



Assessment of Value-Added Tax Exemption and Reimbursement Efforts

In accordance with its FY 2004 Audit Plan, the Office of Inspector General (OIG) conducted a survey to determine the extent to which the Department of State (Department) had established guidance and mechanisms to track and manage value-added tax (VAT) exemptions, expenditures, and reimbursements. OIG found that the Department did not have adequate oversight of the VAT process; its financial management systems were not flexible enough to identify and track VAT reimbursements; and it had not developed the necessary policies, procedures, and controls related to VAT.

- The Bureau of Diplomatic Security, Office of Foreign Missions had not created guidance on how posts should handle reciprocity issues and was not always involved in reciprocity negotiations at post. In addition, the bureau had not developed and disseminated formal policies and procedures on how bureaus and posts should manage negotiating and processing VAT reimbursements.
- The Bureau of Resource Management had not established a financial system for easily accounting for VAT payments and reimbursements in accordance with the Department's Foreign Affairs Manual and had not provided policies, procedures, and training needed for effective and efficient administrative control of VAT reimbursements. Posts had to develop and implement their own manual and automated "cuff" records.

OIG is recommending that the Bureau of Diplomatic Security, Office of Foreign Missions should provide guidance and training to bureaus and posts on managing reciprocity issues and seeking VAT exemptions and reimbursements. In addition, the Bureau of Resource Management should expand the financial management systems, policies and procedures, and training for accounting for and reporting VAT payments and reimbursements at each post as required by policy and law.

The fieldwork for OIG Report AUD/FM-05-33 (June 2005) was conducted by the Office of Audits from June to October 2004 in Washington, DC. This is an unclassified summary of a full report, which may receive limited official distribution.

Office of Inspector General

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