



Audit of the Department's Identification and Collection of Value-Added Taxes Overseas

As part of its responsibility to provide oversight to Department management, the Office of Inspector General (OIG) conducted the second phase of an audit of VAT. The first phase of this audit focused on domestic issues and noted concerns with the Department's oversight of VAT, financial management systems, and policies and procedures.¹ The second phase of this audit focused on overseas issues. Specifically, OIG determined whether the Department was properly identifying and collecting VAT reimbursements and accounting for VAT transactions.

OIG found that the Department did not have an adequate process to identify and collect VAT reimbursements. At four posts, OIG noted instances where staff was not processing requests for VAT reimbursements in a timely manner. In addition, OIG found that the process for overseas construction projects could be improved by requiring missions to reach agreement with host governments on tax relief before beginning construction and incorporate standard language into the formal procedures for future construction contracts and solicitations. OIG also found at Frankfurt that problems in obtaining the necessary documentation related to a construction contract could impact the Department's ability to collect an estimated \$5.9 million in VAT reimbursements.

In addition, the Department did not have an adequate process in place to account for VAT. Posts were not effectively recording, tracking, and maintaining controls over VAT transaction data because of limitations with the overseas financial management system. Further, the Department had not effectively tracked and reported the amount of VAT that it had requested but had not yet received from the host government. Also, the Department could not determine the total amount of VAT reimbursements that were owed to it, and VAT receivables were not included on the Department's financial statements.

OIG recommended that the Department implement standard policies for submitting requests for reimbursement from host governments; aggressively pursue tax relief agreements before beginning construction projects; include revised contract clauses related to VAT in new construction contracts; and review ongoing construction projects to identify opportunities for collecting additional VAT reimbursements. OIG also recommended that the Department implement a solution so that its financial management system allows posts to record, track, and maintain control over VAT transactions; issue standard policies on recording VAT receivables; and accurately report VAT receivables on the Department's annual financial statements.

¹ *Assessment of Value-Added Tax Exemption and Reimbursement Efforts* (AUD/FM-05-33, July 2005).

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