both actions already taken and actions planned to be undertaken to fully address the recommendations contained in the report. Please note that we are commenting on the recommendations that relate to USAID/Jordan only.

Recommendation No. 1: We recommend that USAID/Egypt coordinate with USAID/Jordan to determine the allowability of $3,706 paid to cover travel expenses for the employee's spouse and issue a bill for collection for amounts deemed unallowable.

Planned Actions:

USAID/Jordan will work with and provide all information needed to enable USAID/Egypt to determine allowability of $3,706 and to issue a bill of collection for excess travel expenses paid as a result of authorizing the SMA recipient travel from post to Washington.

Recommendation No. 12: We recommend that USAID/Jordan notify its staff about the required use of the updated separate maintenance allowance grant application and required appropriate signatures of eligible family members prior to processing applications and making payments.

Planned Actions:

USAID/Jordan agrees to strengthen internal controls and has implemented an operational procedure that includes verification and approval from HR/Washington using the July 2009, SF-1190 form with the spouse's signature. Strong communications between the EXO and FMO offices and enhanced communications with other missions as necessary will continue.

USAID/Jordan has notified its staff of the new SF-1190 form to be used and the required signatures for all foreign allowances.

Please find attached a flowchart depicting USAID/Jordan's recently adopted SMA Payment Process and the monthly verification form, as well as a copy of the e-mail notifying USAID/Jordan's staff of the new SF-1190 form.

USAID | WEST BANK/GAZA
FROM THE AMERICAN PEOPLE

MEMORANDUM

DATE: December 30, 2009

TO: Regional Inspector General/Cairo, Jacqueline Bell

FROM: Mission Director, Howard J. Sumka /s/

THROUGH: Deputy Mission Director, Sherry F. Carlin /s/

SUBJECT: Response to Draft Report for the Audit of Internal Controls over the Separate Maintenance Allowance at Selected Missions in the Middle East Bureau, Audit Report No. 6-263-10-00x-P, November 30, 2009

We would like to thank RIG/Cairo for their hard work in helping the USAID/WBG management identify and address weaknesses associated with the separate maintenance allowance (SMA) approval and payment processes. Below please find USAID/WBG's responses to each of the six recommendations included in the subject draft audit report.

Recommendation No. 5: We recommend that USAID/West Bank and Gaza determine the allowability of $1,090 paid in excess of separate maintenance allowance paid and issue a bill for collection for any amounts deemed unallowable.

Mission Response to Recommendation No. 5:

USAID/WBG agrees with this recommendation and has determined that excess payments resulting from an otherwise eligible child who became ineligible upon reaching her 18th birthday should not be allowed. The Mission has contacted and has received concurrence from the employee. Further, USAID/WBG has issued a bill of collection on 12/18/2009 to recover the entire questioned amount of $1,090 (attachment A).

In view of the above determination and action taken to recover the questioned unallowable amount, the Mission believes that a management decision has been reached and proper actions taken in order to fully close Recommendation No. 5 upon final report issuance.

Recommendation No. 6: We recommend that USAID/West Bank and Gaza document the use of the appropriate grant form to terminate separate maintenance allowance benefits, as required.

Mission Response to Recommendation No. 6:

USAID/WBG agrees with the recommendation and has implemented updated and formalized local procedures for approving; processing and terminating SMA benefit requests. Accordingly, according to the updated procedures, the Mission will require an accurately and properly completed SF 1190 to start, change, or terminate SMA benefits (attachment B).

In addition, WBG/HR has issued a notice to staff on 12/21/2009 emphasizing the use of the updated SF-1190 for terminating SMA benefits (attachment C).

In view of the above measures taken, the Mission believes that a management decision has been reached and proper actions taken in order to fully close Recommendation No. 6 upon final report issuance.

Recommendation No. 7: We recommend that USAID/West Bank and Gaza determine the allowability of $1,525 and other separate maintenance allowance benefits paid after June 2009 to the employee and issue a bill for collection for amounts deemed unallowable.

Mission Response to Recommendation No. 7:

The Mission agrees with the recommendation and will determine the allowability of $1,525 and other separate maintenance allowance benefits paid to the employee after June 30, 2009, audit cutoff date. The Mission acknowledges that USAID/Washington’s Office of Human Resources is the only office authorized to approve SMA benefits for direct hire employees and the Mission has taken measures by addressing other recommendations in this report to fully comply with this requirement in the future. The Mission also acknowledges that after an initial election, the employee may request that SMA benefits either commence or terminate, depending on the initial election, only once for each member of family during a tour. Further, barring exceptions in DSSR 262.3 this change cannot occur during the employee's first or last 90 days at post. The questioned amount of $1,525 is a result of USAID/WBG’s granting SMA benefits without receiving proper approval during employee’s last 90 days at post.

During audit fieldwork, after RIG/C identified and questioned the above SMA benefit payments, USAID/WBG took action and contacted USAID/Washington’s Office of Human Resources for a retroactive decision which is still pending. Once a decision is rendered, the Mission will take proper action to recover amounts deemed to be unallowable if any.

In view of the above measures taken, the Mission believes that a management decision has been reached to address this recommendation.

Recommendation No. 8: We recommend that USAID/West Bank and Gaza document direction to the human resources' staff to submit requests for separate maintenance allowance benefits for all employees to USAID/Washington's Office of Human Resources for approval.

Mission Response to Recommendation No. 8:

USAID/WBG has implemented updated local procedures requiring WBG human resources staff to submit requests for separate maintenance allowance benefits for U.S. direct hires to USAID/Washington's Office of Human Resources for approval. The guidance specifies that USAID/WBG will not grant or pay SMA benefits to U.S. direct hires until such written approval and authorization is received (attachment B).

Furthermore, the procedures clarify that SMA benefits for U.S. PSC employees will continue to be approved at post in accordance with the AIDAR until such time as the Mission receives written clarification from USAID Washington or through an update to the ADS as to whether USAID Washington M/HR approves SMA benefits for U.S. PSCs. The Mission has requested and is waiting for further clarification from USAID/Washington.

In view of the above measures taken, the Mission believes that a management decision has been reached and proper actions taken in order to fully close Recommendation No. 8 upon final report issuance.

Recommendation No. 10: We recommend that USAID/West Bank and Gaza's Office of Financial Management develop procedures to ensure that separate maintenance allowance payments are accurately recorded and adequately tracked in its official accounting systems records.

Mission Response to Recommendation No. 10:

The Mission agrees that separate maintenance allowance payments should be accurately recorded and adequately tracked in the official accounting system records. However, the $46 referenced in the report is an isolated case and the transaction was included in the accounting system even though the payment was paid through our petty cash. It is our policy to post all financial transactions including petty cash transactions in the official accounting system. The reporting error resulting from the exclusion of the $46 from the report provided to RIG/C during audit field work appears to be due to reporting limitations of Phoenix (limited search ability). In addition, the event took place in November 2005 and we currently do have both local procedures as well as the worldwide Phoenix guidance in place as a guidance to record all financial transactions, including those related to SMA payments. At this point in time, we do not feel that adding another procedure will strengthen our internal controls related to transaction recording or tracking. However, to emphasize the importance of including all financial transactions in the official accounting system and adequately tracking them, on 12/21/2009 the Controller's Office issued a memorandum to the FMO staff identifying our relevant local procedures (attachment D).

In view of the measures taken to remind FMO staff of key procedures related to recording and tracking financial transactions, the Mission believes that a management decision has been reached and proper actions taken in order to fully close Recommendation No. 10 upon final report issuance.

Recommendation No. 13: We recommend that USAID/West Bank and Gaza notify its staff about the required use of the updated separate maintenance allowance grant application and required appropriate signatures of eligible family members prior to processing applications and making payments.

Mission Response to Recommendation No. 13:

USAID/WBG agrees with the recommendation and has implemented updated and formalized local procedures requiring WBG human resources staff to verify accuracy and completeness of an updated SF 1190 which includes the signature of spouse or domestic partner prior to processing the application for SMA benefits (attachment B).

In addition, WBG/HR has issued a notice to staff on 12/21/2009 promulgating the use of the updated SF-1190 as a condition to receiving SMA benefits (attachment C).

In view of the measures taken, the Mission believes that a management decision has been reached and proper actions taken in order to fully close Recommendation No. 13 upon final report issuance.

Attachments:
A: Bill of collection
B: Updated SMA policies and procedures
C: General staff notice for SMA policies and procedures
D: FMO staff notice emphasizing policies and procedures

Summary of Payments
at Selected Missions for the Middle East Bureau
May 2005 to June 2009

Number of Employees	Number of Payments	Payment Amount
USAID/Egypt and Client Missions		
Employee 1	33	$ 25,292
Employee 2	17	$ 12,241
Employee 3	08	$ 6,351
Employee 4	04	$ 4,448
Employee 5	05	$ 3,199
Employee 6	01	$ 713
Employee 7	02	$ 695
Employee 8	00	$ 0
Employee 9	00	$ 0
Employee 10	12	$ 13,400
Employee 11	12	$ 8,169
Employee 12	1	$ 1,795
Total USAID/Egypt and Client Missions	**95**	**$ 76,303**
USAID/Jordan		
Employee 1	26	$ 20,321
Employee 2	13	$ 9,942
Employee 3	11	$ 9,344
Employee 4	02	$ 1,404
Total USAID/Jordan[1]	**52**	**$ 41,011**
USAID/West Bank and Gaza		
Employee 1	28	$ 19,360
Employee 2	13	$ 10,760
Employee 3	11	$ 7,663
Employee 4	07	$ 4,282
Employee 5	02	$ 1,525
Total USAID/West Bank and Gaza	**61**	**$ 43,590**
Total Payments	**208**	**$ 160,904**

[1] Total for USAID/Egypt and client mission was rounded down.

Questioned Costs for Separate Maintenance Allowance Benefits at Selected Missions in the Middle East Bureau

Date	Mission	Problem	Cost
July 2005	USAID/Jordan and USAID/Egypt	USAID/Jordan approved and USAID/Egypt paid unallowable travel expenses of $3,565 for a ticket and $141 for per diem for an employee's spouse to travel from Jordan to Washington, DC, and then to Egypt for home leave travel and transfer to a new post. (See details on page 7 of report.)	$3,706
November 2005	USAID/West Bank and Gaza	USAID/West Bank and Gaza paid in unallowable SMA payments for an employee whose dependent child turned 18 years of age. (See details on page 9 of report).	$1,090
May 2009	USAID/West Bank and Gaza	USAID/West Bank and Gaza approved and paid in unallowable SMA payments for an employee whose family departed post for Washington, DC, about 75 days before the employee transferred to USAID/Washington. (See details on pages 11–12 of report.)	$1,525
August 2005	USAID/Egypt	USAID/Egypt overpaid an SMA benefit when an employee’s eligible family members moved to the mission. (See details on pages 8–9 of report.)	$1,049
		TOTAL	**$7,370**

Federal Guidance on Separate Maintenance Allowance Benefits

- 5 U.S.C. 5924, *Cost-of-living allowances*, subsection (3)
- 3 FAM 3200, *Allowances*
- 3 FAM 3215, Form SF-1190, *Foreign Allowances Application, Grant, and Report* (updated in December 2006 and July 2009)
- 3 FAM 3232, *Separate Maintenance Allowance*
- 3 FAH-1 3232, *Separate Maintenance Allowance*
- Department of State Standardized Regulations (DSSR) Chapter 260, *Separate Maintenance Allowance*, as of May 11, 2008; updated on August 30, 2009 and November 22, 2009.
- DSSR, *Use of SF-1190, Foreign Allowances Application, Grant, and Report*, Section 077
- DSSR, *Granting Allowances and Difficult to Staff Incentive Differential on Form SF-1190*, *General*, Subsection 077.31
- Department of State Cable (SECSTATE) 118577 to diplomatic and consular posts (dated 24 August 2007)
- USAID's Automated Directives System (ADS), Chapter 477, dated 25 September 2002, *Allowances and Differentials*
- USAID's ADS, Chapter 101, dated October 2007, *Agency Program and Functions*
- USAID Acquisition Regulation Appendix D, 4c2v, Policy, *Withholdings and Fringe Benefits*
- USAID's ADS, Chapter 502, dated September 2008, *The USAID Records Management Program*
- USAID's ADS, Chapter 630, *Payables Management*

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