



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S INTERNAL CONTROLS OVER THE SEPARATE MAINTENANCE ALLOWANCE

AUDIT REPORT NO. 9-000-10-003-P
March 1, 2010

WASHINGTON, DC



Office of Inspector General

March 1, 2010

MEMORANDUM

TO: HR/OD Director, Deborah Kennedy-Iraheta

FROM: IG/A/PA Director, Steven H. Bernstein [Michael W. Clinebell for] /s/

SUBJECT: Audit of USAID's Internal Controls Over the Separate Maintenance Allowance
(Report No. 9-000-10-003-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 comments in their entirety in appendix II.

This report includes 10 recommendations for your action. On the basis of management's comments, the audit considers that final action has been taken on recommendation 2. For the remaining nine recommendations, a management decision has been reached for each of the recommendations. Determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions for these recommendations.

I want to express my appreciation for the cooperation and courtesy extended to my staff during the audit.

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SUMMARY OF RESULTS

The separate maintenance allowance is an allowance that may be granted by USAID to employees assigned to a foreign post when the employee is compelled to maintain any or all family members at a location other than at the foreign post. The allowance can be requested to assist in offsetting the additional expense incurred by an employee maintaining two households. USAID has three types of separate maintenance allowances: involuntary, voluntary, and transitional. The total amount of the allowance granted from January 2005 through June 2009 was approximately \$4.5 million (see page 3).

The Office of Human Resources (OHR)/Policy, Planning, and Information Management Division is the principal adviser on the development and interpretation of policy affecting the personnel management systems of USAID. OHR's Foreign Service Personnel Division/Foreign Service Staffing Branch is responsible for processing and maintaining all staffing actions for employees eligible for the allowance. Throughout this report these offices are referred to as "USAID" (see page 3).

We found that USAID has not adopted appropriate internal controls to prevent improper use of the separate maintenance allowance. Specifically, USAID's policies and procedures manual governing the allowance was outdated. In addition, USAID has provided employees with an outdated allowance form, and USAID officials have approved outdated allowance applications without the required signature of the employee's spouse or domestic partner as well as applications without the required employee certification statements. Furthermore, the documentation used to authorize allowance payments varied widely among missions. Finally, USAID was unable to provide adequate documentation to verify that all allowance transactions were properly authorized and officials could not readily identify employees who received allowance payments (see pages 5–11).

This report includes recommendations to strengthen USAID's internal controls over the allowance. Specifically, we recommend that USAID:

1. Update Automated Directive System (ADS) 477 to identify the offices responsible for processing and approving applications and define its applicability to U.S. direct-hire and non-U.S. direct-hire employees (see page 7).
2. Remove the outdated allowance application from the USAID Web site and replace it with the updated allowance application.
3. Update ADS 477, "Allowances and Differentials," to include procedures to ensure that future updates are communicated in a timely manner.
4. Review all current files and obtain the required spousal or domestic partner signature for applications approved after December 2006 (see page 8).
5. Review current and approved voluntary allowance applications and obtain the required certification statements.
6. Update ADS 477 to include a checklist for approving officials to use when reviewing allowance applications (see page 9).
7. Update ADS 477 to require personnel to submit a standard written statement each time they make an allowance payment request (see page 10).
8. Update its records and obtain all missing documentation.

9. Develop and maintain a system to capture information on all personnel receiving the allowance in addition to maintaining files documenting the start, suspension, and termination of benefits.
10. Update ADS 477 to conduct periodic assessments of allowance records to ensure that ongoing payments are appropriate (see page 11).

On the basis of management's comments, the audit considers that final action has been taken on recommendation 2. For the remaining nine recommendations, a management decision has been reached for each of the recommendations. Determination of final action will be made by the Audit, Performance and Compliance Division upon completion of the planned corrective actions for these recommendations (pages 12–14). USAID management comments are included in their entirety in appendix II.

BACKGROUND

The separate maintenance allowance is an allowance that may be granted by USAID to employees assigned to a foreign post when the employee is compelled to maintain any or all family members at a location other than at the foreign post. The allowance can be requested to assist in offsetting the additional expense incurred by an employee maintaining two households. USAID has three types of separate maintenance allowances: involuntary, voluntary, and transitional.

- **Involuntary allowance.** An involuntary separate maintenance allowance may be granted to an employee when dangerous, notably unhealthful, or other adverse living conditions warrant the exclusion of family members from the area or when the Agency determines a need to exclude family members from accompanying an employee to the area.
- **Voluntary allowance.** A voluntary separate maintenance allowance may be granted to an employee who personally requests such an allowance on the basis of special needs or hardship involving the employee or family member(s). An employee may request a voluntary allowance for reasons including, but not limited to, career, health, educational, or family considerations for the spouse, children, or other family members.
- **Transitional allowance.** A transitional separate maintenance allowance may be granted to an employee whose family members temporarily occupy commercial quarters following termination of an evacuation or in connection with an unaccompanied assignment.

The rates granted to an employee differ by the type of allowance, but not by the location of the separate household. The annual amount granted to an employee for an involuntary allowance or voluntary allowance ranges from \$4,300 to \$15,900 and \$6,000 to \$20,200, respectively, and is determined by the number of eligible family members maintained at a location other than the foreign post of assignment. The daily amount granted to an employee for transitional allowance ranges from \$50 to \$100 and is determined by the number of family members and the duration of the transitional allowance. The total amount granted from January 2005 through June 2009 was approximately \$4.5 million.

The Office of Human Resources (OHR)/Policy, Planning, and Information Management Division is the principal adviser on the development and interpretation of policy affecting USAID's personnel management systems. OHR's Foreign Service Personnel Division/Foreign Service Staffing Branch is responsible for processing and maintaining all staffing actions for employees eligible for the allowance. Throughout this report these offices are referred to as "USAID."

AUDIT OBJECTIVE

This audit was not included in the Office of Inspector General's FY 2009 annual plan. It was conducted in response to false claims made by a former USAID contracting officer to USAID for the allowance. This audit was conducted simultaneously at

USAID/Washington and at the Regional Inspector General Offices in Cairo and Pretoria. Throughout this report these offices will be referred to as “RIG/Cairo” and “RIG/Pretoria.” RIG/Cairo will be issuing a separate report; RIG/Pretoria’s findings have been incorporated into this report. The audit was designed to answer the following question:

- Has USAID 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

USAID has not adopted appropriate internal controls to prevent improper use of the separate maintenance allowance.

In planning and performing the audit, we assessed USAID management's responsibility for internal control against the Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government."¹ In addition, we assessed USAID's internal controls over the allowance against Automated Directives System (ADS) 477, "Allowance and Differentials," and the U.S. Department of State Standardized Regulations 260.

The audit found the following five internal control weaknesses:

1. In USAID's policies and procedures manual, the chapter covering the allowance, ADS 477, was outdated.
2. USAID was providing employees with an outdated allowance form on the Agency's Web site.
3. USAID officials were approving applications in many cases without the required employee certification statements.
4. Documentation used by employees to request payments varied widely among missions.
5. USAID officials were unable to provide adequate documentation to verify that all allowance transactions were properly authorized, and USAID could not readily identify employees who had received payments.

The Regional Inspector General (RIG) offices in Cairo and Pretoria also conducted an audit of USAID's internal controls over the allowance. RIG/Cairo found that although the missions' executive offices and financial management staff were knowledgeable about much of the allowance guidance, the missions have not established sufficient internal controls to prevent improper use of the allowance. Specifically, the audit found that USAID/Egypt and its client missions—USAID/Jordan and USAID/West Bank and Gaza—should strengthen their internal controls pertaining to management oversight, documentation and data verification, proper execution of transactions, and timely recording of events. RIG/Pretoria also found that USAID would benefit from strengthened internal controls and noted that the process for recording allowance payments needs to be strengthened, the most recent allowance application needs to be used, the allowance approval process needs improvement, the process and documentation required for allowance payment should be strengthened, and record keeping and monitoring needs improvement. RIG/Cairo will be issuing a separate report; RIG/Pretoria's findings have been incorporated into this report.

The following sections discuss the five internal control weaknesses listed above.

¹ GAO AIMD-00-21.3.1, November 1, 1999.

Policies and Procedures Need To Be Updated and Clarified

Summary. According to GAO's "Standards for Internal Control," an internal control environment should clearly define key areas of authority and responsibility and establish appropriate lines of reporting. The audit found that the chapter covering the allowance in USAID's policies and procedures manual, ADS 477, is outdated, referring to USAID divisions that no longer exist. In addition, the manual does not clearly identify the offices responsible for processing and approving the separate maintenance allowance for U.S. direct-hire and non-U.S. direct-hire employees. Following a reorganization of the Office of Human Resources, USAID revised ADS 101 to reflect the new organizational structure but did not update the ADS 400 series. By not updating ADS 477, the Policy, Planning, and Information Management Division has not clearly defined key areas of authority and responsibility for the allowance and, as a result, has not provided employees with accurate guidance.

GAO's "Standards for Internal Control for the Federal Government" states that a good internal control environment requires that an agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting.

The Office of Human Resources (OHR)/Policy, Planning, and Information Management Division is the principal adviser on the development and interpretation of policy affecting USAID's personnel management systems. This Division is also responsible for maintaining Automated Directive System (ADS) chapters in both the 100 and 400 series.

The audit found that ADS 477, "Allowances and Differentials," refers to USAID divisions that no longer exist. For example, ADS 477 states that separate maintenance allowance requests are forwarded to OHR's Personnel Operations Division as well as the Executive Management Staff for processing changes of allowance election. Moreover, ADS 477 does not specifically define its applicability to personnel other than U.S. direct-hire employees, such as personal service contractors.

Following a reorganization of the Office of Human Resources, the Personnel Operations Division was divided into the Civil Service Personnel Division and the Foreign Service Personnel Division. Furthermore, the Foreign Service Personnel Division comprises two branches—the Special Programs Branch and the Foreign Service Staffing Branch. The Foreign Service Staffing Branch was given the responsibility for all staffing actions, including allowances, related to Foreign Service officers worldwide. According to a USAID official, on October 17, 2007, USAID revised ADS 101 to reflect OHR's new organizational structure, but the official indicated that many of the responsibilities and procedures in the ADS 400 series have not been updated.

OHR's Web site directs Foreign Service officers eligible for the allowance to ADS 477 for further information on eligibility and application procedures. By not updating ADS 477, the Policy, Planning, and Information Management Division has not clearly defined key areas of authority and responsibility or established appropriate lines of reporting for the allowance. As a result, the Division has not provided employees with accurate guidance.

Recommendation 1. We recommend that the Office of Human Resources/Policy, Planning, and Information Management Division update Automated Directives System 477, "Allowances and Differentials," to identify the offices responsible for processing and approving all separate maintenance allowance applications. The Automated Directives System must also clearly define its applicability to U.S. direct-hire and non-U.S. direct-hire employees.

Separate Maintenance Allowance Applications Need To Be Updated

Summary. According to GAO's "Standards for Internal Control," information should be recorded and communicated in a form and within a timeframe to carry out internal control responsibilities. In addition, management should maintain adequate means of communicating with, and obtaining information from, external stakeholders. USAID's policies and procedures manual requires employees to use Standard Form 1190 to request the allowance. The audit found that USAID was providing employees with an outdated allowance form on the Agency's Web site, and USAID officials were approving allowance applications using these forms. Officials said they were unaware that the application had been updated. As a result, USAID did not implement the updated form, which would improve internal control and reduce the risk of fraud by requiring spousal or domestic partner signature.

GAO's "Standards for Internal Control in the Federal Government" states that information should be recorded and communicated to management and others within the entity that needs it, in a form and within a timeframe that enables the entity to carry out its internal control and other responsibilities. In addition to communicating internally, management should maintain adequate means of communicating with and obtaining information from all external stakeholders that may affect an agency's ability to achieve its goals.

ADS 477, "Allowance and Differentials," refers to the U.S. Department of State Standardized Regulations. Standardized Regulations 260, section 265.1, requires employees to use Standard Form 1190 to request the allowance. The audit found that USAID had been providing employees with an outdated allowance form on the Agency's Web site. The online allowance application was dated 1998 and USAID was approving allowance applications using these forms. The U.S. Department of State's Office of Allowances revised the application form in 2006 and again in 2009. Beginning in 2006, the application has required the signature of the employee's spouse or domestic partner. By signing the application form, spouses or domestic partners attest that they are aware of criminal penalties for criminal fraud in obtaining the allowance and that a change in status could result in a requirement that the funds be repaid.

USAID officials said they were unaware that the allowance application had been updated and stated that the U.S. Department of State's Office of Allowances should have alerted USAID that the form had been updated.

Because USAID had used an outdated form, applications approved after 2006 did not contain the signature of the employee's spouse or domestic partner. This improvement

in internal control could reduce the risk of fraud, but USAID did not implement it.

Recommendation 2. *We recommend that the Office of Human Resources/Policy, Planning, and Information Management Division remove the outdated separate maintenance allowance application from the USAID Web site, replace it with the updated application, and notify all missions of the update.*

Recommendation 3. *We recommend that the Office of Human Resources/Policy, Planning, and Information Management Division update Automated Directives System 477, "Allowance and Differentials," to include procedures to ensure that future updates made by the U.S. Department of State's Office of Allowances to the separate maintenance allowance application are communicated in a timely manner.*

Recommendation 4. *We recommend that the Office of Human Resources/Foreign Service Personnel Division/Foreign Service Staffing Branch review all current separate maintenance allowance files and obtain the required spousal or domestic partner signature for all applications approved after December 2006.*

Separate Maintenance Allowance Approval Process Needs Improvement

Summary. According to GAO's "Standards for Internal Control," internal control activities should include securing proper authorizations to ensure that agency objectives are met. USAID's policies and procedures manual requires employees applying for voluntary allowance to make specific written statements on the allowance application, certifying that they are eligible to receive this allowance. The audit found that USAID officials had been approving applications in many cases without the required employee certifications. Because of this oversight, an important internal control was not applied in all cases to ensure that employees understand the rules for receiving the allowance and that they are subject to criminal penalties if they make false statements.

GAO's "Standards for Internal Control in the Federal Government" states that internal control activities include, but are not limited to, a wide range of activities such as approvals, authorizations, verifications, reconciliations, and performance reviews.

ADS 477, "Allowances and Differentials," refers to the U.S. Department of State Standardized Regulations. Standardized Regulations 260, section 264.2, states that voluntary allowance applications should include in the application a statement from the employee certifying the circumstances of special need or hardship. The application must state that such circumstances do not include the following:

- Legal separation between employee and spouse or separation occurring through a divorce decree, whether limited, interlocutory, or final
- Dissolution of an employee's domestic partnership
- A child whose legal custody is vested wholly, or in part, in a person other than the employee or the employee's current spouse
- A child, brother, or sister, 18 years of age or older. If the child will be attending

secondary school beyond age 18, the employee must certify that the allowance will be terminated within 3 months from the day the child leaves the secondary school.

The audit found that 11 of the 15 voluntary allowance applications available for review did not contain these important certifications. USAID officials stated that the applications had been approved, without the required certifying statements, in order to send applications to the missions as quickly as possible.

As a result, USAID had not applied an important internal control that could reduce the risk of fraud by ensuring that employees understand the rules for receiving the allowance and that they are subject to criminal penalties if they make false statements.

Recommendation 5. *We recommend that the Office of Human Resources/Foreign Service Personnel Division/Foreign Service Staffing Branch review all current and approved voluntary separate maintenance allowance applications and obtain the required employee certification statements.*

Recommendation 6. *We recommend that the Office of Human Resources/Policy, Planning, and Information Management Division update Automated Directives System 477, "Allowances and Differentials," to include a checklist that approving officials are required to use when reviewing separate maintenance allowance applications.*

Required Documentation for Separate Maintenance Allowance Payments Should Be Strengthened

Summary. According to GAO's "Standards for Internal Control," internal control activities should include appropriate documentation of transactions and internal control. The audit found that documentation used by employees to request allowance payments varied widely among missions. In USAID's policies and procedures manual, ADS 477 does not provide specific guidance on what documentation is required for payment requests. As a result, employees could request payment without appropriately certifying that they remain eligible to receive the allowance.

GAO's "Standards for Internal Control in the Federal Government" states that internal control activities should include appropriate documentation of transactions and internal control. In addition, documentation requirements should appear in management directives, administrative policies, and operating manuals.

The audit found that documentation used to request allowance payments ranged from a simple written request to a more detailed disclaimer that required the employees to certify their eligibility for payments each time they submit a request.

In reviewing the process for requesting payment for the allowance, the audit found that after an application is approved, employees can periodically submit requests for payment. According to USAID officials, employees must submit their request in writing to mission officials. However, in USAID's policies and procedures manual, ADS 477

does not provide specific guidance on the documentation required for requesting payments.

The diversity in vouchers accepted for payments is attributable to the lack of guidance in USAID's policies and procedures. As a result, employees could request payment without appropriately certifying that they remain eligible to receive the allowance and, consequentially, could subject USAID to the risk of fraud.

Recommendation 7. *We recommend that the Office of Human Resources/Policy, Planning, and Information Management Division update Automated Directives System 477, "Allowances and Differentials," to require all personnel to submit a standard written statement each time they make a separate maintenance allowance payment request. The statement must certify that they remain eligible for the separate maintenance allowance and that they have read and understand chapter 260 of the Department of State Standardized Regulations.*

Record-Keeping and Monitoring Processes Needs Improvement

Summary. According to GAO's "Standards for Internal Control," internal control activities should include appropriate documentation of transactions, and the documentation should be readily available for examination. In addition, internal control monitoring should be designed to ensure that ongoing monitoring occurs in the course of normal operations. USAID's policies and procedures require approving officials to provide the appropriate Bureaus with documentation on allowance requests. The audit found that USAID officials were unable to provide adequate documentation to verify that all allowance transactions had been properly authorized. In addition, officials could not readily identify employees who had received payments. Officials could not explain why the documentation was missing and stated that USAID does not have a system in place to identify employees receiving the allowance. As a result, USAID cannot ensure that all allowance transactions have been properly authorized and that files are readily available for review.

GAO's "Standards for Internal Control in the Federal Government" states that internal control activities should include appropriate documentation, and the documentation should be readily available for examination. In addition, internal control monitoring should be designed to ensure that ongoing monitoring occurs in the course of normal operations.

ADS 477, "Allowances and Differentials," section E477.5.3, states that employees requesting the allowance prior to departure for post shall forward requests directly to the approving office, which shall then provide the appropriate Bureau with an information copy of the action taken on the allowance requests. When the employee is changing Bureaus, information copies of the action shall be provided to both Bureaus.

The audit found that USAID officials could not provide allowance applications for 9 of the

40 employees receiving the allowance that we reviewed. Payments totaling \$151,269 were made in response to these nine applications. Furthermore, officials could not readily identify which employees had received payments. To obtain documentation for our review, the audit team relied upon the Office of Financial Management to identify all employees who had received payments.

Officials could not explain why the documentation was missing, but they indicated that, because of limited staffing, the office could not maintain a log that recorded and monitored employees receiving payments in addition to maintaining employees' files.

Because USAID does not have a system to monitor the allowances, it cannot produce documentation in a timely manner or perform periodic assessments. As a result, USAID cannot ensure that all allowance transactions have been properly authorized and that files are readily available for review.

Recommendation 8. *We recommend that the Office of Human Resources/Foreign Service Personnel Division/Foreign Service Staffing Branch update its files and obtain all missing separate maintenance allowance documentation.*

Recommendation 9. *We recommend that the Office of Human Resources/Policy, Planning, and Information Management Division update Automated Directives System 477, "Allowances and Differentials," requiring the Office of Human Resources/Foreign Service Personnel Division/ Foreign Service Staffing Branch to develop and maintain a system to capture information on all personnel receiving a separate maintenance allowance, in addition to maintaining files documenting the start, suspension, and termination of benefits.*

Recommendation 10. *We recommend that the Office of Human Resources/Policy, Planning, and Information Management Division update Automated Directives System 477, "Allowances and Differentials," to require the Office of Human Resources/Foreign Service Personnel Division/Foreign Service Staffing Branch to conduct periodic assessments of separate maintenance allowance records and ensure the appropriateness of payments on an ongoing basis.*

EVALUATION OF MANAGEMENTS COMMENTS

In response to the draft report, USAID's Office of Human Resources (OHR) concurred with all 10 recommendations identified to strengthen USAID's internal controls over the separate maintenance allowance. On the basis of management's comments, final action was taken on one of these recommendations and has taken sufficient actions for management decision on the remaining nine recommendations. A determination of final action is pending for those nine recommendations. An evaluation of management comments for each recommendation is discussed below.

In response to recommendation 1, OHR agreed to update Automated Directive System (ADS) 477, "Allowances and Differentials," to identify the offices responsible for processing and approving all separate maintenance allowance applications. OHR stated that by November 1, 2010, the OHR/Policy, Planning, and Information Management Division (OHR/PPIM) will issue a USAID General Notice, in conjunction with the OHR/Foreign Service Personnel Division (OHR/FSP) and with M/CFO/FPS, addressing offices responsible for processing and approving separate maintenance applications and providing other relevant guidance and instructions. A revision of ADS 477 will subsequently follow the USAID General Notice for publication. On the basis of management's response, a management decision has been reached, and determination of final action will be made by the Audit, Performance and Compliance Division upon completion of the planned corrective action.

Recommendation 2 recommends that the OHR/Policy, Planning, and Information Management Division remove the outdated separate maintenance allowance application from the USAID Web site, replace it with the updated application, and notify all missions of the update. OHR agreed with the recommendation and stated that on August 20, 2009, a USAID General Notice was issued to inform USAID offices and the field regarding the revision of the SF-1190, and at that time the new form was posted in the USAID Intranet "Forms" Web page. Final action has been achieved for this recommendation.

In response to recommendation 3, OHR agrees with the recommendation to update ADS 477 to include procedures to ensure that future updates made by the U.S. Department of State's Office of Allowances to the separate maintenance allowance application are communicated in a timely manner. OHR stated that OHR/PPIM will incorporate procedures in the USAID General Notice and ADS 477 for the OHR/PPIM staff to review Department of State Notices regularly to stay current on revisions to the SF-1190 when they are announced by the Department. On the basis of management's response, a management decision has been reached, and determination of final action will be made by Audit, Performance and Compliance Division upon completion of the planned corrective action.

In response to recommendation 4, OHR concurs with the recommendation to obtain spousal signatures for all separate maintenance applications approved after December 2006. OHR stated that by November 1, 2010, the OHR/Foreign Service Personnel

Division/Foreign Service Staffing Branch (OHR/FSP/FSS) will obtain spousal signatures for all SMA applications approved after December 2006. On the basis of management's response, a management decision has been reached, and determination of final action will be made by the Audit, Performance and Compliance Division upon completion of the planned corrective action.

In response to recommendation 5, OHR concurs with the recommendation to obtain required employee certification statements for all current and approved voluntary separate maintenance allowance applications. OHR stated that by November 1, 2010, OHR/FSP/FSS will obtain the required employee certifications for all current and approved voluntary separate maintenance allowance applications. On the basis of management's response, a management decision has been reached, and determination of final action will be made by the Audit, Performance and Compliance Division upon completion of the planned corrective action.

In response to recommendation 6, OHR concurs with the recommendation that OHR/PPIM update ADS 477 to include a checklist that approving officials must use when reviewing separate maintenance allowance applications. OHR stated that OHR/PPIM will develop the checklist by November 1, 2010, and it will be incorporated as an Internal Mandatory Reference to the subsequent version of ADS 477. On the basis of management's response, a management decision has been reached, and determination of final action will be made by the Audit, Performance and Compliance Division upon completion of the planned corrective action.

In response to recommendation 7, OHR concurs with the recommendation that OHR/PPIM require all personnel to submit a standard written statement each time they make a separate maintenance allowance payment request. OHR agreed with the recommendation but expressed concern regarding how often the Agency would require employees to certify that they remain eligible without the Agency's imposing an onerous requirement, particularly at large missions. However, OHR will research options to develop an approach to the recommendation, and the requirement will be addressed in the USAID General Notice. On the basis of management's response, a management decision has been reached, and determination of final action will be made by the Audit, Performance and Compliance Division upon completion of the planned corrective action.

In response to recommendation 8, OHR concurs and has agreed to update its files and obtain all missing documents for current and approved separate maintenance applications by November 1, 2010. On the basis of management's response, a management decision has been reached, and determination of final action will be made by the Audit, Performance and Compliance Division upon completion of the planned corrective action.

In response to recommendation 9, OHR concurs with the recommendation that OHR/PPIM update ADS 477 to require OHR/FSP/FSS to develop and maintain a system to capture information on all personnel receiving a separate maintenance allowance, in addition to maintaining files documenting the start, suspension, and termination of benefits. OHR stated that OHR/PPIM will incorporate language in the USAID General Notice and subsequent revisions of ADS 477 to develop and maintain a tracking system for those employees receiving separate maintenance allowance and when payment of their benefits begin and end. On the basis of management's response, a management

decision has been reached, and determination of final action will be made by the Audit, Performance and Compliance Division upon completion of the planned corrective action.

In response to recommendation 10, OHR concurs with the recommendation that OHR/PPIM update ADS 477 to require OHR/FSP/FSS to conduct periodic assessments of separate maintenance allowance records and continue to ensure the appropriateness of payments. OHR stated that OHR/PPIM will include language in its USAID General Notice to the effect that internal reviews and audits of separate maintenance records will be performed regularly. On the basis of management's response, a management decision has been reached, and determination of final action will be made by the Audit, Performance and Compliance Division upon completion of the planned corrective action.

SCOPE AND METHODOLOGY

Scope

The Performance Audits Division 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 that reasonable basis for our findings and conclusions, based on our audit objective. The audit objective was to determine whether USAID has adopted the appropriate internal controls to prevent improper use of the separate maintenance allowance.

In planning and performing the audit, we assessed USAID management's responsibility for internal control against the Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government." In addition, we assessed USAID's internal controls over the allowances against Automated Directives System (ADS) 477, "Allowance and Differentials," and U.S. Department of State Standardized Regulations Chapter 260. We did not test whether allowance payments made to employees were appropriate or eligible. However, the Regional Inspector General Office in Cairo reviewed the entire universe of allowance applications and approval cables for allowance benefits, monthly payment vouchers, and financial documents for missions' transactions to determine the adequacy of internal controls used by the missions.

The total amount of allowance payments made from January 2005 through June 2009 was approximately \$4.5 million. We randomly selected 40 employees approved to receive the allowance during this timeframe and requested to review their files from USAID's Office of Human Resources (OHR)/Foreign Service Personnel Division/Foreign Service Staffing Branch. These 40 employees had received \$812,856 in allowance payments. We conducted the audit at USAID/Washington from June 23 through October 15, 2009, and coordinated our work with the Regional Inspector General (RIG) Offices' in Cairo and Pretoria. USAID/Cairo reviewed supporting documentation to support 208 allowance payment transactions, valued at \$160,904, that were made to 21 employees at USAID/Egypt and at USAID missions in Yemen, Morocco, Lebanon, Jordan, and West Bank and Gaza from May 2005 to June 2009. RIG/Pretoria judgmentally selected 27 of 47 employees reported as receiving allowance payments (57 percent), totaling \$149,000, and reviewed supporting documentation at USAID missions in Ethiopia, Kenya, Madagascar, Mozambique, Southern Africa, Sudan, Tanzania, Uganda, and Zambia. RIG/Cairo will be issuing a separate report; RIG/Pretoria's findings have been incorporated into this report.

Methodology

To determine whether USAID has adopted appropriate internal controls to prevent the improper use of the allowance, the audit team interviewed staff in OHR's Foreign Service Personnel Division to gain an understanding of the procedures involved in approving and granting the allowance. In addition, we met with the Deputy Chief Financial Officer for Overseas to discuss USAID's procedures for obligating the

allowance funds. We also surveyed mission officials with regard to the allowance voucher and payment process.

Because of a recent case of fraud with regard to this allowance, we determined the audit risk to be high. Accordingly, we did not place a materiality threshold in considering error rates in meeting performance criteria. We determined that any error rate would warrant an adverse conclusion to our audit objective.

To determine the adequacy of the internal controls in place, we reviewed allowance applications, transmittal cables, sample vouchers, and financial documents detailing all allowance payments from January 2005 through June 2009 related to the 40 employees we had randomly selected by ensuring that they were properly prepared, recorded, maintained, and approved in accordance with applicable laws, regulations, and policies.

In addition, we tested the design and function of internal controls in place using GAO's Internal Control Management and Evaluation tool to determine whether any improvements were needed.

MANAGEMENT COMMENTS

MEMORANDUM

TO: IG/A/PA Director, Steven H. Bernstein

FROM: OHR/OD Director, Deborah Kennedy-Iraheta /s/

SUBJECT: Audit of USAID's Internal Controls over the Separate Maintenance Allowance; Audit Report No. 9-000-10-00X-P

We have reviewed the draft audit report detailing findings and making ten recommendations to improve USAID's internal controls over separate maintenance allowance. Staff from both the Policy Planning and Information Division (OHR/PPIM) and the Foreign Service Personnel Division (OHR/FSP) have reviewed and discussed your proposed recommendations.

The following are OHR's comments on each of the ten recommendations with appropriate corrective action and target completion dates as indicated.

Recommendation 1. We recommend that the Office of Human Resources, Policy, Planning, and Information Management Division (OHR/PPIM), update the Automated Directives System Chapter 477, "Allowances and Differentials," to identify the offices responsible for processing and approving all separate maintenance allowance applications. The Automated Directives System must also clearly define its applicability to both U.S. direct-hire and non-U.S. direct-hire employees.

OHR concurs. By November 1, 2010, OHR/PPIM will issue a USAID General Notice in conjunction with OHR/FSP and M/CFO/FPS addressing offices responsible for processing and approving separate maintenance applications and providing other relevant guidance and instructions. A revision of ADS 477, "Allowances and Differentials," will subsequently follow the USAID General Notice for publication at a later date. This ADS revision will require comprehensive changes to other sections of the chapter, coordination with other responsible offices, and clearance by AFSA.

We note that the attached audit report appears to have focused specifically on the Office of Human Resources and not the Office of Acquisitions and Assistance, or even U.S. personal services contractors. With respect to application of these findings to non-direct hires, M/OAA/P has overall policy responsibility for these employment categories. Therefore, any changes with respect to U.S. Personal Services Contractors and other non-direct hires would have to be vetted directly with M/OAA staff.

Recommendation 2. We recommend that the Office of Human Resources, Policy, Planning, and Information Management Division, remove the outdated separate maintenance allowance application from the USAID Web site, replace it with the updated application, and notify all missions of the update.

OHR concurs. Corrective action on this recommendation was taken last year. On August 20, 2009, M/CFO/FPS issued a USAID General Notice, “Updated Form: Foreign Allowances Application, Grant and Report (SF-1190),” to inform USAID offices and the field regarding the recent revision of the SF-1190. At that time the new form was posted on the USAID intranet Forms Web page.

Recommendation 3. We recommend that the Office of Human Resources, Policy, Planning, and Information Management Division update the Automated Directives System Chapter 477, “Allowance and Differentials.” to include procedures to ensure that future updates made by the U.S. Department of State’s Office of Allowances to the separate maintenance allowance application are communicated in a timely manner.

OHR concurs. OHR/PPIM staff will incorporate procedures in the USAID General Notice and ADS 477 for the OHR/PPIM staff to review Department of State Notices on a regular basis to stay current on revisions to the SF-1190 when they are announced by the Department. We note that, although the SF-1190 has a July 2009 revision date, the Department of State Office of Directives Management did not announce the updated form in a Departmental Notice until September 3, 2009. In this case, USAID staff announced the new SF-1190 two weeks before the Department’s Office of Directives Management issued its announcement of the updated form.

Recommendation 4. We recommend that the Office of Human Resources, Foreign Service Personnel Division, Foreign Service Staffing Branch review

all current separate maintenance allowance files and obtain the required spousal or domestic partner signature for all applications approved after December 2006.

OHR concurs. By November 1, 2010, OHR/FSP/FSS will obtain spousal signatures for all SMA applications approved after December 2006. On August 4, 2009, USAID extended benefits for same-sex domestic partners of Foreign Service employees serving overseas. Therefore, any retroactive application of the updated form (July 2009 version) to include the signature of same-sex domestic partners would be minimal and should be retroactive to those applications approved on or after August 4, 2009, when USAID's new policy went into effect.

Recommendation 5. We recommend that the Office of Human Resources, Foreign Service Personnel Division, Foreign Service Staffing Branch, review all current and approved voluntary separate maintenance allowance applications and obtain the required employee certification statements.

OHR concurs. By November 1, 2010, OHR/FSP/FSS will obtain the required employee certification statements for all current and approved voluntary separate maintenance allowance applications.

Recommendation 6. We recommend that the Office of Human Resources, Policy, Planning, and Information Management Division, update the Automated Directives System Chapter 477, "Allowances and Differentials," to include a checklist that approving officials are required to use when reviewing separate maintenance allowance applications.

OHR concurs. By November 1, 2010, OHR/PPIM will develop a checklist for officials to use and include it as an attachment to the USAID General Notice. The checklist will also be incorporated as an Internal Mandatory Reference to the subsequent revision of ADS 477.

Recommendation 7. We recommend that the Office of Human Resources, Policy, Planning, and Information Management Division, update the Automated Directives System Chapter 477, "Allowances and Differentials," to require all personnel to submit a standard written statement each time they make a separate maintenance allowance payment request. The statement must certify that they remain eligible for the separate maintenance allowance and that they have read and understand Chapter 260 of the Department of

State Standardized Regulations.

OHR concurs. OHR/PPIM has discussed this recommendation with M/CFO/FPS staff. There was some concern expressed regarding how often the Agency would require employees to certify that they remain eligible for separate maintenance allowance without making it an onerous requirement, particularly for large Missions. OHR will research various options to develop a practical approach for meeting this requirement and coordinate these efforts with the Missions, M/CFO/FPS, and other USAID offices. This requirement for periodic certification will be addressed in the USAID General Notice.

Recommendation 8. We recommend that the Office of Human Resources, Foreign Service Personnel Division, Foreign Service Staffing Branch, update its files and obtain all missing separate maintenance allowance documentation.

OHR concurs. By November 1, 2010, OHR/FSP/FSS will update its files and obtain all missing documents for current and approved separate maintenance applications.

Recommendation 9. We recommend that the Office of Human Resources, Policy, Planning, and Information Management Division, update the Automated Directives System Chapter 477, “Allowances and Differentials,” requiring the Office of Human Resources, Foreign Service Personnel Division, Foreign Service Staffing Branch to develop and maintain a system to capture information on all personnel receiving separate maintenance allowance, in addition to maintaining files documenting the start, suspension, and termination of benefits.

OHR concurs. OHR/PPIM will incorporate language in the USAID General Notice and subsequent revision of ADS 477 to require OHR/FSP/FSS to develop and maintain a tracking system for those employees receiving Separate Maintenance Allowance and when payment of their benefits begin and end.

Recommendation 10. We recommend that the Office of Human Resources, Policy, Planning, and Information Management Division update the Automated Directives System Chapter 477, “Allowances and Differentials,” to require the Office of Human Resources/Foreign Service Personnel

Division, Foreign Service Staffing Branch, to conduct periodic assessments of separate maintenance allowance records and ensure the appropriateness of payments on an ongoing basis.

OHR concurs. OHR/PPIM will include language in its USAID General Notice to the effect that internal reviews and audits of separate maintenance records will be performed on an ongoing basis. This requirement may be carried out as part of OHR's responsibilities for internal audits of the Agency's human resources programs and operations.

For additional information or further clarification, please contact Susan Riley, Chief, Foreign Service Personnel Division (OHR/FSP) on 712-0355 and Joann Jones of the Policy, Planning and Information Management Division (OHR/PPIM) on 712-5048.

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