



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

**AUDIT OF USAID/EGYPT'S
SEVERANCE PAYMENTS TO
FOREIGN SERVICE
NATIONAL EMPLOYEES**

AUDIT REPORT NO. 6-263-05-005-P
July 17, 2005

CAIRO, EGYPT



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Office of Inspector General

July 17, 2005

MEMORANDUM

TO: Director, USAID/Egypt, Kenneth C. Ellis

FROM: Acting Regional Inspector General/Cairo, Catherine Trujillo /s/

SUBJECT: Audit of USAID/Egypt's Severance Payments to Foreign Service National Employees (Report No. 6-263-05-005-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and have included your response as Appendix II.

This report includes one recommendation to the Director, USAID/Egypt, to develop a supervisory review process to verify severance payment calculations and to collect signed and dated "Declaration and Final Release" forms from terminated staff. Based on the actions taken by the Mission to implement the recommendation, both a management decision and final action have been reached for Recommendation No. 1.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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SUMMARY OF RESULTS

The Regional Inspector General/Cairo performed this audit to determine if USAID/Egypt accurately computed severance payments to Foreign Service National employees. (See page 2) We determined that USAID/Egypt did calculate its Foreign Service National severance payments accurately.

USAID/Egypt paid severance payments to 16 Foreign Service National employees from June 30, 2004, to December 9, 2004, totaling \$466,052. For 15 of the 16 payments, USAID/Egypt's calculations were either exact or had immaterial errors of less than 0.4 percent. USAID/Egypt's 16 severance payments had an average error of 0.1 percent. (See page 3)

However, we identified one issue that required USAID/Egypt's attention—none of the 16 severance payments showed evidence of independent verification or other review. In addition, in 2 out of 16 cases, USAID/Egypt lacked a signed or dated "Declaration and Final Release" form from terminated staff. As a result, we recommended that Director, USAID/Egypt, develop a supervisory review process to verify severance payment calculations and to collect signed and dated "Declaration and Final Release" forms from terminated staff. (See page 3)

To address the recommendation, USAID/Egypt revised its internal procedures for all employees' check-out to include a requirement for supervisory review—including verification of severance payment calculations and collection of a signed and dated "Declaration and Final Release" form from departing staff. Appendix II contains management comments in their entirety (without attachments). (See page 7)

BACKGROUND

USAID/Egypt planned to decrease its Foreign Service National staff from 237 at the end of fiscal year 2004 to about 163 at the end of fiscal year 2006. This drop of approximately 74 Foreign Service National staff will occur primarily in fiscal year 2005. All of the approximate 74 staff dropped from the payroll have been and will be eligible for severance payments of 1½ months salary for each year served. Total severance payments are projected to cost approximately \$2.3 million. As of December 12, 2004, for fiscal years 2004 and 2005, USAID/Egypt made 16 severance payments totaling \$466,052 to Foreign Service National staff.

AUDIT OBJECTIVE

We conducted this audit as part of the Office of Inspector General's audit plan for fiscal year 2005 to answer the following question.

- Did USAID/Egypt accurately compute severance payments to Foreign Service National employees?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

USAID/Egypt accurately calculated its severance payments to Foreign Service National employees. Although USAID/Egypt accurately calculated its severance payments to Foreign Service National employees, there was a lack of independent supervisory review.

USAID/Egypt paid severance payments to 16 Foreign Service Nationals from June 30, 2004, to December 9, 2004, totaling \$466,052. For 15 of the 16 payments, USAID/Egypt's calculations were either exact or had immaterial errors of less than 0.4 percent. The 16th payment had an error of 4 percent. Altogether, USAID/Egypt's 16 severance payments had an average incorrect computation of 0.1 percent¹. However, USAID/Egypt's supervisory review for severance payments to Foreign Service Nationals needs improvement. A lack of independent supervisory review over the payments process may increase the risk of inaccurate calculations in the future. This issue is discussed below.

Supervisory Review for Severance Payments to Foreign Service National Employees Needs Improvement

USAID policy addresses what is required for establishing management controls to ensure that revenues and expenditures are properly recorded and accounted for, and that assets are safeguarded against waste, loss, unauthorized use or misappropriation. USAID/Cairo lacked proper management controls with regards to supervisory review of its severance payment process. This occurred because USAID/Cairo did not require supervisory review and verification of the procedures when employees were severed. As a result, USAID/Cairo does not have proper internal controls to detect for errors in documentation and calculations supporting severance payment calculations.

USAID's Automated Directive System 596.3.1, Establishing Management Controls, states that USAID managers and staff must develop and implement appropriate, cost effective management controls for results-oriented management. These measures reasonably ensure that revenues and expenditures are properly recorded and accounted for, and that assets are safeguarded against waste, loss, unauthorized use or misappropriation.

While examining the Foreign Service National Severance Payments process, it was noted that USAID/Cairo lacked proper management controls with regards to supervisory review of the severance payments process. USAID/Cairo did not have a supervisory review and verification performed for all 16 severance payments examined and for 2 out of 16 "Declaration and Final Release" forms collected from terminated staff. USAID/Cairo lacked proper management controls because the mission did not require supervisory review and verification of severance payment calculations and the collection of signed and dated "Declaration and Final Release" forms from terminated staff. As a result there is a higher risk that USAID/Cairo will

¹ The average incorrect computation for Foreign Service Nationals severance payments of 0.1 percent is based on the following calculation for each terminated employee using a calendar year of 365 days: total severance payment = (severance for years served) + (severance for months served) + (severance for days served).

not detect errors in documentation and calculations supporting severance payment calculations for employees severed in the future .

Recommendation No. 1: We recommend that the Director, USAID/Egypt, develop a supervisory review process to verify severance payment calculations and to collect signed and dated "Declaration and Final Release" forms from terminated staff.

Other Matters

We identified other matters which were not significant to the audit objective and, thus, are not included in this audit report. These issues were communicated to USAID/Egypt by a separate memorandum dated July 17, 2005.

EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report, USAID/Egypt agreed with RIG/Cairo's recommendation to develop a supervisory review process to verify severance payment calculations and to collect signed and dated "Declaration and Final Release" forms from terminated staff. USAID/Egypt revised its internal procedures for all employees' checkout to include a requirement for supervisory review—including verification of severance payment calculations and collection of a signed and dated "Declaration and Final Release" form from departing staff.

Based on our review of the Mission's action, both a management decision and final action have been reached for Recommendation No. 1. Appendix II contains management's comments in their entirety.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Cairo audited USAID/Egypt's severance payments to Foreign Service National employees in accordance with generally accepted government auditing standards. The purpose of the audit was to determine if the Mission accurately computed its severance payments to Foreign Service National employees. As of December 12, 2004, the Mission had made 16 severance payments out of 74 anticipated by the end of fiscal year 2006. We conducted our audit at the beginning of this process for disbursing severance payments in order to help the Mission identify potential weaknesses. We performed our fieldwork at USAID/Egypt in Cairo, Egypt from December 12, 2004, to February 28, 2005.

The audit scope included assessing significant management controls over the severance payments to Foreign Service National employees. Such controls included how severance payments are computed using USAID/Egypt's calculation worksheet, approved and disbursed after completion of the personnel change forms, and the declaration and release forms. Our audit also reviewed applicable sections of USAID's Automated Directives System, the Mission's Foreign Service National Compensation Plan, and the Mission's Foreign Service National Employee Handbook. We also interviewed USAID/Egypt's financial, human resource, and legal offices. No prior audit findings affected the Mission's severance payments to Foreign Service National staff.

Methodology

We interviewed Mission officials to obtain background information on the reduction in workforce, to identify any problems and concerns regarding severance payments to Foreign Service Nationals, and to determine the criteria used to develop and monitor severance payments for Foreign Service Nationals. We also interviewed Mission officials to determine the number of payments expected and to gain an understanding of the Mission's internal control structure for the computation, approval and disbursement of severance payments. We also interviewed USAID/Egypt's Legal Office to identify restrictions and legal issues related to severance payments to Foreign Service Nationals. We examined USAID/Egypt procedures for severance payments to Foreign Service Nationals to determine the adequacy of calculation methodologies, verification and review procedures, and the retention of "Declaration and Final Release" forms.

We tested all 16 severance payments made by USAID/Egypt for fiscal years 2004 and 2005 as of the start of our fieldwork—December 12, 2004. These 16 payments occurred between June 30, 2004, and December 9, 2004. Our tests included reviewing USAID/Egypt's calculation worksheet, the formula used to determine the severance payment, personnel change forms noting start and termination dates, and the declaration and release forms. We recalculated the severance payments based on the Mission's formula and the personnel change forms. We then compared our calculation to the Mission's calculation and noted differences. To determine whether a payment was accurate, we used an accuracy threshold of one percent. To determine whether the Mission accurately computed its severance payments, we used a reportable condition threshold of one percent of overall payments.

MANAGEMENT COMMENTS

MEMORANDUM

TO: Acting Regional Inspector General, Catherine Trujillo

FROM: Acting USAID/Egypt Director, Mary Ott

SUBJECT: Audit of USAID/Egypt's Severance Payments to Foreign Service National Employees- Draft Audit Report

DATE: June 22, 2005

Following is the Mission's response to Recommendation No. 1 under the subject draft audit report. That draft report made

Recommendation No. 1: *We recommend that the Director, USAID/Egypt, develop a supervisory review process to verify severance payment calculations and to collect signed and dated "Declaration and Final Release" forms from terminated staff.*

USAID/Egypt's Response to Recommendation No. 1:

USAID/Egypt revised its internal procedures for all employees' check-out to include a requirement for supervisory review—including verification of severance payment calculations and collection of a signed and dated "Declaration and Final Release" form from departing staff. (See attachment 1)

In view of the above action, the Mission believes that appropriate corrective action has been taken to address Recommendation No. 1 and requests closure upon issuance of the final audit report.

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