OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/AFGHANISTAN'S INTERNAL CONTROLS IN THE ADMINISTRATION OF THE INVOLUNTARY SEPARATE MAINTENANCE ALLOWANCE

AUDIT REPORT NO. F-306-12-003-P
JUNE 25, 2012

KABUL, AFGHANISTAN

Office of Inspector General

June 25, 2012

MEMORANDUM

TO: Acting USAID/Afghanistan Mission Director, Brooke Isham
Office of Human Resources Director, Deborah Kennedy-Iraheta

FROM: OIG/Afghanistan Director, Nathan S. Lokos /s/

SUBJECT: Audit of USAID/Afghanistan's Internal Controls in the Administration of the Involuntary Separate Maintenance Allowance (Report No. F-306-12-003-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered comments on the draft report provided by USAID/Afghanistan and the Office of Human Resources. We have included those comments in Appendix II.

The report contains ten recommendations to help the mission strengthen its administration of the involuntary separate maintenance allowance. Final action has been taken on Recommendations 5 and 7, and management decisions have been reached on Recommendations 2, 3, and 6. Management decisions may be reached on Recommendations 1, 4, 8, 9, and 10 when we agree with USAID/Afghanistan on a firm plan of action, with time frames, for implementation. Please advise our office within 30 days of the actions planned or taken to implement these recommendations.

A determination of final action for Recommendations 2, 3, and 6 will be made by the Audit Performance and Compliance Division on completion of the proposed corrective actions.

Thank you and your staff for the cooperation and courtesies extended to us during the audit.

U.S. Agency for International Development
Office of Inspector General
U.S. Embassy
Kabul, Afghanistan
www.usaid.gov/oig

CONTENTS

Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
DSSR	Department of State Standardized Regulations
EXO	Executive Office
FAM	Foreign Affairs Manual
ISMA	involuntary separate maintenance allowance
OFM	Office of Financial Management
OIG	Office of Inspector General
SMA	separate maintenance allowance

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. The first type, involuntary SMA, is being authorized and paid to USAID/Afghanistan's U.S. direct-hire employees, U.S. personal services contractors, and third-country national personal services contractors—all referred to as employees in this report. In fiscal year 2011, USAID/Afghanistan paid more than $2 million in involuntary SMA to 212 people.

USAID's Office of Inspector General (OIG)/Afghanistan Country Office conducted this audit to determine whether USAID/Afghanistan had appropriate internal controls to prevent improper use of involuntary SMA (ISMA). Such controls should cover all activities related to the allowance—application, processing and approval, payment, and coordination with other benefits.

USAID/Afghanistan had not established a system of internal controls to help ensure that ISMA applications complied with applicable laws and regulations and that compliance was documented. Moreover, while USAID/Afghanistan had established internal controls to help ensure that ISMA payments to mission staff were made in accordance with applicable laws, regulations, and USAID policy, those controls did not prevent improper payments.

Specifically, the audit disclosed the following:

- *The mission lacked internal controls over the approval of applications* (page 3). Although the mission was responsible for establishing internal controls over the processing and approval of ISMA applications for U.S. and third-country national personal services contractors,[2] it had not established such controls.

- *Employees signed for their spouses on applications* (page 4). When applying for ISMA for the benefit of a spouse both the employee and the spouse are required to sign the ISMA application. However, employee and spouse signatures on ISMA applications for 13 out of 35 employees sampled during the audit appeared similar. Three of those employees acknowledged signing their spouse's signature on the ISMA application and one indicated that he may have done so. (these employees were U.S. direct-hire employees whose ISMA applications were approved in USAID/Washington).

- *Controls over allowance payments were insufficient* (page 4). USAID/Afghanistan had established internal controls to prevent improper ISMA payments, but those controls did not always work. In five of the 35 cases reviewed, we found evidence of improper payments. For example, the mission made ISMA payment to three employees whose children had turned 21 and were therefore ineligible for ISMA. The mission also did not make monthly ISMA payments covering an employee's dependent mother and ultimately had to make a retroactive payment totaling over $13,000. We also found a case where the mission improperly reduced an ISMA payment because the employee was away from post on home

[1] Department of State Standardized Regulations, Section 260, "Separate Maintenance Allowance."
[2] ISMA applications for U.S. direct-hire employees are approved by USAID/Washington.

leave.

- *No controls covered approval of home leave travel* (page 6). While home leave travel is not authorized for family members already authorized ISMA, the mission authorized and made improper payments for home leave travel for dependent family members of at least two employees, when those family members had already been authorized ISMA benefits.

The report recommends that:

1. USAID/Afghanistan develop, implement, and document controls to confirm that the ISMA applications it approves are properly authorized (page 3).

2. USAID's Office of Human Resources develop, implement, and document controls to assess the legitimacy of spouse or domestic partner signatures on ISMA applications (page 4).

3. USAID's Office of Human Resources review the incidents in which employees acknowledged signing their spouses' signatures on ISMA applications and take appropriate administrative action against those employees found to have signed their spouse's signature (page 4).

4. USAID/Afghanistan reassess its controls over ISMA payments and make any adjustments necessary to strengthen the effectiveness of those controls in preventing improper payments (page 5).

5. USAID/Afghanistan review the $3,833 in ISMA paid for children who had turned 21 and recover any improper payments (page 5).

6. USAID/Afghanistan review ISMA payments made in fiscal years 2010, 2011, and 2012 to identify improper payments made for children who had turned 21 and recover any improper payments (page 6).

7. USAID/Afghanistan pay the $636 balance of ISMA to the employee who was underpaid (page 6).

8. USAID/Afghanistan calculate and recover the home leave travel costs paid for the dependent family members of two U.S. direct-hire employees that already had ISMA authorized for those dependents (page 7).

9. USAID/Afghanistan develop, implement, and document controls to help prevent the authorization of Foreign Service benefits that are incompatible with ISMA for family members (page 7).

10. USAID/Afghanistan review all employees receiving ISMA in fiscal years 2010, 2011, and 2012 to determine whether those employees or their family members received incompatible Foreign Service benefits and recover any incompatible benefits paid (page 7).

Detailed findings follow. Our evaluation of management comments is on page 8. Appendix I presents the audit scope and methodology. Management comments appear in Appendix II.

AUDIT FINDINGS

Mission Lacked Internal Controls Over the Approval of Applications

USAID management is responsible for establishing and maintaining internal controls to help ensure compliance with applicable laws and regulations.[3] In addition, the Government Accountability Office's *Standards for Internal Control in the Federal Government* notes that internal control and all transactions and significant events must be clearly documented. Accordingly, in the context of administering SMA benefits (to include ISMA), USAID management is responsible for establishing and maintaining internal controls to help ensure that SMA is authorized and paid in accordance with applicable laws, regulations, and USAID policy.

USAID's policy on SMA for U.S. and third-country national personal service contractors is reflected in the relevant clauses included in their contracts. These clauses require that SMA be granted in accordance with Section 260 of the Department of State Standardized Regulations (DSSR). USAID's policy on SMA for U.S. direct-hire employees, contained in Section 477.3.3 of USAID's Automated Directives System (ADS), is more robust, not only requiring compliance with DSSR 260, but also providing two companion documents: "A Guide to Authorizing Separate Maintenance Allowance: A Mandatory Reference for ADS Chapter 477" (SMA guide) and the Separate Maintenance Allowance Checklist (SMA checklist).

Although USAID/Afghanistan was approving ISMA applications for U.S. and third-country national personal services contractors, it had not established a system of internal controls to help ensure that those applications complied with DSSR 260. Mission staff members responsible for reviewing and approving ISMA applications from U.S. and third-country national personal services contractors acknowledged that they did not have a defined set of internal controls to apply when reviewing ISMA applications. In fact, the former supervisory executive officer (EXO) indicated that she assumed someone had reviewed ISMA applications before sending them to her for approval. One deputy EXO confirmed that the mission has no written guidance on the EXO's role in authorizing ISMA. This lack of internal controls heightens the risk that ISMA applications for personal services contractors may be improperly approved.

> ***Recommendation 1.*** *We recommend that USAID/Afghanistan develop, implement, and document controls to help confirm that the involuntary separate maintenance allowance applications that it approves for personal service contractors are properly authorized and comply with Section 260 of the Department of State Standardized Regulations. Such controls may include application of USAID's "A Guide to Authorizing Separate Maintenance Allowance" and the Separate Maintenance Allowance Checklist.*

[3] Management's responsibility for such internal control is discussed in the policy section of Office of Management and Budget Circular A-123 and in ADS Section 596.3.1.

Employees Signed for Their Spouses on Applications

When applying for ISMA for the benefit of a spouse, the USAID employee must obtain his or her spouse's signature on the ISMA application. Dual signatures provide an important safeguard: in signing the application, the employee and spouse certify that the information on the application is true and correct, that they have an obligation to notify the authorizing office immediately of any change that may affect the amount of ISMA payable, and that false statements on the application may make them both subject to criminal or administrative penalties.

On ISMA applications submitted by 13 of the 35 USAID/Afghanistan employees in the sample selected for audit, the spouse's signature appeared similar to that of the employee. In subsequent interviews with those 13 employees, 3 (almost 10 percent of the sample) revealed that they had in fact signed the ISMA application for their spouse, and another employee indicated that he "may" have done so.[4] These false spouse signatures circumvented a key control built into the ISMA application and could have been identified if USAID staff had looked for similarity between employee and spouse signatures before approving the ISMA applications. This failure to identify suspect signatures heightened the risk that applications would be improperly approved and improper ISMA payments made. Clearly, ISMA applications lacking the actual signature of the employee's spouse or domestic partner should not have been approved.

The employees who acknowledged signing or possibly signing their spouses' signatures on their ISMA applications were all U.S. direct-hire employees whose ISMA applications were approved by USAID/Washington. While we contacted USAID/Washington regarding this issue, we were unable to determine why these suspect signatures were not discovered during application review.

We make the following recommendations to USAID's Office of Human Resources, which reviews and approves ISMA applications for U.S. direct-hire employees.

> ***Recommendation 2.*** *We recommend that the Office of Human Resources develop, implement, and document controls to assess the legitimacy of spouse or domestic partner signatures on involuntary separate maintenance allowance applications.*

> ***Recommendation 3.*** *We recommend that the Office of Human Resources review the incidents in which employees acknowledged signing their spouse's signature on involuntary separate maintenance allowance applications, take appropriate administrative action against those employees found to have signed their spouse's signature, and document the action taken.*

Controls Over Allowance Payments Were Insufficient

USAID/Afghanistan's Office of Financial Management (OFM) had established internal controls to help ensure that ISMA payments to mission staff were made in accordance with applicable laws, regulations, and USAID policy. For example, OFM required staff members to certify each quarter that their ISMA status had not changed and that they were thus entitled to the same

[4] The remaining nine employees asserted that their spouses had signed the ISMA application.

ISMA payment they received the previous quarter. Nevertheless, those controls were not sufficient to prevent improper payments, as discussed below.

Questionable Payments for Ineligible Dependent Children. For determining ISMA benefits, DSSR 261.1.c defines a dependent child as one who is under age 21 or incapable of self-support unless he or she is attending secondary school (Grades 9-12). Relying on self-certifications from employees, USAID/Afghanistan made ISMA payments to three employees in our sample for children who had reached or passed the age of 21 as detailed in the following table.

Payments for Children Who Had Turned 21 (Audited)

Employee Number	Number of Improper Payments	Amount of Overpayment ($)
1	5+	1,034
2	8+	1,985
3	2	814
Total	**16+**	**3,833**

Note: + indicates payment for a partial month.

Underpayment of ISMA. One employee who took leave between his first and second tour in Afghanistan had his ISMA payment reduced pro rata for the 18 days that he was away from post. According to DSSR 265.3, ISMA continues during an employee's absence from post, as long as the employee maintains quarters at post. This employee did maintain quarters at post since he was returning for a second 1-year tour. Therefore, the reduction in the employee's ISMA payments between his first and second year represented a $636 underpayment. Another employee did not receive monthly ISMA payments covering her dependent mother, who was included on the employee's approved ISMA application. Ultimately, after 20 months, the mission made a cumulative payment to the employee totaling more than $13,000.

The above-mentioned improper payments occurred for a number of reasons. First, USAID/Afghanistan's OFM staff believed that the office's existing controls relating to the ISMA payment process were adequate to prevent improper payments. Second, employees involved in the payment process were not familiar with either the SMA guide or the SMA checklist. Finally, the mission did not have written procedures or tools, such as checklists, to guide its staff in ensuring that payments of ISMA benefits made to eligible employees comply with ADS, DSSR, and other applicable policies and regulations.

We make the following recommendations to strengthen the mission's compliance with regulations that affect ISMA payments.

> ***Recommendation 4.*** *We recommend that USAID/Afghanistan reassess its controls over ISMA payments and make any adjustments necessary to strengthen the effectiveness of those controls in preventing improper payments.*

> ***Recommendation 5.*** *We recommend that USAID/Afghanistan review the $3,833 in separate maintenance allowance paid for children who had turned 21, determine whether those children were either incapable of self-support or in secondary school, and recover any amounts improperly paid.*

Recommendation 6. *We recommend that USAID/Afghanistan review the involuntary separate maintenance allowance payments made in fiscal years 2010, 2011, and 2012; identify any payments made for children who had turned 21; determine whether those children were either incapable of self-support or in secondary school; and recover any amounts improperly paid.*

Recommendation 7. *We recommend that USAID/Afghanistan pay the $636 balance of the separate maintenance allowance to the employee who was underpaid.*

No Internal Controls Covered Approval of Home Leave Travel

Some Foreign Service benefits are not compatible with ISMA. For example, if a child receives an educational allowance to attend a school away from post, ISMA cannot be paid while the child is attending school (DSSR 263.5). Similarly, if a child attending secondary school receives the educational travel allowance, which permits payment of a child's travel expenses between school and the employee's post once each way annually, ISMA cannot be paid for the 12-month period following that travel/trip (DSSR 263.5). According to the applicable regulations, home leave travel is also incompatible with ISMA. Chapter 14, Section 531.4 of the State Department's Foreign Affairs Manual (14 FAM 531.4) states that home leave travel is not authorized for family members already on SMA authorization (this would include ISMA).[5] Further, 3 FAM 3433.3(3) indicates that one of the key factors in determining whether family members qualify for home leave travel is whether they are considered to be residing at post at the time they accompany the employee traveling under home leave travel orders—which is not possible for family members covered by ISMA. USAID/Afghanistan should have internal controls to prevent the approval of Foreign Service benefits that are incompatible with ISMA for employee family members. USAID/Afghanistan did not have such controls.

During the period under audit, in two cases the mission approved and made improper payments for home leave travel for dependent family members who had been authorized for and were already receiving ISMA benefits. In one case, a U.S. direct-hire employee received ISMA payments for his family members, who were living in Budapest, Hungary. At the end of his tour in Afghanistan, the mission issued travel orders authorizing and funding home leave travel for the employee's four dependent family members before their travel to the employee's next post. In the second case, a U.S. direct-hire employee received ISMA payments for his spouse, who was living in Jakarta, Indonesia. At the end of his tour in Afghanistan, the mission authorized home leave travel for his spouse before her travel to the employee's new post.[6]

The mission believed that providing home leave travel benefits for family members of these employees was consistent with the applicable regulations, primarily because 1) the mission had stopped ISMA payments for those employees upon their departure from post and 2) mission officials believe that 14 FAM 531.4 is only applicable to voluntary separate maintenance allowance. However, 14 FAM 531.4 specifically states that home leave travel is not authorized for family members on SMA authorization. In our opinion, once ISMA covering a family member has been approved, that family member is on SMA authorization, regardless of the status of

[5] According to ADS 523.3.1, 3 FAM 3430 and 6 FAM 125.8 govern home leave; however 6 FAM 125.8, which addressed home leave travel, was replaced by 14 FAM 531.4 in 2005.

[6] Documentation provided by the mission during the course of the audit indicated that other employees might also have received improper home leave travel benefits for family members already receiving ISMA.

payments for that benefit. In addition, 14 FAM 531.4 does not state that it is only applicable to voluntary separate maintenance allowance. Finally, the mission's interpretation does not satisfy the requirement that family members reside at post at the time the employee travels under home leave travel orders. Taken together, the prohibition of home leave travel benefits for family members authorized ISMA and the requirement that family members reside at post in order to qualify for home leave travel indicate that ISMA is not compatible with the authorization of home leave travel benefits for family members of employees. Accordingly, we are making the following recommendations.

Recommendation No. 8. *We recommend that USAID/Afghanistan calculate and recover the home leave travel costs paid for dependent family members of the two US direct hire employees that already had involuntary separate maintenance allowance authorized for those dependents.*

Recommendation No. 9. *We recommend that USAID/Afghanistan develop, implement, and document controls to help prevent the authorization of Foreign Service benefits that are incompatible with involuntary separate maintenance allowance for mission employees' family members. Such controls may include in-house training for mission staff.*

Recommendation No. 10. *We recommend that USAID/Afghanistan review all employees receiving involuntary separate maintenance allowance in fiscal years 2010, 2011, and 2012 to determine whether those employees or their dependent family members received incompatible Foreign Service benefits and recover any incompatible benefits paid.*

EVALUATION OF MANAGEMENT COMMENTS

Based on our evaluation of management's comments on our draft report, final action has been taken on Recommendations 5 and 7. In addition, management decisions have been reached on Recommendations 2, 3, and 6. No management decisions have been reached on Recommendations 1, 4, 8, 9 and 10. The following paragraphs provide our evaluation of mission comments on each recommendation in this report.

Recommendation 1. The mission did not agree that it should develop, implement, and document controls to help confirm that the ISMA applications it approves for personal service contractors are properly authorized and comply with DSSR 260. In its response, the mission stated that a warranted contracting officer, not USAID/Afghanistan, approves ISMA applications for U.S. and third-country national personal services contractors and that the warranted contracting officer has the authority to determine whether ISMA is appropriate and, if so, to what extent. The mission also noted that as the warranted contracting officer, the EXO is expected to refer to available guidance in DSSR 260, USAID Acquisition Regulation (AIDAR), and associated acquisition and assistance policy directives when approving ISMA applications. Finally, the mission asserted that because no problems were found with ISMA authorizations for U.S. and third-country national personal services contractors, the development and implementation of new controls were not warranted.

While we recognize the authority of a warranted contracting officer, ADS 596.3.1 notes that USAID managers and staff must develop and implement appropriate, cost-effective internal controls for management that produce results and assure the financial integrity of transactions and does not exempt warranted contracting officers from this requirement. Moreover, the fact that our limited sample of ISMA applications for U.S. and third-country national personal services contractors did not identify materially defective applications does not mitigate the risk of improperly authorized applications, especially in the absence of internal controls governing authorization of such applications. A management decision has not been reached on this recommendation.

Recommendation 2. The Office of Human Resources agreed to develop, implement, and document controls to assess the legitimacy of spouse or domestic partner signatures on ISMA applications. The office indicated that it had implemented a control system for SMA; however, this process did not cover employees assigned to Afghanistan. The comments indicated that staff making decisions on ISMA applications for employees assigned to Afghanistan would now follow the same procedures used when processing other employees and that staff will pay more attention to reviewing the signature of spouses on those applications. The target date for final action is May 14, 2012. A management decision has been reached on this recommendation.

Recommendation 3. The Office of Human Resources agreed to review the incidents in which employees acknowledged signing their spouse's signature on ISMA applications, take appropriate administrative action against those employees found to have signed their spouse's signature, and document the specific action taken. The office noted that the Employee and Labor Relations Division would obtain and review the documentation and facts associated with each case and take appropriate action after reviewing the incidents. The target date for final action is July 10, 2012. A management decision has been reached on this recommendation.

Recommendation 4. The mission disagreed that it should develop, implement, and document proactive controls to prevent improper ISMA payments. The mission believes that controls already exist for payments issued under properly authorized ISMA benefits. While we appreciate the mission's confidence in its current controls, our tests of sample ISMA transactions revealed both overpayments and underpayments of ISMA (page 5). Consequently, we believe that the mission should reassess its controls over ISMA payments and make any adjustments necessary to strengthen the effectiveness of those controls in preventing improper payments, and we have reworded the recommendation to that effect. A management decision has not been reached on this recommendation. (*NOTE:* The draft audit report included a recommendation concerning the training of staff involved in ISMA payments. We believe that the intent of that draft recommendation can be met by implementing Recommendation 4, as shown here.)

Recommendation 5. The mission agreed to review the $3,833 in SMA paid for children that had turned 21 years of age, determine whether those children were either incapable of self-support or in secondary school, and recover any amounts improperly paid. Moreover, the mission indicated that it had reviewed the payments in question, had determined the payments were improper, and had recovered the entire amount from the employees concerned. Final action has been taken on this recommendation.

Recommendation 6. The mission agreed to review the ISMA payments made in fiscal years 2010, 2011, and 2012; identify any payments made for children that had turned 21 years of age; determine whether those children were either incapable of self-support or in secondary school; and recover any amounts improperly paid. The mission indicated that it would review ISMA payments made in these years and take steps to recover any improper payments. The target date for final action is July 31, 2012. A management decision has been reached on this recommendation.

Recommendation 7. The mission agreed to pay the $636 balance of the SMA to the employee who was underpaid and indicated that payment of that amount was made on April 10, 2012. Final action has been taken on this recommendation.

Recommendations 8 - 10. These recommendations were addressed by Recommendations 9-12 in the draft report. The mission did not agree with these recommendations. It asserted that home leave travel was compatible with ISMA, claiming that 1) ISMA payments to the employee had ceased upon their departure from post, 2) 14 FAM 531.4 only applies to voluntary separation maintenance allowance (VSMA), and 3) the Agency's intent is to ensure that the employee and family members are reunited as expeditiously as possible upon conclusion of the hardship tour and prior to arrival at the next post of assignment.

We do not agree that such benefits are compatible with ISMA. First, 14 FAM 531.4.a clearly states that home leave is not authorized for family members already on separate maintenance allowance authorization, which indicates that once ISMA has been authorized (approved) for a family member, home leave benefits for that family member may not subsequently be authorized. In addition, 14 FAM 531.4.a does not state that it only applies to VSMA. Management decisions have not been reached on these recommendations.

SCOPE AND METHODOLOGY

Scope

OIG/Afghanistan Country Office 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 in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis. The objective of this audit was to determine whether USAID/Afghanistan had appropriate internal controls to prevent improper use of ISMA.

The audit was performed in Afghanistan from June 11 through November 2, 2011, and covered ISMA paid in fiscal year 2011. During that year, the mission paid $2,104,190 in ISMA benefits to 212 employees. We tested the approval and payment of benefits to 35 of those 212 employees, to whom the mission disbursed $447,807.54 in ISMA benefits during fiscal year 2011. Since the approval and payment of ISMA benefits may cross fiscal years, we also considered the approval and payment of fiscal year 2010 ISMA benefits, when necessary. We conducted our work in Kabul at USAID/Afghanistan.

We assessed the significant internal controls used by USAID/Afghanistan to approve and pay ISMA benefits. In performing the audit, we conducted interviews and reviewed pertinent documentation, such as ISMA applications, employee self-certifications of eligibility for ISMA, and payment records. We also examined the payment process in Phoenix, USAID's accounting system. In addition, we reviewed prior relevant audit reports to identify internal control and other issues that could be pertinent to the current audit, including the results of USAID's fiscal year 2011 financial audit relevant to the mission.

Methodology

To answer the audit objective, we identified relevant criteria, including ADS 477, DSSR 260, FAM, U.S. and third-country national personal services contracts, and the Federal Acquisition Regulation. We then interviewed USAID/Afghanistan officials and analyzed relevant documentation to identify the mission's controls over ISMA benefits and the effectiveness of those controls. We also interviewed some of the employees in our sample to obtain additional information when necessary.

To determine the reliability of computer-processed data received from the mission in support of its obligated and disbursed amounts, we reviewed the results of USAID's fiscal year 2011 annual financial audit that were relevant to USAID/Afghanistan. Since that audit did not reveal any material and systematic problems with the mission's recorded obligations and disbursements, we considered the computer-processed data used during the audit to be reliable.

We reviewed the processes for approval and payment of ISMA benefits for a random sample of 35 mission employees. Although these employees were selected randomly, this was not a statistically valid sample; therefore, the results cannot be projected to the overall population.

MANAGEMENT COMMENTS

USAID | AFGHANISTAN
FROM THE AMERICAN PEOPLE

MEMORANDUM May 09, 2012

TO: Nathan Lokos, OIG/Afghanistan Director

FROM: S. Ken Yamashita, Mission Director /s/
Deborah Kennedy-Iraheta, O/HR Director /s/

SUBJECT: Draft Report on the Audit of USAID/Afghanistan's Internal Controls in the Administration of Involuntary Separate Maintenance Allowance (ISMA)

REFERENCE: NLokos memo dated March 17, 2012

Thank you for providing USAID/Afghanistan and the Office of Human Resources (O/HR) with the opportunity to review the subject draft audit report. Discussed below are the Mission and O/HR's comments on the findings and recommendations in the report.

Recommendation No.1: *We recommend that USAID/Afghanistan develop, implement, and document controls to help confirm that the involuntary separate maintenance allowance applications that it approves for personal service contractors are properly authorized and compliant with Section 260 of the Department of State Standardized Regulations. Such controls may include application of USAID's A Guide to Authorizing Separate Maintenance Allowance (SMA) and the Separate Maintenance Allowance (SMA) Checklist.*

Mission Comments: The Mission appreciates OIG's thorough review of the ISMA process; however, we do not concur with Recommendation No.1.

On page 3 of the subject report, OIG states "Although USAID/Afghanistan was approving ISMA applications for U.S. and third country national personal services contractors, it had not established a system of internal controls to help ensure that those applications complied with DSSR 260." It should be noted that it is a warranted Contracting Officer and not USAID/Afghanistan who approves ISMA applications for US and third country national personal services contractors (US/TCN PSCs).

As part of the contract negotiation process, the warranted Contracting Officer, based on proof of eligibility provided by the applicant, has the authority to make the determination whether ISMA is appropriate, and if so, to what extent.

Additionally, OIG states that "one deputy EXO confirmed that the mission has no written guidance on the EXO's role in authorizing ISMA." As the warranted Contracting Officer for US/TCN PSCs, the EXO is expected to refer to available guidance contained in DSSR 260, AIDAR and associated AAPDs when approving ISMA applications. We believe the existing controls, prescribed in the cited regulations and policy guidance, are adequate to ensure proper authorization of ISMA for US/TCN PSCs. Furthermore, we note that there were no findings associated with improper authorizations of ISMA for US/TCN PSCs.

The creation of additional controls for which a need has not been demonstrated introduces a larger administrative burden and cost. Given that no issues were found in ISMA authorizations for US/TCN PSCs, we believe the development and implementation of new controls is not warranted. We, therefore, request OIG to delete Recommendation No.1.

Recommendation No.2: *We recommend that the Office of Human Resources develop, implement, and document controls to assess the legitimacy of spouse or domestic partner signatures on involuntary separate maintenance allowance applications.*

O/HR Comments: O/HR concurs with this recommendation.

Actions Taken: O/HR implemented a control system for SMA in June 2011. This process, which did not cover employees assigned to Afghanistan, includes review of the OF-126, SF-1190 (Foreign Allowances Application, Grant and Report), SMA checklist, and an SMA Certification Statement. Final approval for SMA is granted by an O/HR/FSP branch chief.

As a result of this recommendation, all decisions on ISMA regarding employees assigned to Afghanistan will follow this same procedure and will be approved by an O/HR/FSP branch chief who does not service the Afghanistan Mission. In reviewing these applications, greater attention will be paid to reviewing the signatures of spouses where required.

Final Action Target Date: May 14, 2012

Based on the above, O/HR deems that appropriate actions are being taken to address Recommendation No. 2 and therefore requests OIG's concurrence to the management decision.

Recommendation No. 3: *We recommend that the Office of Human Resources review the incidents where employees acknowledged signing their spouse's signature on involuntary separate maintenance allowance applications, take appropriate administrative action against those employees found to have signed their spouse's signature, and document the specific action taken.*

O/HR Comments: O/HR concurs with this recommendation.

Actions Taken: The Employee and Labor Relations Division will obtain and review the documentation and facts associated with each of the cases where employees acknowledged signing their spouse's signature and O/HR will take and document appropriate actions based on a review of the incidents.

Final Action Target Date: July 10, 2012

Based on the above, O/HR deems that appropriate actions are being taken to address Recommendation No. 3 and therefore requests OIG's concurrence to the management decision.

Recommendation No.4: *We recommend that USAID/Afghanistan develop, implement, and document proactive controls to prevent improper involuntary separate maintenance allowance payments. Such controls may include review checklists, spreadsheets with conditional formatting to highlight children turning 21, and other mechanisms to assist staff involved in the payment process in identifying changes in separate maintenance* *allowance status.*

Mission Comments: USAID/Afghanistan does not concur with this recommendation "to develop, implement, and document proactive controls to prevent improper involuntary separate maintenance allowance payments." The Mission's position is that controls already exist for payments issued under properly authorized ISMA benefits.

However to further mitigate the risk of improper authorization of ISMA benefits for staff when dependents reach 21 years of age, the Mission has instructed its accounting personnel who post the ISMA obligations within the Phoenix accounting system to conduct detailed reviews for the ISMA authorizations when dependent children are involved for age compliance. During these reviews, when discrepancies are noted, the appropriate authorizing official will be notified of findings so that corrective action is undertaken.

To this end, the Mission Accountants have been reminded of the need to perform detailed reviews of all ISMA applications approved by an authorizing official prior to posting in Phoenix to determine if ISMA benefits for dependent children are in compliance with Agency guidance.

Based on the above, the Mission requests that OIG delete this recommendation.

Recommendation No.5: *We recommend that USAID/Afghanistan review the $3,833 in separate maintenance allowance paid for children that had turned 21 years of age, determine whether those children were either incapable of self-support or in secondary school, and recover any amounts improperly paid.*

Mission Comments: USAID/Afghanistan concurs with this recommendation.

Actions Taken: The Office of Financial Management (OFM) reviewed the ISMA payments in question associated with three employees and determined that payments in the amount of $3,833 were made under improper authorizations. Notices of Payment Due were issued to the three employees on March 18th, 2012. To date, the Mission has recovered the entire $3,833 through cash payments from the concerned employees.

Final Action Target Date: N/A

The Mission deems that final actions to address Recommendation No. 5 have been completed and therefore requests OIG's concurrence to its closure.

Recommendation No. 6: *We recommend that USAID/Afghanistan review the involuntary separate maintenance allowance payments made in fiscal years 2010, 2011, and 2012; identify any payments made for children that had turned 21 years of age; determine whether those children were either incapable of self-support or in secondary school; and recovery any amounts improperly paid.*

Mission Comments: The Mission agrees with the recommendation.

Planned Actions: USAID/Afghanistan will review ISMA payments made in fiscal years 2010, 2011 and 2012. If any improper payment is identified, the Mission will take steps to recover such payments.

Final Action Target Date: July 31, 2012

The Mission deems that the above planned actions are adequate to address Recommendation No. 6 and therefore requests OIG's concurrence to the management decision.

Recommendation No.7: *We recommend that USAID/Afghanistan pay the $636 balance of the separate maintenance allowance to the employee that was underpaid.*

Mission Comments: USAID/Afghanistan concurs with the recommendation.

Action Taken: Payment of $636 was made to the employee on April 10, 2012 through Voucher No. 306122884TD. Supporting documentation is available in OFM for review by OIG, if requested.

Final Action Target Date: N/A

Based on the above, the Mission deems that final actions have been completed for Recommendation No. 7 and therefore requests OIG's concurrence to its closure.

Recommendation No. 8: *We recommend that USAID/Afghanistan provide and document training concerning the regulations regarding involuntary separate maintenance allowances to its staff involved in the payment of those allowances.*

Mission Comments: USAID/Afghanistan does not concur with OIG's Recommendation No. 8.

USAID/Afghanistan is not aware of any USAID mission, or any other foreign affairs agency, which has developed and offers a training program related to regulations in the ISMA benefit area. If, and when, such a training program is developed and available to foreign affairs agencies, the Mission will fully consider the need for such training within each Foreign Service National (FSN) voucher examiner's individual training plan.

It should be noted that the responsible personnel are cognizant of the standardized regulations within the ISMA area and are aware of the need to review such regulations whenever issues arise or, alternatively, to consult within their supervisory chain for resolution.

In addition, all voucher examining personnel attend formal agency sponsored and approved training in payment processing, including both basic and advance payment processing courses. Newly recruited staff are immediately enrolled in both formal courses as soon as they become available, usually within one year of joining the voucher section. The Mission believes that payment personnel are adequately trained and have proper oversight to perform their payment job functions.

However, the Mission will offer a suggestion to the Office of the Chief Financial Officer specifically recommending that the Agency give consideration to amending the formal basic and advanced Voucher Examination courses and the basic and advanced Accountants training courses to include highlighting specific benefits authorized within the Standardized Regulation, including ISMA.

Based on the above, the Mission requests that OIG delete the recommendation or alternatively consider it closed upon issuance.

Recommendation No. 9. *We recommend that USAID/Afghanistan calculate and recover the home leave travel costs paid for dependent family members of the two US direct hire employees that had received involuntary separate maintenance allowance benefits for those dependents.*

Recommendation No. 10. *We recommend that USAID/Afghanistan develop, implement, and document controls to confirm that incompatible Foreign Service benefits are not authorized and paid for mission employees' dependent family members who had already received involuntary separate maintenance allowance benefits while the employee was posted to USAID/Afghanistan.*

Recommendation No. 11. *We recommend that USAID/Afghanistan provide and document training concerning Foreign Service benefits incompatible with the involuntary separate maintenance allowance to staff involved in the authorization and payment of those benefits.*

Recommendation No. 12. *We recommend that USAID/Afghanistan review all employees receiving involuntary separate maintenance allowance in fiscal years 2010, 2011, and 2012; determine whether those employees or their dependent family members received incompatible Foreign Service benefits; and recover any incompatible benefits paid.*

Mission Comments: USAID/Afghanistan does not concur with the above four recommendations. These recommendations are based on the OIG assumption that employees were granted incompatible benefits. OIG states on page 6 of the draft audit report that "According to the applicable regulations, home leave travel is also incompatible with ISMA." It is important to note that ISMA benefit payments for the two employees in question were stopped upon departure from post. As a result, the authorized travel benefits were incurred for the period subsequent to the termination of the ISMA entitlement, therefore there was no dual benefit received by the employee and no recovery is needed.

Moreover, OIG asserts that based on 14 FAM 531.4 (referencing 14 FAM 536.1) travel is not authorized for family members already receiving ISMA benefits. This is an incorrect assertion because the cited FAM provision only applies to Voluntary Separate Maintenance Allowance (VSMA), not

ISMA.

The current standardized regulations provide the Agency latitude when authorizing benefits to support personnel who accept and are assigned to extreme hardship posts within CPC environments. These benefits may include authorization for travel for family members before, and upon conclusion of, a hardship assignment. This authority is recognized as an allowable option under DSSR 267.4.

Much of the decision process surrounding the provision of the benefits related to a hardship tour is to ensure both the employee and family members' health and well-being are addressed. Ensuring an effective support structure is in place for the employee's family members is one of the most important benefits when the employee accepts a hardship assignment. This support structure also includes the ability to reunite the employee and family members as quickly as possible upon conclusion of the hardship assignment.   This is evidenced by the Agency mandatory reference for ADS Chapters 436 and 480, New Home Leave Policy for 12-Month Overseas Assignments which specifically states:

"The intent of the new authority is to provide a home leave benefit for employees serving at the most difficult and dangerous posts, where the official tour of duty is 12 months. Such a benefit will afford employees an opportunity not only to be reoriented to the U.S., but also to decompress and reunite with their family members before moving on to their next assignment."

It is clearly the Agency's intent to ensure that the employee and family members are reunited as expeditiously as possible upon conclusion of the hardship tour and prior to arrival at the next post of assignment.   The Agency also authorizes, when employees so elect, to allow the family members to "remain behind" at the previous post of assignment, in lieu of being placed upon ISMA. In these situations, the Agency is making a determination that it is in the best interest of the employee's family members to be supported at the previous post of assignment in lieu of being required to repatriate to the United States under ISMA where a family support system may not exist. Cost is clearly not a decision point in these determinations, as the Agency expends well in excess of an average of $300,000 per year to support the "family left behind" benefit, whereas the equivalent cost under ISMA benefit would not exceed $23,000 per year.

Likewise, employees with foreign born spouses may determine a more beneficial family support system would be available for the family members if they resided in a foreign location rather than in the United States. The Agency has the authority to authorize such family members travel to and from the foreign ISMA location during a hardship tour. There is no specific regulation which prevents such authorization as is the case with the Voluntary Separate Maintenance allowance.

Based on the above, the Mission requests that OIG delete these recommendations.

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