



Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

AUD-FM-17-51

Office of Audits

August 2017

Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas

FINANCIAL MANAGEMENT DIVISION



OIG HIGHLIGHTS

AUD-FM-17-51

UNCLASSIFIED

August 2017

OFFICE OF AUDITS

Financial Management Division

Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas

What OIG Found

The Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (A/OPR/ALS) has not established appropriate post allowance rates for the seven posts audited. Appropriate rates have not been effectuated for two primary reasons. First, the methodology currently used to calculate post allowance rates is flawed. Second, even aside from those flaws, A/OPR/ALS does not have sufficient policies and procedures to guide the process for rate setting. OIG estimates that had A/OPR/ALS used available independent cost-of-living economic data to determine rates rather than the methodology it employed, the Department would have saved approximately \$18.2 million between FY 2013 and FY 2015 for six of the seven posts audited.

Although OIG found that A/OPR/ALS generally followed the established process to determine post education allowance rates for dependents of employees living overseas, A/OPR/ALS had not maintained a listing of adequate schools on which to base the rates. In addition, OIG found that A/OPR/ALS had not reviewed and updated the SMA rates annually, as required. OIG estimates that had A/OPR/ALS updated the SMA rates, the Department would have saved \$1.7 million between FY 2013 and FY 2015.

In addition, OIG could not determine if two of three posts where OIG conducted audit fieldwork had appropriately paid employees for education allowances because of insufficient documentation and inconsistencies in the approach used to track education allowance payments. Without uniform policies for tracking education expenses at all posts, the risk of unallowable education expenses being paid increases.

Furthermore, OIG identified shortcomings with the oversight of a task order for eAllowances, which is an IT application used by A/OPR/ALS to convert cost-of-living information into post allowance rates. This occurred, in part, because the Contracting Officer did not timely appoint a Government Technical Monitor and because the quality assurance plan was insufficient. Without sufficient oversight, the risk of undetected calculation errors increases, which would have a financial impact on the Department as well as other agencies that pay employees COLA.

Office of Inspector General
U.S. Department of State • Broadcasting Board of Governors

UNCLASSIFIED

What OIG Audited

Federal law authorizes Federal employees to receive cost-of-living allowances (COLA) to cover certain costs incurred when stationed in foreign areas. The Department of State (Department) is responsible for setting COLA rates for all eligible U.S. Government civilians. COLA consists of six different types of allowances, including the three covered in this audit—post allowance, education allowance, and separate maintenance allowance (SMA). Between FY 2013 and FY 2015, the Department spent approximately \$673 million for these three allowances.

The Office of Inspector General (OIG) conducted this audit to determine whether the Department established appropriate post allowance, education allowance, and SMA rates for American employees stationed overseas and whether the Department appropriately paid employees for education allowances in accordance with Federal regulations and Department policies.

What OIG Recommends

OIG made 16 recommendations that are intended to improve COLA rate determination methodologies, internal controls, and processes. On the basis of the Department's responses to a draft of this report, OIG considers 1 recommendation closed and 15 resolved pending further action. A synopsis of the Department's responses to the recommendations offered and OIG's reply follow each recommendation. The Department's responses to a draft of this report are reprinted in their entirety in Appendices B through G. Summaries of the Department's general comments and OIG's replies are presented in Appendices H through J.

CONTENTS

OBJECTIVES	1
BACKGROUND	1
Post Allowance	2
Education Allowance	6
Separate Maintenance Allowance	8
Roles and Responsibilities	9
AUDIT RESULTS.....	11
Finding A: The Department Could Save Millions if It Used Independent Cost-of-Living Economic Data to Calculate Post Allowance Rates Instead of Its Current Methodology	11
Finding B: The Department Is at Risk of Making Inadequate Education Allowance Rate Decisions.....	30
Finding C: The Department Would Have Saved \$1.7 Million if It Adjusted Separate Maintenance Allowance Rates Annually between FY 2013 and FY 2015	35
Finding D: The Department Is at Risk of Paying Unallowable Education Expenses and Exceeding Authorized Education Allowance Rates.....	39
OTHER MATTERS.....	42
RECOMMENDATIONS	47
APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY	50
Prior Reports.....	52
Work Related to Internal Controls	52
Use of Computer Processed Data	52
Detailed Sampling Methodology	53
APPENDIX B: BUREAU OF ADMINISTRATION, DEPUTY ASSISTANT SECRETARY FOR OPERATIONS, RESPONSE.....	58
APPENDIX C: BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT, RESPONSE	62
APPENDIX D: BUREAU OF THE COMPTROLLER AND GLOBAL FINANCIAL SERVICES RESPONSE	64
APPENDIX E: BUREAU OF EUROPEAN AND EURASIAN AFFAIRS AND BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS, EXECUTIVE OFFICE, RESPONSE	66
APPENDIX F: U.S. MISSION GENEVA RESPONSE	67
APPENDIX G: U.S. EMBASSY BERLIN RESPONSE.....	71
APPENDIX H: SUMMARIES OF AND REPLIES TO THE BUREAU OF EUROPEAN AND EURASIAN AFFAIRS AND BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS, EXECUTIVE OFFICE	73
APPENDIX I: SUMMARIES OF AND REPLIES TO U.S. MISSION GENEVA, GENERAL COMMENTS.	75
APPENDIX J: SUMMARIES OF AND REPLIES TO U.S. EMBASSY BERLIN, GENERAL COMMENTS..	80

ABBREVIATIONS 82

OIG AUDIT TEAM MEMBERS..... 83

OBJECTIVES

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State (Department) established appropriate post allowance, education allowance, and separate maintenance allowance (SMA) rates for American employees stationed overseas and whether the Department appropriately paid employees for education allowances in accordance with Federal regulations and Department policies.

BACKGROUND

The Department has approximately 275 overseas posts with more than 9,300 American employees. Federal law¹ authorizes Federal employees to receive cost-of-living allowances (COLA) to cover certain costs incurred when stationed in foreign areas. These allowances are provided to civilian American employees of the Department and other Federal agencies. The Department is responsible for determining COLA rates for all Federal civilian employees.

The Department paid approximately \$721.6 million in COLA between FY 2013 and FY 2015. COLA comprises six types of allowances: post allowance, education allowance, SMA,² home service transfer allowance,³ foreign transfer allowance,⁴ and educational travel.⁵ Table 1 shows the Department's COLA expenditures by allowance between FY 2013 and FY 2015.

¹ United States Code, 5 U.S.C. §5924, "Cost-of-living allowances."

² The audit was limited to the three largest types of allowances based on allowance expenditures and included post allowance, education allowance, and SMA, which are described in more detail in the following sections of the report.

³ The home service transfer allowance serves to help defray an employee's extraordinary but necessary and reasonable costs when the employee transfers from a foreign post to a post in the United States.

⁴ The foreign transfer allowance serves to help defray an employee's extraordinary but necessary and reasonable costs when the employee transfers to a post in a foreign area.

⁵ The educational travel allowance is authorized for one annual round trip to reunite a full-time secondary (in lieu of an education allowance) or post-secondary student attending a public or private school at grade levels of 9–12 or college, technical, or vocational school with the employee or parent stationed in a foreign area.

Table 1: Cost-of-Living Allowance Expenditures between FY 2013 and FY 2015

Allowance	FY 2013	FY 2014	FY 2015	Allowance Totals
Post Allowance	\$71,740,659	\$77,994,562	\$62,014,528	\$211,749,749
Education Allowance	\$132,148,728	\$149,734,035	\$150,764,167	\$432,646,930
SMA	\$9,401,851	\$9,234,299	\$9,536,441	\$28,172,591
Subtotal	\$213,291,238	\$236,962,896	\$222,315,136	\$672,569,270
Home Service Transfer Allowance	\$6,797,790	\$7,693,833	\$9,287,648	\$23,779,271
Foreign Transfer Allowance	\$6,263,903	\$6,494,525	\$6,579,808	\$19,338,236
Educational Travel	\$1,940,225	\$2,034,363	\$1,897,865	\$5,872,453
Total	\$228,293,156	\$253,185,617	\$240,080,457	\$721,559,230

Source: OIG generated on the basis of data from the Department's Global Financial Management System.

Post Allowance

As outlined in the Foreign Affairs Manual (FAM),⁶ post allowance⁷ is designed to permit Federal employees stationed in foreign areas to spend the same portion of their salaries for their standard living expenses as they would if they resided in Washington, DC. The Department of State Standardized Regulations (DSSR)⁸ states that a post allowance is granted to Federal employees officially stationed at an overseas post where the cost of living, excluding housing costs, is substantially higher than that in Washington, DC.⁹ According to the DSSR, post allowance rates can range from 5 percent, in places where the cost of living is only slightly higher than Washington, DC, to as high as 160 percent, in places where the cost of living is significantly higher than that of Washington, DC.¹⁰ In locations where the cost of living is lower than or equal to Washington, DC, post allowance is not provided.

The post allowance rate determination process begins with the preparation and submission of hardcopy living pattern questionnaires (LPQ). The Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (A/OPR/ALS) requires each overseas post to have its employees complete and submit questionnaires every 5 years. According to the DSSR,¹¹ the LPQs should only be prepared by employees who have been at post for 6 months or longer. When completing the LPQs, employees are instructed to identify the two stores they use most frequently for each subcategory of items and services included in the survey, such as groceries, clothing, recreation, and public transportation. In addition, employees provide information on

⁶ 3 FAM Exhibit 3210, "Allowance References Table."

⁷ Although this allowance is commonly referred to as "COLA," the correct name, and the name used throughout this report, is post allowance.

⁸ The DSSR governs allowances and benefits available to U.S. Government civilians assigned to foreign areas. A/OPR/ALS publishes the DSSR at <<https://aoprals.state.gov/>>.

⁹ DSSR, Section 220, "Post Allowance."

¹⁰ DSSR, Section 228.2, "Post Allowance Levels."

¹¹ DSSR, Section 074.43, "Living Pattern Questionnaire (LPQ) (DS 1996)."

how often they purchase certain items (for example, canned fruit versus fresh fruit). Furthermore, employees are required to provide information on the means by which they obtain items, for example the percentage of items purchased in a local store versus online. Post officials review, reconcile, and summarize the completed LPQs. After they do so, they enter the summary information into eAllowances, which is an IT application used by A/OPR/ALS to convert cost-of-living information into a post allowance rate. They must also mail the completed hardcopy LPQs to A/OPR/ALS.

Every 2 years, posts are required to use the information gathered during the LPQ process¹² to prepare a retail price schedule (RPS). The RPS is used to collect price information for certain products to measure price differences between overseas posts and Washington, DC. LPQ summary information is used to complete Part One, "Outlet Report,"¹³ and Part Two, "Living Pattern Questionnaire Summary."¹⁴ Price collectors at overseas posts use the primary and secondary stores identified in the LPQ summaries to gather prices for certain subcategories of goods and services as outlined in Part Three, "Retail Prices,"¹⁵ and Part Four, "Embassy or Consulate Store Survey,"¹⁶ when applicable. Post price collectors can be Department employees, U.S. citizen spouses or domestic partners. To ensure that the post allowance accurately reflects overseas living costs for the average American family, the RPS must reflect living costs for a family of three to four persons residing in the foreign location with a base salary of a GS-11 Step 5, which is a mid-level government employee, without locality pay.¹⁷ Furthermore, the DSSR states that the "price collector should avoid premium or luxury goods this family cannot afford."¹⁸ The price collector enters all the prices for goods and services on the RPS Form, and the post submits the RPS information using eAllowances to A/OPR/ALS.

A/OPR/ALS analyzes and makes adjustments, as needed, to the RPS data gathered by posts as a basis to calculate a cost-of-living index number. This index, in turn, approximates living costs in the foreign location relative to Washington, DC. As part of this calculation, A/OPR/ALS obtains the prices for goods and services in Washington, DC, from the Department of Labor, Bureau of Labor Statistics (BLS) on a quarterly basis. The eAllowances system then converts the cost-of-

¹² Posts use the same LPQ summary data for two RPS submissions.

¹³ The Outlet Report summarizes the primary and secondary stores identified during the LPQ process for each subcategory of goods.

¹⁴ The Living Pattern Questionnaire Summary summarizes the relative use and sources of supply by subcategory of goods from the LPQs. Subcategories listed in the summary include groceries, computer accessories, and household consumables.

¹⁵ The Retail Prices section contains all the prices that the price collector gathers for all items from the stores identified in Part One.

¹⁶ The Embassy or Consulate Store Survey contains prices from the embassy or consulate store, where applicable.

¹⁷ As reported in Finding A of this report, *"Guidance is Insufficient to Ensure Post Allowance Rates Reflect Required Consumption Patterns of Employees at the Salary Level Required by DSSR,"* OIG found that the average gross annual salary of employees stationed in foreign areas who received post allowance (\$101,855) was nearly twice the salary (\$57,468) earned by a GS-11 Step 5 Government employee as described in the DSSR.

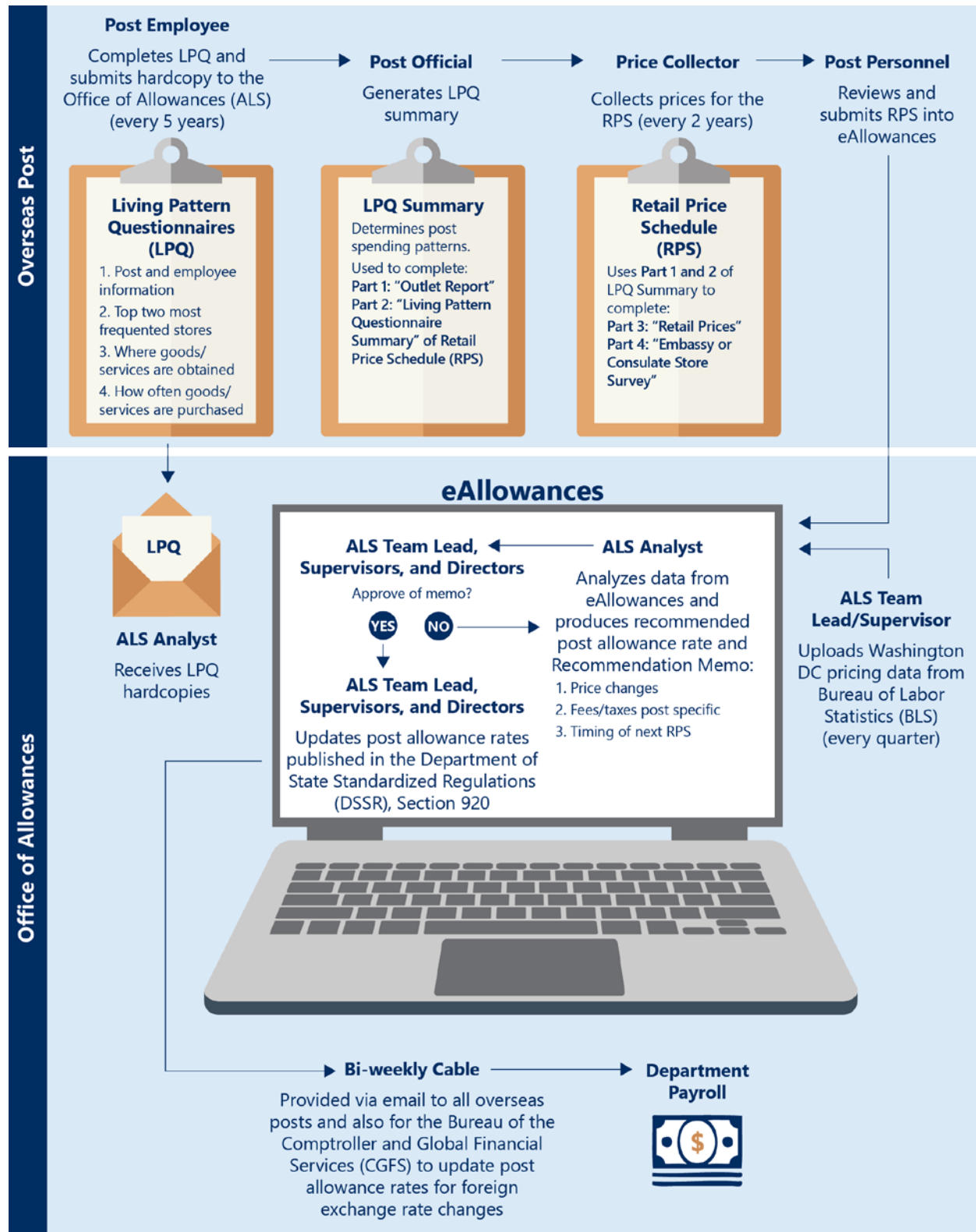
¹⁸ DSSR, Section 074.48, "Summary of Survey Preparation Guidelines."

living index into a post allowance rate as outlined in the DSSR,¹⁹ and the A/OPR/ALS analyst recommends that rate for approval. The A/OPR/ALS supervisor reviews and approves the analysis and recommendation, and the A/OPR/ALS director approves the rate in eAllowances for publication in the DSSR.²⁰ A/OPR/ALS then provides the approved rate to post. Every 2 weeks, A/OPR/ALS uses the eAllowances system to update and publish the post allowance rates to reflect foreign currency exchange rate fluctuations for each post. Figure 1 presents the post allowance rate determination methodology developed by A/OPR/ALS.

¹⁹ DSSR, Section 228, "Post Allowance Levels," provides cost-of-living index ranges along with the associated post allowance percentage for each range.

²⁰ DSSR, Section 920, "Post Classification and Payment Table (Allowances by Location)."

Figure 1: Post Allowance Rate Determination Methodology



Source: OIG generated on the basis of data from A/OPR/ALS.

Post Allowance Payment Process

A post employee obtains authorization for a post allowance using Standard Form (SF) 1190, which the employee submits to the overseas post.²¹ The post payroll liaison submits the SF 1190 to the Bureau of the Comptroller and Global Financial Services (CGFS) Global Compensation Directorate²² to start post allowance payments, which are included in the employee's bi-weekly salary. The post allowance amount paid to each employee is calculated by multiplying the post allowance rate by the employee's spendable income, which is determined on the basis of the employee's annual salary and family size.²³ For example, an employee with three family members and an annual salary of \$57,468 would have a spendable income of \$31,000, according to the annual spendable income table published by A/OPR/ALS. This employee, if stationed at an overseas location with a 42-percent post allowance rate, would receive \$13,020 in post allowance per year (0.42 multiplied by \$31,000). The allowance would be paid bi-weekly to the employee and, for a full 2-week period, would equate to approximately \$500 (\$13,020 divided by 26). Overseas posts must notify CGFS Global Compensation Directorate when an employee departs.

Education Allowance

The education allowance assists employees in meeting the "extraordinary and necessary" expenses incurred in providing adequate elementary and secondary education for dependent children at assigned overseas posts.²⁴ According to the DSSR,²⁵ education allowance rates may be granted for "school at post,"²⁶ "school away from post," "home study/private instruction,"²⁷ and special needs expenses.²⁸ The DSSR defines a "school at post" to mean an elementary or secondary school within daily commuting distance of the employee's post of assignment. A "school away from post" means an elementary or secondary school so far beyond daily commuting distance of the employee's post as to necessitate board and room in connection

²¹ 3 FAM 3215, "Form SF-1190, Foreign Allowances Application, Grant and Report."

²² The Global Compensation Directorate is responsible for the payment of salaries and allowance-related entitlements and also administers overall payroll operations.

²³ Spendable income is defined by DSSR, Section 222, as "that portion of basic compensation available for disbursement after deduction for taxes, gifts and contributions, savings (including insurance and retirement) and U.S. shelter and household utility expenses."

²⁴ 3 FAM Exhibit 3210.

²⁵ DSSR, Section 274, "Grant of Education Allowances."

²⁶ OIG limited its work to the "school at post" allowance because the posts OIG reviewed did not have "school away from post" education allowances. Furthermore, the majority of the dependent children at the seven posts were authorized "school at post" education allowances as opposed to "home study/private instruction" or special needs allowances.

²⁷ DSSR, Section 271, "Definitions," defines "home study/private instruction" as a complete academic course in the home or by private instruction.

²⁸ DSSR, Section 271, defines special needs education allowance as applying to children who would fall under Public Law 108-446, the Individuals with Disabilities Education Improvement Act, if they resided in the United States and who would accordingly be entitled to additional educational resources.

with attendance.²⁹ Department employees may enroll their dependents in the school of their choice and are eligible to receive the education allowance amount authorized. When the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Overseas Schools (A/OPR/OS) deems a school at post adequate,³⁰ dependents are expected to attend local schools, but when no adequate school at post is available, a higher education allowance rate is established to assist with additional costs of attending a school away from the post.

To calculate the school at post education allowance for each location, posts must annually submit an education allowance questionnaire to A/OPR/ALS.³¹ The questionnaire provides information on the yearly education costs for each school employees' dependents attend, as well as other information, such as the starting and end dates of the school year. A/OPR/ALS analysts review the information submitted by posts to calculate the at-post education allowance rates. Specifically, the analysts select the allowable education costs by grade for the "base school"³² identified in the A/OPR/ALS base schools list. Once the A/OPR/ALS analyst recommends a rate, an A/OPR/ALS team leader and supervisor review the analysis and recommendation. The A/OPR/ALS Director then certifies the rate for publication in the DSSR³³ and informs the affected post.

Education Allowance Payment Process

Before the start of every school year, each post receives funds from the Bureau of Budget and Planning for the purpose of paying for education allowance expenses. The overseas post determines how to obligate³⁴ the funds. For example, the post can obligate the entire amount to cover all education allowances or can obligate a separate amount for each student. Once the obligations are set up, the overseas post begins disbursing payments.

A post employee obtains authorization for education allowance using the SF 1190, which the employee submits to the overseas post.³⁵ The post employee lists each dependent student who needs to receive an education allowance. Not all students at one post receive the same education allowance. For example, some students at post may meet the requirements for the

²⁹ DSSR, Section 270, "Education Allowance."

³⁰ DSSR, Section 271, defines an "adequate school" as an elementary or secondary school (kindergarten through grade 12 or equivalent) not requiring mandatory denominational religious instruction and providing an educational curriculum and services reasonably comparable to those normally provided without charge in public schools in the United States. OIG did not evaluate adequacy determinations made by A/OPR/OS as part of this audit. For additional details, see Appendix A: Purpose, Scope, and Methodology.

³¹ DSSR, Section 072, "Reporting Responsibility."

³² DSSR, Section 271, defines the "base school" as usually the least expensive adequate school at post as determined by A/OPR/OS or the Department of Defense School, where available to post family members.

³³ DSSR, Section 920.

³⁴ 4 Foreign Affairs Handbook-3 H-612.3, "Definitions," defines obligations as the amounts of orders placed, contracts and grants awarded, services received, and similar transactions during a given period that require payment by the recipient during the same or a future period.

³⁵ 3 FAM 3215, "Form SF-1190, Foreign Allowances Application, Grant and Report."

special needs education allowance or some parents may elect to receive the home study education allowance. Because students can receive different education allowance amounts, the overseas post must track total education expenses by student to ensure that a student does not receive more than is authorized. Once the student is approved to receive an education allowance, the parents select the school and register the student. According to the FAM³⁶ and the Foreign Affairs Handbook (FAH),³⁷ education allowances are generally paid via voucher³⁸ to employees or to schools by overseas posts. Some schools bill the post directly for tuition payments, but other schools bill the parents directly. When the school sends the invoices directly to post, the Financial Management Office is responsible for obtaining and reviewing the invoices for allowable education costs and verifying fund availability before payment. When the school sends the invoices directly to parents, the parents submit a request to the post to be reimbursed for the costs.

Separate Maintenance Allowance

The SMA assists employees in meeting additional expenses of maintaining family members at locations other than their overseas post of assignment. That is, this particular allowance is intended to offset the costs of maintaining two separate households. SMAs are classified as involuntary, voluntary, or transitional.³⁹ An involuntary SMA may be granted because of dangerous, notably unhealthy, or excessively adverse living conditions at the employee's post of assignment in a foreign area or for the convenience of the Government. A voluntary SMA 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.⁴⁰ A transitional SMA may be granted to an employee whose family members are required to temporarily occupy commercial housing when establishing permanent housing and that family is unable to accompany an employee to an overseas post.⁴¹

³⁶ 4 FAM 443.2, "Education Allowances."

³⁷ 4 FAH-3 H-535.3, "Payment."

³⁸ 4 FAM 414, "Definitions," defines a voucher as an invoice or document used to authorize a payment.

³⁹ DSSR, Section 261.1, "Definitions."

⁴⁰ DSSR, Section 262.2, "Voluntary SMA," states that special needs or hardship involving the employee or family member could occur before or after arrival at post for reasons including but not limited to career, health, educational, or family considerations for family members. Dependent children, including sisters and brothers, must be younger than age 18 or incapable of self-support, unless they are attending secondary school (that is, grades 9–12).

⁴¹ Transitional SMA rates are based on per diem rates that are set by the General Services Administration and, therefore, were not included in this audit.

To determine the amounts for SMA,⁴² A/OPR/ALS analysts are required to annually obtain BLS consumer expenditure data,⁴³ which the analysts use to calculate the voluntary and involuntary SMA “base” rates. The base rates cover a family consisting of one adult and two or three additional family members. The analyst then determines the SMA rates for families of other sizes by multiplying a standard percentage for each category by the standard base rate. Table 2 shows the annual voluntary and involuntary SMA rates published in the DSSR as of June 2017.

Table 2: Voluntary and Involuntary Separate Maintenance Allowance Annual Rates, as of June 2017

Type	1 Child Only	2 or More Children Only	1 Adult Only	1 Adult and 1 Additional Family Member	1 Adult and 2 or 3 Additional Family Members	1 Adult and 4 or More Additional Family Members
Voluntary	\$5,300	\$8,800	\$10,100	\$13,600	\$15,400	\$18,000
Involuntary	\$6,800	\$11,300	\$12,900	\$17,400	\$19,700	\$23,000

Source: DSSR, Section 267.1, “Determination of Rates.”

Separate Maintenance Allowance Payment Process

A post employee obtains authorization for an SMA using the SF 1190,⁴⁴ which the employee submits to the executive director of the regional bureau. The executive director may grant, revise, or terminate the SMA. Once approved, the regional bureau human resources specialist submits the SF 1190 to CGFS, Global Compensation Directorate, to start SMA allowance payments. Employees are paid the SMA bi-weekly through the payroll system. The regional bureau is also responsible for notifying CGFS, Global Compensation Directorate, when an employee departs from post to end SMA payments.

Roles and Responsibilities

A/OPR/ALS develops and coordinates policies, regulations, standards, and procedures to administer Government-wide allowances. A/OPR/ALS also calculates and publishes COLA rates for all eligible U.S. Government civilians. A/OPR/ALS analysts perform reviews of applicable data to determine recommended COLA rates, which are then reviewed and approved by their team leader, team supervisor, and the A/OPR/ALS office director before being published in the DSSR.

⁴² Department of State, Office of Allowances Standard Operating Procedures, “Developing Rates for Voluntary and Involuntary Separate Maintenance Allowances,” October 2009.

⁴³ BLS publishes consumer expenditure data at <<https://www.bls.gov/cex/>>. Consumer expenditure data provide information on the buying habits of American consumers, including data on their expenditures, income, and consumer characteristics. A/OPR/ALS uses consumer expenditure data to identify housing and utilities expenditures to calculate voluntary SMA rates and uses housing, utilities, household operations, housekeeping supplies, and household furnishing and equipment expenditures to calculate involuntary SMA rates.

⁴⁴ 3 FAM 3215, “Form SF-1190, Foreign Allowances Application, Grant and Report.”

A/OPR/OS promotes quality educational opportunities at the elementary and secondary school levels for dependents of American citizens carrying out programs and interests of the U.S. Government abroad. A/OPR/OS works closely with posts overseas and American-sponsored overseas schools.⁴⁵ A/OPR/OS Regional Education Officers are responsible for visiting overseas schools that are assisted⁴⁶ by the Department every 2 years to determine adequacy for kindergarten through grade 12 and may visit other schools as requested by post.

CGFS is responsible for the payment of COLA to Department employees through payroll and employee claims. Employees are paid certain allowances, such as post allowance and SMA, bi-weekly through the payroll system. Other allowances, such as the education allowance, may be paid to employees through vouchers and receipts submitted by the employee for reimbursement. CGFS also makes some payments for education allowance directly to the school upon receipt of an invoice on behalf of the employee.

Individual overseas posts have an important role in determining COLA rates. Posts submit data through various questionnaires and surveys that are used by A/OPR/ALS in the COLA rate determination process. Posts also review, approve, and submit documentation supporting employee requests for allowances. In addition, posts ensure that certain allowances, such as the education allowance, are appropriately paid to and on behalf of eligible employees.

eAllowances

For certain allowances, A/OPR/ALS analysts use a web-based IT application, eAllowances, to obtain information from overseas posts, compare external data,⁴⁷ and determine COLA rates. Geneva Software, Inc.⁴⁸ developed the eAllowances system for A/OPR/ALS. To determine the post allowance rate, overseas post officials use eAllowances to submit required information to A/OPR/ALS analysts, who use the system to determine a cost-of-living index⁴⁹ and determine a post allowance rate for the overseas post. A/OPR/ALS analysts also use eAllowances to determine the "school at post" education allowance rate.⁵⁰ For the "school at post" education allowance, overseas posts use eAllowances to submit cost information and supporting documentation for the schools attended by dependents of Government employees.

⁴⁵ American-sponsored overseas schools are schools to which the Department provides assistance, typically in the form of grants.

⁴⁶ The Department provides assistance to approximately 193 overseas schools through direct and indirect support programs designed to promote an American-style program.

⁴⁷ Sources of external data used by A/OPR/ALS include BLS and the Department of Defense.

⁴⁸ The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, awarded task order SAQMMA12L1852 on contract SAQMMA10A0177 to Geneva Software, Inc., on August 29, 2012, for the eAllowances system development and operations and maintenance support. The task order was valued at approximately \$5.1 million, which covered a period of performance from September 4, 2012, through March 3, 2017.

⁴⁹ The cost-of-living index shows the living costs in a foreign location relative to living costs in Washington, DC, based on cost-of-living information entered in the eAllowances system by posts.

⁵⁰ Other types of education allowance rates, such as "school away from post," are determined by A/OPR/ALS analysts separately from the "school at post" rate in eAllowances.

AUDIT RESULTS

Finding A: The Department Could Save Millions if It Used Independent Cost-of-Living Economic Data to Calculate Post Allowance Rates Instead of Its Current Methodology

OIG found that A/OPR/ALS has not established appropriate post allowance rates for the seven posts selected for this audit. Appropriate rates have not been effectuated for two primary reasons. First, the methodology currently used by A/OPR/ALS to calculate post allowance rates is flawed. Specifically, potential bias and other flaws are inherently built into the current process used to establish post allowance rates. The process used to collect LPQ data is manual, onerous and prone to errors. In addition, A/OPR/ALS officials did not fully understand the rationale for key elements of the post allowance methodology being employed, and therefore, numerous errors occurred. Second, even aside from the inherently flawed nature of the underlying methodology, A/OPR/ALS does not have sufficient policies and procedures to guide the process for rate setting. Specifically, guidance is insufficient to ensure that post allowance rates are based on complete and accurate information, are based on reasonable prices, and are reflective of the consumption patterns of employees at the correct salary level required by the DSSR. OIG estimates that had A/OPR/ALS used available independent cost-of-living economic data to determine rates rather than the methodology it employed, the Department could have saved approximately \$18.2 million in post allowance expenditures between FY 2013 and FY 2015 for six of the seven posts audited.⁵¹

Synopses of the Bureau of Administration's responses to the recommendations offered and OIG's reply follow each recommendation throughout Finding A.⁵² Although recommendations were not directed to the Bureau of European and Eurasian Affairs and Bureau of International Organization Affairs, Executive Office; U.S. Mission Geneva; or U.S. Embassy Berlin, each responded to a draft of this report and provided general comments.⁵³ Summaries of the general comments and OIG's replies are presented in Appendices H, I, and J, respectively. OIG notes that none of the responses disputed that the current methodology is time-consuming, prone to error, and subjective. However, some responses did raise other issues with OIG's analysis.

⁵¹ OIG could not assess the potential for savings at Brasilia, Brazil, one of seven posts selected for this audit, because the independent economic data tool OIG used to determine estimated savings did not have cost-of-living information available for this post. However, as described in more detail subsequently, officials responsible for the independent economic data tool explained that officials can identify cost-of-living indexes for posts such as Brasilia, where cost-of-living information is not readily available. For example, independent economic data tool officials stated that they could offer a cost-of-living index for Brasilia by adjusting the cost-of-living index for a nearby city after using several economic data sets for Brasilia. OIG did not, however, obtain a cost-of-living index for Brasilia because the Department would have had to request and pay for an adjusted index from the independent economic data tool officials.

⁵² Bureau of Administration's responses are reprinted in their entirety in Appendices B and C.

⁵³ Bureau of European and Eurasian Affairs and Bureau of International Organization Affairs, Executive Office; U.S. Mission Geneva; and U.S. Embassy Berlin responses are reprinted in their entirety in Appendices E, F, and G, respectively.

Although OIG has addressed many of these points in the relevant appendices, some items that go to the overall approach and conclusions in this report warrant mention at the outset. First, OIG's conclusions relate to systemic flaws inherent in the overall post allowance rate determination process. OIG does not accuse individual employees or posts as a whole of misconduct. Second, contrary to a number of comments, OIG's conclusions are not predicated on an assumption that employees should purchase the lowest cost item or that employees must search out "discount" stores or "discount" items. However, also contrary to a number of comments, the post allowance is not intended to reflect the "unique needs" or particular "lifestyle" of the diplomatic community. It is, instead, intended to ensure that Federal employees are not financially penalized for serving in a more expensive foreign location. It is intended to apply to all civilian employees across the Federal government.

Current Post Allowance Rate Methodology is Flawed and Does Not Reasonably Reflect Independent Cost-of-Living Data

OIG assessed the appropriateness of the post allowance rates established during FY 2013 to FY 2015 by A/OPR/ALS. OIG compared the post allowance rates for six of seven posts included in the audit to data from The Economist Intelligence Unit, which is an independent source of cost-of-living information that is used globally by private-sector companies.⁵⁴ OIG converted the cost-of-living indexes from the independent economic data tool to a post allowance rate using the DSSR conversion table.⁵⁵ As shown in Table 3, OIG found that the independent third-party cost-of-living data reflected post allowance rates that were lower than the A/OPR/ALS established rates for the six posts.

⁵⁴ Until late 2016, A/OPR/ALS had a subscription service to The Economist Intelligence Unit, which included an economic data tool that contained cost-of-living information for 145 cities globally. OIG used this tool to determine estimated savings and discussed the reliability of the economic data tool with the Acting Chief Economist in the Department's Office of the Chief Economist, who stated that this tool came from a very reputable source and that The Economist Intelligence Unit was highly regarded in the economist community. OIG noted that other independent sources of cost-of-living information are also available.

⁵⁵ DSSR, Section 228.

Table 3: Comparison of Post Allowance Rates to Independent Cost-of-Living Data

Post	Post Allowance Rate Determined by A/OPR/ALS ^a	OIG Determined Post Allowance Rate Based on Independent Economic Data ^b
Geneva	60	42
Berlin	50	20
Beijing	35	0
Nairobi	20	0
Abu Dhabi	25	0
New Delhi	15	0

^a This rate is the post allowance rate established by A/OPR/ALS, which includes accounting for the currency exchange rate at the time the rate was established. The specific date that the rate for each post was established varies. The rate does not reflect subsequent fluctuations in exchange rates following the establishment of the post allowance rate.

^b Cost-of-living indexes obtained by OIG reflected the currency exchange rate as of the same date as A/OPR/ALS established the post allowance rate for the corresponding post.

Source: OIG analysis based on data obtained from eAllowances and The Economist Intelligence Unit data.

According to A/OPR/ALS officials, an economist developed the overall post allowance methodology in the late 1960s, including the use of questionnaires and surveys to calculate the cost-of-living index. A/OPR/ALS has employed the same methodology ever since.⁵⁶ OIG evaluated A/OPR/ALS's current practices and found several deficiencies. Specifically, OIG found inherent risk that the stores selected and used to establish pricing data and determine post allowance rates, such as reading materials, restaurants, recreational activities, hair services, doctors, and household appliances, reflect the preference of a few employees and may not be reasonable or adequately portray spending patterns at posts. In addition, A/OPR/ALS uses a manual process to collect hardcopy LPQ data from posts that is onerous and prone to errors. Furthermore, A/OPR/ALS officials did not understand the rationale for key elements of the post allowance methodology being employed, although independent, unbiased economic data are now readily available that can be used to calculate post allowances.

Inherent Risk of Potential Bias and Other Flaws in the Process to Determine Post Allowance Rates

The process used to determine post allowance rates presents an inherent risk of bias and other flaws because the pricing data used to calculate the post allowance rate are based on information reported by the same employees at post who stand to benefit from selecting

⁵⁶ Although the use of the LPQ and RPS surveys have been in place since the 1960s, these forms have been updated several times since then to reflect changes in the living pattern data collected, such as additions and deletions of items respondents purchased at overseas posts.

high-cost items. Two areas in which the risk of potential bias can impact the post allowance rates are particularly significant—the identification of stores frequented by American employees and the selection of specific items from which to establish pricing data. OIG identified several examples of item selection bias at both U.S. Mission Geneva and Embassy Berlin. For Embassy Beijing, OIG could not analyze this issue because 45 of 179 (25 percent) LPQs OIG reviewed for this post were submitted on the incorrect version of the form. As a result, OIG could not summarize the Beijing LPQs to identify the most frequented stores.⁵⁷

Mission Geneva

In March 2011, Mission Geneva's post allowance rate was set at 90 percent, which was a 20-percent decrease from the previous rate. An employee with a salary of \$57,468 at Mission Geneva (90-percent post allowance rate) who has three family members would receive an additional \$27,900 in post allowance annually; before the decrease, this employee received \$34,100 annually (110-percent post allowance rate). The A/OPR/ALS rate recommendation memorandum from March 2011 cited increases in Washington, DC, prices as the primary driver for the rate change. The next RPS from Mission Geneva should have been submitted in March 2013; however, according to the former A/OPR/ALS Director, Mission Geneva failed to submit a new RPS until he threatened to lower Geneva's post allowance rate to zero. Subsequently, Mission Geneva submitted a new RPS in April 2014. OIG found that the 2014 price collector at Mission Geneva did not always select the stores most frequented by American employees as identified in the LPQs submitted by employees in 2014. Instead, the price collector independently selected other stores for some items that she believed were more representative of those actually being frequented by the American employees.⁵⁸ Mission Geneva's post allowance rate declined from 100 percent⁵⁹ to 60 percent in May 2015. The American employees at Mission Geneva voiced their dissatisfaction with the rate decrease at a June 2015 "Town Hall" meeting. After the meeting, Mission Geneva decided to collect new data and submitted a new RPS to A/OPR/ALS in January 2016.⁶⁰

Along with submitting new price data in January 2016, Mission Geneva provided a memorandum to A/OPR/ALS explaining the special circumstances and "unseen costs" that it contended are higher in Geneva than in Washington, DC. Specific examples included fees for the Boy Scouts of America, value added taxes on automobile fuel, trash bags, medical service prices, winter tires for automobiles, extracurricular school activities, school lunches, and the mandatory

⁵⁷ See the *"Number of People Completing the Surveys Insufficient"* section of this Finding for additional details regarding incorrect versions of the LPQs.

⁵⁸ For example, Mission Geneva's LPQs identified Volvo and BMW as the most frequented stores for auto parts. The price collector selected Pneu Claude and 4 Aces as alternatives from which to collect prices because she felt these prices were more reasonable and that more people at post frequented those stores.

⁵⁹ From March 2011 through May 2015, Geneva's post allowance rate increased from 80 percent to 100 percent because of exchange rate fluctuations.

⁶⁰ DSSR, Section 074.3, "Submission of Cost of Living Information and Voluntary Forms DS 2020-2021," allows overseas posts to submit new LPQs and RPSs at any time, but the filing of an interim report does not relieve the post's responsibility for submitting the next regularly scheduled LPQ or RPS.

schooling for children at 4 years of age in Switzerland. The A/OPR/ALS analyst charged with recalculating the post allowance rate in 2016 noted that most of the post's comments concerned costs outside the scope of the post allowance or were covered by other allowances, such as the education allowance and living quarters allowances. The A/OPR/ALS analyst removed the expenses not applicable to post allowance and recalculated the post allowance rate. As a result, the post allowance rate for Mission Geneva was ultimately set at an overall rate of 60 percent, effective May 1, 2016.⁶¹

Embassy Berlin

OIG found that the price collectors for the 2013 and 2016 RPSs⁶² obtained information on the price of women's, men's, and children's clothes from a store that offered only high-end, luxury items. For example, Embassy Berlin collected prices for clothing items from Kaufhaus des Westens (commonly known as "Kadawe"), which is a luxury department store.⁶³ The price collector for Berlin's 2016 RPS stated that she believed the items chosen for both the 2013 and 2016 RPS were questionable, but she was told by an embassy official to use the same items selected in 2013 to establish pricing data. Unlike Mission Geneva's price collector, who disregarded some stores listed on the LPQs and instead gathered prices from stores that she believed post employees actually frequented, the Embassy Berlin price collector used the stores and the same items selected in 2013 and simply updated the price information for each item.

Another issue with the LPQ process is that sometimes stores or restaurants can be selected for comparative pricing even if few people at the post indicate that they primarily use that store. This occurs for subcategories in which many post employees report a wide variety of stores for a good or service. For example, in Embassy Berlin's LPQs, post employees reported using 38 different hair service providers. In this instance, a store that was identified by five individuals was selected as the primary store for the entire post. Although this was appropriate according to the post allowance methodology, if a large variety of stores are identified by post employees for a given good or service, a few employees at post can identify a primary store for the entire post. Similarly, Embassy Berlin selected a restaurant that was identified by four people as the primary store for that category for determining price information. These examples show how a small number of people at a post (3 percent or less)⁶⁴ could sway the choices made in terms of selecting stores to use in determining the post allowance amount. Stores selected for price collection purposes may not reasonably reflect employee spending at the post. The DSSR requires that the LPQ accurately reflect foreign living costs for the average Washington, DC,

⁶¹ Geneva's post allowance rate actually decreased to 50 percent from the original 60 percent post allowance rate in May 2015 because of exchange rate fluctuations before A/OPR/ALS published the new 2016 rate. Accordingly, although the rate "increased," the end result was the same 60-percent rate proposed in May 2015.

⁶² Embassy Berlin used the same stores to collect prices from in its 2016 RPS as its 2013 RPS. The 2016 Berlin RPS was not included in the scope of this audit; however, post did not maintain documentation related to the 2013 RPS, which was included in the scope of this audit. However, OIG was not able to interview the price collector for the 2013 RPS and could only interview the price collector for the 2016 RPS.

⁶³ See the *"Inaccurate Data Were Used"* section of this Finding for additional details regarding data reported by Embassy Berlin.

⁶⁴ According to eAllowances, Embassy Berlin had 150 employees, although only 73 adequate LPQs were submitted.

family living in the foreign area, but in the case of Embassy Berlin, OIG found that a few employees could determine the primary or secondary store for the entire post.

Onerous Process to Collect and Summarize Economic Data Is Prone to Error

The use of hardcopy LPQs to collect employee consumption data at posts was onerous and increased the risk of data integrity problems. Posts complete individual hardcopy LPQs that are used to collect freeform answers of store names from post employees and that are accordingly prone to legibility, spelling, and validation errors, such as an employee listing a non-local store. OIG did, in fact, identify numerous instances in which store names were illegible or incorrectly spelled, inconsistencies in the answers related to the means by which employees obtain items, and other data collection issues.⁶⁵ As A/OPR/ALS does not have specific guidance for addressing such errors, post employees assigned to summarize this information are left to interpret and address these problems and then must tally the handwritten information on the hard copies to input the summary data into eAllowances. This can cause additional problems and inconsistencies in how posts identify and address problems from using hardcopy LPQs. For example, one employee at Mission Geneva excluded “illogical” store choices when summarizing LPQs, including non-local stores such as Amazon.com, although another employee at Embassy Beijing said that she summarized all LPQs exactly as submitted by post employees, which included non-local stores.

According to post personnel interviewed for this audit, collecting price data and summarizing the information contained in the LPQs is challenging. For example, Mission Geneva hired a U.S. citizen spouse to collect pricing data and to summarize the LPQs in November 2013, but the post had to redo this work in February and March 2014 because the initial set of LPQs did not meet the 67-percent required response. At Embassy Berlin, a human resources administrative assistant assigned to collect price data had to travel 250 miles to collect price information from the commissary store at the U.S. Military base in Grafenwoehr, Germany. At Embassy Beijing, post officials stated that it took approximately 60 days to perform the required tasks—from collecting to submitting the LPQs—and involved three staff members.

OIG also learned from interviews with A/OPR/ALS staff that backlogs of post allowance surveys were waiting to be reviewed by analysts, because A/OPR/ALS analysts must also review other more time-sensitive allowances, such as the education allowance. As shown in Table 4, it took A/OPR/ALS between 83 days and 392 days from the receipt of RPS information to approve the new post allowance rate.

⁶⁵ Other data collection issues included generic store names that did not allow for the identification of a specific store to collect prices from and incomplete data such as blanks for store names. See the “*Incorrect Stores Selected*” and “*Inaccurate Data Were Used*” sections of this finding for additional details.

Table 4: Number of Days to Analyze Post Allowance Data

Post Location	Date RPS Received	Date Director Approved	Elapsed Days
Geneva	4/30/2014	5/27/2015	392
Berlin	3/28/2013	10/29/2013	215
Beijing	12/12/2013	3/5/2014	83
Brasilia	12/20/2013	3/20/2014	90
New Delhi	3/21/2013	3/5/2014	349
Nairobi	10/22/2014	4/24/2015	184
Abu Dhabi	3/2/2014	6/10/2014	100

Source: OIG generated on the basis of data from eAllowances.

Key Elements of Post Allowance Methodology Are Not Understood

A/OPR/ALS officials could not explain the rationale for key elements of the post allowance methodology being employed in situations in which their understanding was important to ensure that the allowances were correctly calculated. First, the DSSR requires at least a 67-percent response rate for LPQs. However, OIG was unable to obtain rationale or support for the 67-percent LPQ response rate requirement and A/OPR/ALS officials could not explain when the requirement was implemented or why 67 percent was selected as the required response rate.

Second, A/OPR/ALS could not explain whether the Washington, DC, prices that A/OPR/ALS obtained from BLS appropriately reflected the living costs of an average American family with a base salary of a GS-11 Step 5. According to A/OPR/ALS officials, the Washington, DC, prices were provided on a quarterly basis and were based on prices collected in 2009 by BLS and then adjusted each subsequent quarter using a consumer price index⁶⁶ to reflect the most current price conditions. A/OPR/ALS officials did not know how BLS collected the prices in 2009. OIG reviewed statements of work and the interagency agreement between BLS and the Department and found that none of these documents specified whether Washington, DC, prices from BLS actually reflected the living costs for a GS-11 Step 5 salary level. A/OPR/ALS provided OIG a document from 1992 stating that the Washington, DC, prices should reflect the GS-11 Step 5 salary level, but the A/OPR/ALS Director was not sure if this was still in effect. A/OPR/ALS uploads the Washington, DC, pricing data into eAllowances and uses the data to compare the RPS pricing data from overseas posts to calculate the post allowance rates. If the Washington, DC, prices do not truly reflect the current living costs for a GS-11 Step 5, then the corresponding post allowance rate calculated for any post in eAllowances would be equally inaccurate.

Independent Economic Data Are Readily Available for Most Post Locations

When the post allowance methodology was established in the 1960s, it was difficult to obtain economic data for the countries where American employees were stationed for the purpose of

⁶⁶ The consumer price index is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

determining appropriate post allowance rates. However, this type of economic data are readily available from vendors for most post locations where Americans are stationed. For example, as noted previously, in 2016 A/OPR/ALS had a paid subscription service with The Economist Intelligence Unit, which allowed A/OPR/ALS access to a cost-of-living index tool. The data tool allowed A/OPR/ALS analysts to compare cost-of-living information for 146 out of 275 Department posts,⁶⁷ which covered approximately 66 percent of Department employees who received post allowance. A/OPR/ALS officials were also able to customize the tool to include or exclude specific subcategories of goods and items, an approach that ensured the cost-of-living index was as comparable as possible to the prices collected to prepare the RPS and calculate the post allowance rate. The tool also included 13 more individual items than the Department collects, covering the same categories of items used by the Department. In addition, OIG noted that The Economist Intelligence Unit included 65 unique items not covered by the RPS, although the RPS included 50 other items not covered by the tool. Although items priced by the tool and the Department differ, OIG did not find significant differences to justify a reason to not use the tool. (For example, The Economist Intelligence Unit priced grocery items such as butter, yogurt, mushrooms, and lemons, whereas the RPS included items such as ice cream, candy, peanut butter, and green beans.)

Even though these data were readily accessible, A/OPR/ALS did not use them to calculate the post allowance rate or to ensure that the rates calculated for the seven posts included in this audit were reasonable. According to an A/OPR/ALS team supervisor, the analysts could use this economic data tool or other outside information to check the reasonableness of prices submitted by posts in eAllowances. However, OIG did not find any evidence that this tool was ever used, even to validate or verify the reasonableness of prices submitted for the seven posts reviewed. In addition, this information is easily obtained (versus the onerous, manual process currently used by the Department) and is independent and unbiased. OIG discussed the reliability of this independent economic data tool with the Acting Chief Economist in the Department's Office of the Chief Economist, who stated that The Economist Intelligence Unit is reputable and highly regarded in the economist community. In addition, OIG found that The Economist Intelligence Unit offers custom cost-of-living indexes for other cities not regularly reviewed.⁶⁸

As shown in Table 5, OIG estimates that the Department could have saved approximately \$18.2 million in post allowance expenditures between FY 2013 and FY 2015 for six of the seven posts audited had A/OPR/ALS used the cost-of-living indexes provided by The Economist Intelligence Unit. This amount does not include the amount of time and effort it required for posts to complete, collect, and summarize LPQs and collect prices for the RPS. It also does not

⁶⁷ Each of the Department's 275 posts does not necessarily have individualized post allowance rates. Some posts are dependent on other posts' rates. For example, A/OPR/ALS analysts review cost-of-living information submitted by officials at Embassy Berlin to determine the post allowance rate for Embassy Berlin and also for Consulate General Dusseldorf.

⁶⁸ In addition to The Economist Intelligence Unit, OIG identified various other independent sources of cost-of-living index information that covered more than 370 locations worldwide, which also included post locations that The Economist Intelligence Unit did not typically include.

consider the amount of time and money expended to operate and maintain the post allowance calculations in eAllowances or the time and effort required for A/OPR/ALS to review and perform post allowance analyses for each post.

Table 5: Potential Cost Savings for Audited Posts Between FY 2013 and FY 2015

Post	Actual Post Allowance Expenditures	Post Allowance Estimates Using The Economist Intelligence Unit Indexes	Cost Savings*
Mission Geneva	\$6,334,341	\$2,867,365	\$3,466,976
Embassy Berlin	\$2,987,666	\$1,542,560	\$1,445,106
Embassy Beijing	\$7,802,316	\$0	\$7,802,316
Embassy Nairobi	\$2,534,831	\$0	\$2,534,831
Embassy Abu Dhabi	\$1,214,256	\$0	\$1,214,256
Embassy New Delhi	\$1,711,345	\$0	\$1,711,345
Total	\$22,584,755	\$4,409,925	\$18,174,830

* Cost savings is limited to post allowance expenditures only and do not include other areas for cost savings such as time and effort.

Source: OIG generated on the basis of data from the Department's Global Financial Management System and The Economist Intelligence Unit provided by A/OPR/ALS.

A/OPR/ALS canceled its subscription to The Economist Intelligence Unit service on September 30, 2016. In an email to OIG, the A/OPR/ALS Director cited the subscription's cost, the lack of total post coverage, and that the information supplied was not comparable as reasons for canceling the subscription. However, OIG found that The Economist Intelligence Unit could be used to obtain cost-of-living indexes for additional Department posts, using expert economic analysis. In addition, OIG found that The Economist Intelligence Unit obtained pricing information for items similar to those priced by the Department in the RPS and therefore was generally comparable to the pricing information collected by the Department.

Recommendation 1: OIG recommends the Bureau of Administration develop and implement a plan to use independent economic data to determine post allowance rates where such data for post exist.

Management Response: A/OPR/ALS concurred with the recommendation stating that it "conducted a market survey to determine the feasibility of outsourcing data collection and analysis for post allowance." A/OPR/ALS plans to move to a pilot phase to help develop a scope of work.

OIG Reply: On the basis of A/OPR/ALS's written response and supplemental information provided during a meeting to discuss the audit results and related recommendations, OIG considers this recommendation resolved, pending further action. During the meeting, A/OPR/ALS officials stated that the market research, referenced in the written response, was of various companies that provide independent economic data.

A/OPR/ALS also explained that it conducted this research with the intent of using such independent economic data to implement a single post allowance methodology across all posts. OIG requests that the Bureau of Administration provide estimated milestones for implementing the recommendation in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration developed and implemented a plan to use independent economic data to determine post allowance rates where such data for post exist.

Recommendation 2: OIG recommends the Bureau of Administration re-determine and update by the end of FY 2018 post allowance rates using independent economic data where such data for post exist. Once the rates have been updated, the Bureau of Administration should determine the amount saved by implementing the new rates. OIG determined that using independent, economic data would have saved the Department approximately \$18.2 million between FY 2013 and FY 2015 for six posts tested (that is, funds that could have been put to better use).

Management Response: A/OPR/ALS concurred with the recommendation stating that its market survey showed that it needs a contract to re-determine post allowance on the basis of independent economic data. A/OPR/ALS stated that once procurement is concluded, it will be able to provide the information required for this recommendation.

OIG Reply: On the basis of A/OPR/ALS concurrence with the recommendation and planned actions, OIG considers this recommendation resolved, pending further action. OIG requests that the Bureau of Administration provide estimated milestones for the completion of the procurement and implementation of the recommendation in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration re-determined and updated post allowance rates using independent economic data and determines the amount saved by implementing the new rates.

Department Policies and Procedures Are Insufficient to Guide the Process for Rate Setting

As described previously, OIG recommends that the Department develop a plan to use independent economic data to determine post allowance rates because of the inherent flaws in the existing system. In addition to the flaws that OIG identified in the methodology, A/OPR/ALS did not establish appropriate post allowance rates because its guidance is insufficient to ensure that post allowance rates are based on complete and accurate information, are based on reasonable prices, and are reflective of the consumption patterns of employees at the correct salary level, as required by the DSSR. That is, to the extent that the Department continues to use the existing system for any period of time or for some limited number of locations for which independent economic data are not readily available, the existing policies and procedures are inadequate.

According to Federal standards for internal control,⁶⁹ management should evaluate information for completeness and accuracy when using information for making informed decisions. However, OIG found that the policies and procedures related to A/OPR/ALS analysts reviewing data received from posts were not sufficient. For example, A/OPR/ALS did not have policies or procedures that specified how the A/OPR/ALS analysts should review LPQs received from posts, such as ensuring that post complied with requirements, ensuring that all respondents had been at post for longer than 6 months, or reconciling data from hardcopies of the LPQs to the information entered by posts in eAllowances. OIG also found no guidance in the DSSR or A/OPR/ALS policies and procedures on summarizing LPQ data, such as how to prevent inaccurate or incomplete LPQ data from being summarized and entered into eAllowances and then being used by A/OPR/ALS to calculate the post allowance rate.

Furthermore, OIG found that the generic guidance⁷⁰ to analysts on removing “expensive” and “high-cost” item prices was insufficient because A/OPR/ALS did not explain how to identify “high-cost” items or provide information for all subcategories. A/OPR/ALS officials accordingly analyzed data for “high-cost” items differently. For example, one analyst compared prices that were more than 150 percent of the median⁷¹ price in eAllowances to previous prices within a subcategory of goods,⁷² and another analyst removed “extreme” prices relative to either Washington, DC, or prices previously recorded in eAllowances for that post. Another official stated that analysts should exclude prices that exceed 300 percent of the Washington, DC, recorded price in eAllowances. The review relies almost entirely upon the analyst’s judgment.

Guidance Is Insufficient to Ensure Post Allowance Rates Are Based on Complete and Accurate Information

A/OPR/ALS analysts need clearer guidance on reviewing data to ensure complete and accurate price information is included in the post allowance calculation and to ensure that all analysts are consistently performing the reviews and removing high-priced or luxury items. OIG reviewed the most recent LPQs submitted by the seven posts selected for this audit and found that the LPQs submitted did not always comply with Department policies and procedures for post allowances. Specifically, not all posts had a sufficient number of employees complete the LPQ surveys and the cost-of-living information and thus the spending patterns provided by posts were significantly higher than allowed by Department policy. Although the LPQ summary information did not reasonably reflect living patterns at each of the posts, A/OPR/ALS used the summary LPQ information to calculate the post allowance rate. Furthermore, OIG identified instances

⁶⁹ GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (September 2014).

⁷⁰ The A/OPR/ALS procedures instructed the analyst to remove convenience-type stores that sell “high-cost” items as well as to remove “expensive” cuts of meat and fabrics.

⁷¹ The median is the middle number in a given sequence of numbers, taken as the average of the two middle numbers if the sequence has an even number of numbers. For example, 4 is the median of 1, 3, 4, 8, and 9.

⁷² For example, prices collected for specific goods, such as canned fish and fresh fish, are grouped under the seafood subcategory. The analyst would look at the median price within this subcategory and remove any seafood item prices that were more than 150 percent.

during the RPS process in which posts obtained price information from selected stores, contrary to Department guidance.

Number of People Completing the Surveys Insufficient

Posts are required to have at least 67 percent of allowance-eligible employees complete LPQs.⁷³ According to the information in eAllowances, six of seven posts met the 67-percent response rate required by the DSSR. Although the eAllowances system showed that most posts complied with the requirement, OIG found that the data in eAllowances did not provide a complete picture of the response rate. For example, the DSSR⁷⁴ requires posts to submit a completed copy of the LPQs to A/OPR/ALS for review. Specifically, OIG found that the number of LPQs sent to A/OPR/ALS did not match the number of responses reported in eAllowances for five of the seven posts audited. For example, Embassy Nairobi reported in eAllowances that it obtained 305 LPQs from eligible employees, but A/OPR/ALS only received 187 hardcopy LPQs. Furthermore, of the 797 LPQs that A/OPR/ALS received from the 7 posts, OIG found that 64 were completed on an incorrect version of the LPQ.⁷⁵ Using the incorrect version in this case would not allow the LPQs to be summarized for input into eAllowances.

Furthermore, according to the DSSR,⁷⁶ the LPQs should only be prepared by employees who have been at post for 6 months or longer. OIG found that 126 of the 797 LPQs provided were completed by employees who were at post for less than 6 months or whom OIG could not determine how long that they had been at post. Moreover, OIG found 3 of 797 LPQs were duplicates and that 2 LPQs belonged to another location. As shown in Table 6, after removing the inadequate LPQs, the response rate for six of seven posts tested was under the required 67 percent.

Table 6: Living Pattern Questionnaire Testing Summary

Post	Number of Employees Reported in eAllowances	Number of LPQs Reported in eAllowances	eAllowances Percentage of Participation	Number of Adequate LPQs Identified by OIG*	OIG Calculated Percentage of Participation
Geneva	117	80	68	80	68
Berlin	150	83	55	73	49
Beijing	273	192	70	134	49

⁷³ DSSR, Section 074.44, "Importance of the Retail Price Schedule and the Hotel and Restaurant Report."

⁷⁴ Ibid.

⁷⁵ During OIG's review of the LPQ process, OIG noted a January 2000 and September 2007 version of the LPQ form. The correct version of the form for the scope period audited was the September 2007 version. OIG found that the January 2000 version of the form differed significantly from the September 2007 version in several major categories, such as clothing and recreation. In addition, the January 2000 version included subcategories for computer accessories and hospital facilities, which the September 2007 version did not.

⁷⁶ DSSR, Section 074.43, "Living Pattern Questionnaire (LPQ) (DS 1996)."

Post	Number of Employees Reported in eAllowances	Number of LPQs Reported in eAllowances	eAllowances Percentage of Participation	Number of Adequate LPQs Identified by OIG*	OIG Calculated Percentage of Participation
Brasilia	129	91	71	79	61
New Delhi	234	161	69	103	44
Nairobi	332	305	92	133	40
Abu Dhabi	150	100	67	0	0
Total	1,385	1,012	73	602	3

* OIG determined an LPQ was adequate by reviewing hardcopy LPQs for each post and determining whether the correct LPQ version was used, the employee who filled out the LPQ was at post for 6 months or more, the LPQ was not a duplicate copy, and whether the LPQ was for the correct location.

Source: Prepared by OIG on the basis of its analysis of LPQs provided by A/OPR/ALS and eAllowances data.

Incorrect Stores Selected

OIG also identified instances in which posts did not select primary stores in accordance with Department guidelines. For example, the DSSR requires employees at post to report the two most frequented stores on each individual LPQ.⁷⁷ The instructions for completing the RPS require posts to tally the two most frequented stores identified in the LPQs to determine the most frequented stores from which to collect prices.⁷⁸ However, OIG summarized individual LPQs submitted by Embassy Berlin in 2013 and found 13 of 42 (31 percent) instances in which the post selected stores that were not the most frequented. Similarly, for Mission Geneva's 2014 LPQ submission, OIG found 16 of 42 (38 percent) instances in which post selected stores that were not the most frequented.

In another example, the instructions for completing the RPS require that prices collected from hair salons and restaurants located at a hotel must be warranted by local conditions and fully explained in the RPS.⁷⁹ However, OIG identified three instances in the Embassy Berlin RPS in which services located at a hotel—a hair salon and a restaurant—were selected as a primary store, even though the selection did not seem to be warranted by local conditions (that is, numerous hair salons and restaurants were available that were not in a hotel) and the post did not explain why these stores were selected in the RPS documentation.

Inaccurate Data Were Used

In addition to finding issues of non-compliance with requirements, OIG identified instances in which posts submitted, or entered data into eAllowances, that was inaccurate or incomplete. For example, OIG found that 71 of 80 (89 percent) LPQs submitted by Mission Geneva contained inadequate or inaccurate data. Specifically, 60 LPQs contained illegible responses or listed

⁷⁷ DSSR, Section 074.43.

⁷⁸ DS-2020I, "Instructions for Completing the DS-2020-Retail Price Schedule, Parts 1–3."

⁷⁹ Ibid.

generic stores,⁸⁰ neither of which would be useful to the price collector for the purpose of gathering price data, and 12 LPQs cited non-local stores.⁸¹ OIG also found that 42 of the 80 (53 percent) Mission Geneva LPQs did not identify the currency used (for example, local currency versus U.S. dollar) at 1 or more stores identified, which is required. Further, five LPQs had instances in which secondary stores were identified but information on primary stores was not included.⁸² OIG identified similar issues for Embassy Berlin. For example, of 93 hardcopy LPQs submitted, 21 had blank or generic store names for the hair services subcategory.

Guidance Is Insufficient to Ensure Post Allowance Rates Are Based on Reasonable Prices

OIG also identified significant issues with the accuracy of the data collected and reported by price collectors at posts. OIG recalculated the RPS data collection for Mission Geneva, Embassy Berlin, and Embassy Beijing,⁸³ which allowed OIG to independently collect price information and compare it with the prices reported by each post. OIG collected prices for 799 different items in accordance with the RPS instructions and on the basis of the most frequented stores identified by each post LPQ.^{84, 85} OIG also found that prices for 192 of 799 (24 percent) of the items were between 50 percent and 95 percent lower than prices reported by posts (that is, posts reported prices that were very high). OIG also found that prices for 70 of 799 (9 percent) of the items were between 50 percent and 502 percent higher than prices reported by posts (that is, post reported prices that were very low).

Because A/OPR/ALS analysts will sometimes remove high or unreasonable prices from the RPS submitted by posts when calculating a post allowance rate, OIG reviewed the A/OPR/ALS analysis of these prices in eAllowances and confirmed that the analysts identified and removed approximately 27 percent of the unreasonably priced items submitted by the posts. Nevertheless, 73 percent of unreasonably priced items were still included in the cost analysis. As shown in Table 7, for the 799 items OIG collected, approximately 24 percent of the prices reported in eAllowances were unreasonably high (that is, were more than 50 percent higher than the prices gathered by OIG).

⁸⁰ Examples of generic stores include "local pharmacy" as a store for medicine, "internet" for computer accessories, and "local" for auto parts.

⁸¹ A common online retailer was listed as the non-local store in these instances. DSSR, Section 074.47, "Selection of Outlets and Selection of Prices," requires post to determine the two most frequently used local retail establishments at post, which would exclude online retailers.

⁸² DSSR, Section 074.43, "Living Pattern Questionnaire," requires employees at post to document the two most frequently used local retail stores for various consumer goods and services. This section also states that for the LPQs to be valid, employees must sign and complete the form in full.

⁸³ For Mission Geneva and Embassy Berlin, OIG used the information from the hardcopy LPQs to identify the top two stores to gather prices for each category of items. Because Embassy Beijing did not always use the correct version of the LPQ form, OIG relied on the data that post entered into eAllowances to identify the top two stores to gather prices for each category, rather than confirming the stores from the hardcopy LPQs.

⁸⁴ OIG followed the same instructions overseas posts are provided for completing the RPS. The instructions detailed item specifications, such as washing machine type.

⁸⁵ Embassy Beijing, Embassy Berlin, and Mission Geneva, submitted their most recent RPS to A/OPR/ALS in December 2013, March 2013, and April 2014, respectively.

Table 7: Comparison of Prices Collected by OIG with Prices Reported by Posts

Post	Number of Items OIG Collected ^a	Number of Items with Prices (50 Percent or More) Lower Than Post Reported	Percentage of Items With Unreasonable Prices	Number of Items Identified by OIG That Analysts Identified and Removed	Percentage of Items that OIG Identified as Unreasonable That Were Not Removed By Analysts ^b
Geneva	284	68	24	0	100
Berlin	265	62	23	22	65
Beijing	250	62	25	30	52
Total	799	192	24	52	73

^a OIG collected prices for items at each location on the basis of information derived from A/OPR/ALS hardcopy LPQs as well as prior RPS submitted by posts in accordance with guidance in the RPS instructions. As such, the number of items for which OIG obtained prices varied by location.

^b OIG calculated this amount by first identifying the number of items analysts did not remove (column “Number of Items with Prices (50 Percent or More) Lower Than Post Reported” minus column “Number of Items Identified by OIG That Analysts Identified and Removed”) then dividing the result by column “Number of Items with Prices (50 Percent or More) Lower Than Post Reported.” For example, in Berlin the analyst did not remove 40 (62 minus 22—shown in columns 3 and 5 in the table, respectively) items with prices lower than what post reported, which resulted in the analyst not removing 65 percent (40—as calculated—divided by 62—shown in column 3) of the items OIG identified as unreasonable.

Source: OIG prepared on the basis of its comparison of item prices collected during post site visits to item prices reported in eAllowances.

In comparing specific prices for items in the RPS with the price information OIG collected, OIG often found significant differences. For example, OIG collected the prices for children’s jeans at a store it identified as a commonly used store when summarizing the Berlin LPQs for children’s clothes and found jeans for 19.99 euros per pair. However, the cost of children’s jeans reported in the Berlin RPS was 109.99 euros per pair. The Berlin RPS indicated the jeans as Burberry, which is a high-end brand of clothing. As OIG also reported, posts did not always summarize LPQ information accurately on the RPS, and the store chosen for the Burberry children’s jeans was a luxury department store that was not supported by the information in the Berlin LPQs. Furthermore, the same luxury department store was used by Berlin to report the price information for men’s and women’s clothing. Although use of this store was accurate for men’s and women’s clothing, OIG found that prices throughout the store varied and collected prices lower than were reported on the Berlin RPS. For example, OIG found a woman’s blouse priced at 90 euros but the Berlin RPS reported 279 euros for the same item category.

Other examples of unreasonably high-priced items include a washing machine that cost 349 Swiss francs compared to Mission Geneva’s RPS price of 3,499 Swiss francs at the same store, laundry detergent that OIG priced at 29.33 renminbi compared to 190 renminbi priced by Embassy Beijing’s RPS at the same store, and a skirt that OIG priced at 19.99 euros compared to 99 euros on Embassy Berlin’s RPS.

Guidance Is Insufficient to Ensure Post Allowance Rates Reflect Required Consumption Patterns of Employees at the Salary Level Required by DSSR

According to the DSSR, the post allowance determination should reflect the living costs for the average Washington, DC, family of “3 to 4 persons with a base salary of a GS-11 Step 5, without locality pay.”⁸⁶ OIG analyzed payroll data for all employees who received a post allowance during the scope of the audit. As shown in Table 8, OIG found that the average gross annual salary (which excludes post allowance) of these employees was \$101,855⁸⁷, which was nearly two times the base salary of a GS-11 Step 5 employee (\$57,468 per annum) without locality pay, as required by the DSSR.

Table 8: Comparison of Average Post Employee and GS-11 Step 5 Salaries

Post	Average Salary of Employees	Average GS-11 Step 5 Salary*	Difference
Worldwide	\$101,855	\$57,468	\$44,387
Geneva	\$90,798	\$57,468	\$33,330
Berlin	\$96,692	\$57,468	\$39,224
Beijing	\$100,123	\$57,468	\$42,655
Brasilia	\$100,867	\$57,468	\$43,399
Nairobi	\$128,469	\$57,468	\$71,001
Abu Dhabi	\$91,547	\$57,468	\$34,079
New Delhi	\$107,822	\$57,468	\$50,354

* To calculate this figure, OIG averaged the GS-11 Step 5 salaries for FY 2013, FY 2014, and FY 2015, without locality adjustment, as per the DSSR, Section 075.45.

Source: OIG prepared on the basis of its analysis of data collected from the Department’s Consolidated American Payroll Processing System.

When A/OPR/ALS uses price data collected on employees who earn significantly more than a GS-11 Step 5 employee, the post allowance rate for that post becomes inflated because the price data provided by the higher paid employee are from stores and for items not typically purchased by a lesser paid employee. Consequently, the price data provided by the higher paid employee make it appear that living overseas is more expensive than living in Washington, DC, when that may not necessarily be the case. For example, the average salary of an employee at Mission Geneva was \$90,798. This employee would more likely choose a high-end store to purchase shoes at this post than a GS-11 Step 5 employee with an average salary of \$57,468. For example, in Mission Geneva’s 2014 RPS, men’s dress shoes were priced between \$167.42 and \$313.48 at Manor (a moderately priced department store) and Globus (a high-end department

⁸⁶ DSSR, Section 074.45, “Preparation for Retail Price Survey.”

⁸⁷ Gross annual salary includes regular pay along with any applicable locality pay, overseas comparability pay (this pay serves to provide locality pay for Foreign Service personnel posted overseas), taxable entitlements, such as post differential pay and danger pay and awards.

store), but eAllowances showed that men's shoes were priced \$64.67 in Washington, DC, at either Macy's or Sears stores.⁸⁸

Manual Post Allowance Calculations May Be Necessary

As OIG reported, independent economic data are readily available and can be used to reduce the need for A/OPR/ALS to calculate post allowance rates using questionnaires and data obtained from posts for many of the Department's overseas locations. However, The Economist Intelligence Unit data tool⁸⁹ discussed in this report and used by OIG to estimate potential savings for the Department does not cover 129 Department posts or about 34 percent of Department employees stationed in foreign areas. The tool does however offer other options to obtain cost-of-living indexes for other posts not directly covered by their tool. For example, The Economist Intelligence Unit officials stated that they could perform research on the economic situation of the city and select a comparable city's cost-of-living index to use as a proxy city and could also adjust the cost-of-living index for a nearby city by using several economic data sets to arrive at a new cost-of-living index that is reflective of the city's economic situation. Furthermore, The Economist Intelligence Unit officials also stated that another alternative is to perform a full review of the city by collecting prices and calculating the cost-of-living index in the same manner the tool does for other cities. Although alternative methods for obtaining cost-of-living indexes and other independent economic data sources are available, which should be explored by the Department, some posts may have independent cost-of-living indexes that cannot be obtained. In those situations, A/OPR/ALS officials will need to implement additional guidance to ensure appropriate post allowance rates are established. OIG is therefore offering the following recommendations.

Recommendation 3: For cases in which independent cost-of-living indexes are not available to establish post allowance rates, OIG recommends that the Bureau of Administration revise and distribute updated policies and procedures to posts related to the post allowance rate methodology that provide detailed procedures for (a) collecting and summarizing living pattern questionnaires in eAllowances, and (b) collecting prices that reflect the requirements outlined in the Department of State Standardized Regulations on the retail price schedule Parts 3 and 4.

Management Response: A/OPR/ALS stated that it is "working to develop a means to outsource all post allowance data collection with the view to providing a standard methodology for all posts overseas."

OIG Reply: On the basis of A/OPR/ALS's proposed actions to develop a means to outsource all post allowance data collection and supplemental information provided

⁸⁸ eAllowances data were inconclusive with regard to the store used to obtain Washington, DC, prices. As reported, A/OPR/ALS officials could not explain the data obtained from BLS. See the "Key Elements of Post Allowance Methodology Are Not Understood" section of this Finding for additional details.

⁸⁹ See the "Independent Economic Data Are Readily Available for Most Post Locations" section of this finding for additional details.

during a meeting to discuss the audit results and related recommendations, OIG considers the recommendation resolved pending further action. During the meeting, A/OPR/ALS explained that, even for those posts as to which there is not an existing set of independent economic data, it intends to outsource all collection of data needed for calculation of the post allowance. That is, A/OPR/ALS explained that it seeks to eliminate the internal data collection process entirely. OIG requests that the Bureau of Administration provide estimated milestones for the completion of outsourcing post allowance data in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration either outsourced all post allowance data collection or, if the outsourcing for all post data collection does not occur, revised and distributed updated policies and procedures to posts related to the post allowance rate methodology that provide detailed procedures for (a) collecting and summarizing LPQs in eAllowances and (b) collecting prices that reflect the requirements outlined in the DSSR on the RPS Parts 3 and 4.

Recommendation 4: For cases in which independent cost-of-living indexes are not available to establish post allowance rates, OIG recommends that the Bureau of Administration revise and distribute updated internal procedures for calculating post allowances to include detailed instructions to (a) verify post living pattern questionnaire summary information in eAllowances with hard copies provided by post, and (b) remove inappropriate or unreasonable prices from the retail price schedule in a consistent manner across all subcategories of goods, including the use of independent data when available.

Management Response: A/OPR/ALS stated that it is "working to develop a means to outsource all post allowance data collection with the view to providing a standard methodology for all posts overseas."

OIG Reply: On the basis of A/OPR/ALS's proposed actions to develop a means to outsource all post allowance data collection supplemental information provided during a meeting to discuss the audit results and related recommendations, OIG considers the recommendation resolved pending further action. During the meeting, A/OPR/ALS explained that, even for those posts as to which there is not an existing set of independent economic data, it intends to outsource all collection of data needed for calculation of the post allowance. That is, A/OPR/ALS explained that it seeks to eliminate the internal data collection process entirely. . OIG requests that the Bureau of Administration provide estimated milestones for the completion of outsourcing post allowance data in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration either outsourced all post allowance data collection or, if outsourcing for all post data collection does not occur, revised and distributed updated internal procedures for calculating post allowances, including detailed instructions to (a) verify post LPQ summary information in eAllowances with hard copies provided by post and (b)

remove inappropriate or unreasonable prices from the RPS in a consistent manner across all subcategories of goods, including the use of independent data when available.

Recommendation 5: For cases in which independent cost-of-living indexes are not available to establish post allowance rates, OIG recommends that the Bureau of Administration conduct and formally document an analysis to determine how to make the Washington, DC, prices used in the post allowance rate calculations reflective of the consumption patterns of the average salary level for a post employee stationed in a foreign area so that data are comparable between Washington, DC, and the overseas post. The Bureau of Administration should implement changes as necessary as a result of its analysis.

Management Response: A/OPR/ALS stated that it is "working to develop a means to outsource all post allowance data collection with the view to providing a standard methodology for all posts overseas."

OIG Reply: On the basis of A/OPR/ALS's proposed actions to develop a means to outsource all post allowance data collection and supplemental information provided during a meeting to discuss the audit results and related recommendations, OIG considers the recommendation resolved pending further action. During the meeting, A/OPR/ALS explained that, even for those posts as to which there is not an existing set of independent economic data, it intends to outsource all collection of data needed for calculation of the post allowance. That is, A/OPR/ALS explained that it seeks to eliminate the internal data collection process entirely. OIG requests that the Bureau of Administration provide estimated milestones for the completion of outsourcing post allowance data in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration either outsourced all post allowance data collection or, if outsourcing for all post data collection does not occur, conducted and formally documented an analysis to determine how to make the Washington, DC, prices used in the post allowance rate calculations reflective of the consumption patterns of the average salary level for a post employee stationed in a foreign area.

Recommendation 6: OIG recommends the Bureau of Administration revise the Department of State Standardized Regulations for changes in the post allowance methodology as a result of implementing recommendations from this report.

Management Response: A/OPR/ALS concurred with this recommendation, stating that "[o]nce the market research and procurement have been concluded, A/OPR/ALS will review the Department of State Standardized Regulations as necessary to reflect the change to post allowance."

OIG Reply: On the basis of A/OPR/ALS concurrence with this recommendation and planned actions, OIG considers the recommendation resolved pending further action.

OIG requests that the Bureau of Administration provide estimated milestones for the completion of outsourcing post allowance data and updating the DSSR in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration revised the Department of State Standardized Regulations for changes in the post allowance methodology as a result of implementing recommendations from this report.

Finding B: The Department Is at Risk of Making Inadequate Education Allowance Rate Decisions

Although OIG found that A/OPR/ALS generally followed the established process to determine post education allowance rates for dependents of employees living at the seven posts audited, rate decisions were based on incomplete data. Specifically, A/OPR/ALS did not maintain a listing of adequate schools on which to base the rates. This occurred, in part, because A/OPR/ALS officials did not have formal procedures for maintaining and updating the base schools list for posts with and without Department-assisted schools.⁹⁰ Without procedures to ensure that an accurate list of base schools is compiled and maintained, the Department will remain at risk of making inadequate education allowance rate decisions.

Lack of Procedures for Maintaining and Updating the A/OPR/ALS Base Schools List

Inconsistent Education Allowance Documentation

For post education allowance (considered “school at post” education allowance), the DSSR requires each post to submit an education allowance questionnaire every year.⁹¹ A/OPR/ALS analysts review the data to ensure that only education costs authorized by the DSSR are included and determine the amount of the “school at post” education allowance. A/OPR/ALS provided OIG with “school at post” education allowance training documentation, which specified how costs should be reviewed in eAllowances. For example, the training documentation required that analysts review supporting documentation provided by post and verify that the costs submitted by post are supported. In addition, analysts must identify any unallowable fees as defined in the DSSR.⁹² OIG found that posts generally submitted education questionnaires as required, and A/OPR/ALS analysts established appropriate “school at post” education allowance rates on the basis of the information available. In addition, OIG found that education costs used to establish the education allowance rates were allowable in accordance with the DSSR.⁹³

⁹⁰ The Department provides assistance to approximately 193 overseas schools through direct and indirect support programs designed to promote an American-style program.

⁹¹ DSSR, Section 072.

⁹² DSSR, Section 277, “Allowable Expenses,” provides a list of allowable and unallowable school at post education expenses. Allowable education expenses include basic tuition, books, and supplies required by the school but normally provided free of charge in public schools in the United States and local transportation on school days between the school and the employee’s home. Unallowable education costs include other items not normally provided free of charge by public schools in the United States.

⁹³ Ibid.

Although analysts generally established appropriate “school at post” education allowance rates on the basis of information that they received, OIG found that A/OPR/ALS analysts did not have complete or accurate data to support the selection of schools⁹⁴ determined to be adequate⁹⁵ by A/OPR/OS.⁹⁶ According to A/OPR/ALS internal guidelines, analysts select allowable education costs by grade for the base school identified in the A/OPR/ALS base schools list. OIG analyzed the supporting documentation provided by both A/OPR/ALS and A/OPR/OS, which is the basis for identifying and determining the adequacy of the base schools,⁹⁷ for the seven posts audited and found inconsistencies in the documentation maintained. Specifically, as shown in Table 9, A/OPR/ALS did not have documentation supporting the assessment of base schools for three of six posts⁹⁸ and A/OPR/OS did not always maintain documentation relating to the adequacy of schools. Without complete, current, and accurate data to support the selection of adequate base schools, as well as effective coordination between the two offices, A/OPR/ALS analysts may not have the information needed to select the most appropriate base school needed to establish the “school at post” education allowance.

Table 9: Inconsistencies in Documentation Maintained for Base Schools

Post	A/OPR/ALS	A/OPR/OS
Berlin	No documentation maintained.	No documentation maintained.
Beijing	A/OPR/OS memorandum, November 26, 2004, indicating the assisted school was adequate for grades K-12.	A/OPR/OS memorandum, November 26, 2004, indicating the assisted school was adequate for grades K-12.
Brasilia	A/OPR/ALS cable to Embassy Brasilia, December 9, 2004, indicating A/OPR/ALS received an email from A/OPR/OS that indicated that the base school was adequate from grades K-12.	Internal A/OPR/OS report, March 31, 1993, indicating the base school was adequate for grades K-12.
Nairobi	No documentation maintained.	Internal A/OPR/OS report, November 11, 2004, indicating the

⁹⁴ DSSR, Section 271, defines the “base school” as usually the least expensive adequate school at post as determined by A/OPR/OS or the U.S. Department of Defense School, where available to post family members. However, in some cases, A/OPR/ALS identifies a base school for a post where A/OPR/OS does not review adequacy, such as posts without Department-assisted schools.

⁹⁵ DSSR, Section 271, defines an “adequate school” as an elementary or secondary school (kindergarten through grade 12 or equivalent) not requiring mandatory denominational religious instruction and providing an educational curriculum and services reasonably comparable to those normally provided without charge in public schools in the United States.

⁹⁶ A/OPR/OS Regional Education Officers are responsible for visiting overseas schools that are assisted by the Department every 2 years to determine adequacy for kindergarten through grade 12 and may visit other schools as requested by post.

⁹⁷ OIG reviewed the base schools list effective October 2, 2016, because A/OPR/ALS did not maintain base school lists for previous dates.

⁹⁸ Mission Geneva does not have Department-assisted schools; therefore, A/OPR/OS officials would not have determined the adequacy of the schools there and, as a result, Mission Geneva is not included in Table 9.

Post	A/OPR/ALS	A/OPR/OS
		base school was adequate for grades K-12.
Abu Dhabi	Internal A/OPR/ALS memorandum, July 8, 1998, indicating that A/OPR/OS deemed all grades at the base school adequate subsequent to visiting post in 1996.	Internal A/OPR/OS report, January 12, 1999, indicating the base school was adequate for grades K-12.
New Delhi	No documentation maintained.	Internal A/OPR/OS report, April 22, 1983, indicating the base school was adequate for grades 9-12.

Source: OIG generated on the basis of data from A/OPR/ALS and A/OPR/OS.

No Formal Policies or Procedures for Maintaining the Base School List

A/OPR/ALS did not have complete data on the adequacy of schools, in part because A/OPR/ALS did not have formal policies or procedures for maintaining and updating the base schools list.⁹⁹ Specifically, policies and procedures were lacking to maintain and update the base schools list for posts with both Department-assisted schools and schools without direct Department assistance.

No Policies and Procedures for Posts With Department-Assisted Schools

A/OPR/ALS did not have formal procedures for maintaining and updating the base schools list for Department-assisted schools. Instead, an A/OPR/ALS official stated that A/OPR/ALS maintains and updates the base schools list as changes occur on the basis of informal correspondence from A/OPR/OS regarding changes in school adequacy. However, OIG found that this was not always done. Specifically, in FY 2015, an A/OPR/ALS analyst who was responsible for updating the base schools list, selected the base schools used in eAllowances for the previous year rather than obtaining current information from A/OPR/OS. The A/OPR/ALS analyst stated that this happened because the base schools list had not been recently updated and she thought it should match the base schools selected by analysts and entered into eAllowances for the previous school year. In addition, A/OPR/ALS did not have historical information on the adequacy of schools as required¹⁰⁰ because the intranet site on which the information is to be maintained does not keep older copies of the list. Furthermore, if the A/OPR/ALS analyst had attempted to coordinate with A/OPR/OS to update the base schools list, she would not have been successful because A/OPR/OS did not maintain a list of schools determined to be adequate by school year, even though this office is responsible for determining adequacy.¹⁰¹

⁹⁹ A/OPR/ALS officials stated that the base schools list included all overseas schools deemed adequate by A/OPR/OS, along with other overseas schools identified by A/OPR/ALS as the base school at post when the Department does not provide assistance to schools at post.

¹⁰⁰ Department of State Domestic Records Disposition Schedules, Chapter 06, "Bureau of Administration Records," Section 012, "Allowances," states that education allowance recommendations and supporting documents should be destroyed when the documentation is 12 years old.

¹⁰¹ A/OPR/OS officials stated that A/OPR/OS only maintain a list of Department-assisted schools.

No Policies and Procedures for Posts Without Department-Assisted Schools

Furthermore, A/OPR/ALS officials did not have formal procedures to select a base school by grade for posts in cities without Department-assisted schools, such as Mission Geneva. A/OPR/OS only assesses the adequacy of Department-assisted schools. An A/OPR/ALS official stated that when no Department-assisted schools are at post, A/OPR/ALS analysts determine the base school by selecting the school that employees' dependents attend that has the highest tuition per grade. That way, according to the official, employees have the freedom to send their children to the school of their choice. Selecting the school with the highest tuition per grade was an unofficial A/OPR/ALS practice.

Leaving aside whether this is appropriate, OIG found that A/OPR/ALS did not consistently follow the practice of designating the school with the highest tuition per grade as the base school. For example, at Mission Geneva, the analyst selected the International School of Geneva as the base school for grades 1–2, 3–4, 5, and 10, rather than another local school, College Du Leman, which was priced higher during the 2014–2015 school year, as shown in Table 10.

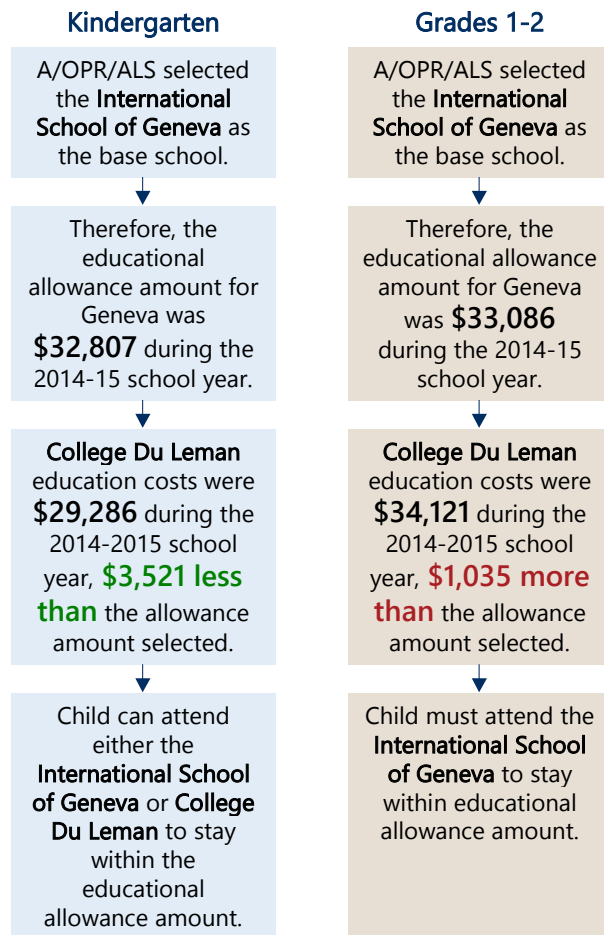
Table 10: Geneva Education Allowance Rates by Grade for the 2014–2015 School Year

International School of Geneva			College Du Leman	
Education Costs	Base School	Grade	Education Costs	Base School
\$32,807	✓	Kindergarten	\$29,286	
\$33,086	✓	1-2	\$34,121	
\$33,086	✓	3-4	\$34,341	
\$34,209	✓	5	\$34,341	
\$34,209		6	\$38,242	✓
\$38,508	✓	7-8	\$38,242	
\$38,727		9	\$40,330	✓
\$40,268	✓	10	\$40,330	
\$40,268		11	\$43,626	✓
\$41,492		12	\$43,626	✓

Source: OIG generated on the basis of Geneva education allowance data contained in eAllowances.

OIG found that inconsistent selection of base schools at posts without Department-assisted schools could have a negative impact on Department employees and their children. In particular, families could face the choice of moving their children between schools multiple times or having to pay out-of-pocket costs if they choose to keep their child in the same school. Figure 2 illustrates the effect of this inconsistency for Kindergarten and grades 1 through 2 using data presented in Table 10.

Figure 2: Kindergarten and Grades 1–2 Effect of Analyst Selection



Source: OIG generated on the basis of Geneva education allowance data contained in eAllowances.

Risk of Inadequate Education Allowance Rate Decisions

Without formal procedures to ensure that an accurate list of base schools is compiled and maintained for posts with and without Department-assisted schools, the Department will remain at risk of making inadequate education allowance rate decisions.

Recommendation 7: OIG recommends that the Bureau of Administration develop and implement standard operating procedures to specify how analysts maintain and update the base schools list.

Management Response: A/OPR/ALS concurred with this recommendation, stating that it will implement standard operating procedures.

OIG Reply: On the basis of A/OPR/ALS concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. OIG requests that the Bureau of Administration provide estimated milestones for the implementation of the recommended standard operating procedures in its response to

the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration developed and implemented standard operating procedures to specify how analysts maintain and update the base schools list.

Recommendation 8: OIG recommends that the Bureau of Administration develop and implement standard operating procedures for selecting base schools by grade for posts that do not have Department of State-assisted schools.

Management Response: A/OPR/ALS concurred with this recommendation, stating that it will develop and implement standard operating procedures.

OIG Reply: On the basis of A/OPR/ALS concurrence with the recommendation and planned actions, OIG considers this recommendation resolved pending further action. OIG requests that the Bureau of Administration provide estimated milestones for the implementation of the recommended standard operating procedures in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration developed and implemented standard operating procedures for selecting base schools by grade for posts that do not have Department-assisted schools.

Recommendation 9: OIG recommends that the Bureau of Administration develop and implement standard operating procedures to maintain and update an independent list of the conclusions related to the adequacy of Department of State-assisted schools.

Management Response: The Bureau of Administration concurred with the recommendation, stating that it will develop and implement standard operating procedures.

OIG Reply: On the basis of the Bureau of Administration's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. OIG requests that the Bureau of Administration provide estimated milestones for implementation of the recommended standard operating procedures in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration developed and implemented standard operating procedures to maintain and update an independent list of conclusions related to the adequacy of Department-assisted schools.

Finding C: The Department Would Have Saved \$1.7 Million if It Adjusted Separate Maintenance Allowance Rates Annually between FY 2013 and FY 2015

OIG found that, between FY 2013 and FY 2015, A/OPR/ALS had not reviewed and updated the voluntary and involuntary SMA rates annually, as required. Furthermore, a rate reduction recommended in FY 2013 was never implemented. A/OPR/ALS officials could not explain why

the rates had not been reviewed annually or why the recommended rate reduction in FY 2013 was not implemented. A/OPR/ALS also could not find documentation related to the previous rate review. OIG independently calculated the rates between FY 2013 and FY 2015 and confirmed that the amount provided to employees was excessive. OIG estimates that had A/OPR/ALS updated the SMA rates annually as required, the Department would have saved \$1.7 million from FY 2013 through FY 2015.

Officials Could Not Explain Why SMA Rates Were Not Reviewed

Although standard operating procedures¹⁰² require A/OPR/ALS to review the voluntary and involuntary SMA rates annually, as of June 2017, OIG found that A/OPR/ALS analysts had not conducted a review of the rates since August 2013. Furthermore, OIG found that A/OPR/ALS had not updated the voluntary and involuntary SMA rates in the DSSR¹⁰³ since May 23, 2010, despite an A/OPR/ALS analyst in August 2013 recommending to reduce the voluntary base rates from \$15,400 to \$14,200 and the involuntary base rates from \$19,700 to \$18,600.

OIG used A/OPR/ALS standard operating procedures to calculate the annual voluntary and involuntary SMA rates between FY 2013 and FY 2015. As shown in Tables 11, OIG found that SMA rates should have been lower than what was published in 2010 and subsequently used to pay the SMA allowance between FY 2013 and FY 2015.

Table 11: Voluntary and Involuntary Separate Maintenance Allowance Annual Base Rates Between FY 2013 to FY 2015

Fiscal Year	Published Rate	OIG Calculated Rate	Difference
Voluntary			
2013	\$15,400	\$14,300	(\$1,100)
2014	\$15,400	\$14,400	(\$1,000)
2015	\$15,400	\$14,000	(\$1,400)
Involuntary			
2013	\$19,700	\$18,600	(\$1,100)
2014	\$19,700	\$18,600	(\$1,100)
2015	\$19,700	\$18,500	(\$1,200)

Source: OIG generated from data provided by A/OPR/ALS and obtained from BLS.

A/OPR/ALS officials were unable to explain why the office had not reviewed the SMA rates annually as required. In addition, A/OPR/ALS officials could not explain why the recommended SMA rates were not implemented in the DSSR in 2013. The analysts and the team supervisor stated that they provided the recommendation to the A/OPR/ALS director for approval, but they did not know what happened to the recommendation and could not recall whether the A/OPR/ALS director approved or did not approve the rate changes. A/OPR/ALS was also unable

¹⁰² Department of State, Office of Allowances Standard Operating Procedures, "Developing Rates for Voluntary and Involuntary Separate Maintenance Allowances," October 2009.

¹⁰³ DSSR, Section 267.1, "Determination of Rates."

to find any documentation related to the issue. Although not specific to the 2013 review, an A/OPR/ALS official stated that A/OPR/ALS typically does not lower voluntary and involuntary SMA payments if the annual rates decrease, because they do not want to take funds away from families.

Using data from the Department's financial system, OIG found that between FY 2013 and FY 2015, approximately 1,856 employees received voluntary and involuntary SMA payments, totaling approximately \$25.4 million. OIG recalculated all voluntary and involuntary SMA payments made to employees during that period on the basis of the rates that should have been allowed for those years and estimates that had A/OPR/ALS updated the SMA rates, the Department would have saved \$1.7 million between FY 2013 and FY 2015. In addition, because A/OPR/ALS determines separate maintenance allowance rates for all civilian Federal employees stationed overseas, including employees from other Federal agencies, other agencies would have realized savings as well.

Recommendation 10: OIG recommends that the Bureau of Administration review and update voluntary and involuntary separate maintenance allowance rates in accordance with its internal standard operating procedures and update the rates in the Department of State Standardized Regulations accordingly.

Management Response: A/OPR/ALS concurred with this recommendation, stating it has already reviewed the voluntary and involuntary SMA rates but, because updating the rates will require a change to the DSSR, which will affect all Federal civilian agencies with employees serving overseas, it is in the process of sending proposed updated rates to other agencies.

OIG Reply: On the basis of A/OPR/ALS concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. OIG requests that the Bureau of Administration provide estimated milestones for updating SMA rates in the DSSR, including the timeframe for other agencies to review the proposed rates, in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration reviewed and updated voluntary and involuntary SMA rates in accordance with its internal standard operating procedures and updated the rates in the DSSR accordingly.

Recommendation 11: OIG recommends that the Bureau of Administration develop and implement internal controls to ensure separate maintenance allowance rates are reviewed annually, as required.

Management Response: A/OPR/ALS concurred with this recommendation, stating that it is updating its standard operating procedures to ensure SMA rates are reviewed annually.

OIG Reply: On the basis of A/OPR/ALS concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. OIG requests that the Bureau of Administration provide estimated milestones for the implementation of the updated SMA standard operating procedures in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration developed and implemented internal controls to ensure SMA rates are reviewed annually, as required.

Recommendation 12: OIG recommends that the Bureau of Administration develop and implement internal controls to ensure analysts document the results of their reviews and supervisors validate the procedures used to determine separate maintenance allowance rates.

Management Response: A/OPR/ALS concurred with this recommendation, stating that it will include the internal controls in the revised standard operating procedures for SMA rate reviews.

OIG Reply: On the basis of A/OPR/ALS concurrence with the recommendation and planned action, OIG considers the recommendation resolved pending further action. OIG requests that the Bureau of Administration provide estimated milestones for the implementation of the revised SMA standard operating procedures in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration developed and implemented internal controls to ensure that analysts document the results of their reviews and supervisors validate the procedures used to determine SMA rates.

Recommendation 13: OIG recommends that the Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, determine and report to OIG the amount saved for the first pay period after the recalculated separate maintenance allowance rates is applied [Recommendation 10], which OIG estimated would have been \$1.7 million from FY 2013 through FY2015.

Management Response: A/OPR/ALS concurred with this recommendation, stating that it will work with CGFS to develop the report. In addition, in its response to a draft of this report, CGFS stated that it will work with the Bureau of Administration to determine and report any savings.

OIG Reply: On the basis of A/OPR/ALS concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. OIG requests that the Bureau of Administration provide estimated milestones for reporting estimated SMA savings in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with CGFS, determined

the amount saved for the first pay period after the recalculated separate maintenance allowance rates is applied.

Finding D: The Department Is at Risk of Paying Unallowable Education Expenses and Exceeding Authorized Education Allowance Rates

OIG could not determine whether the Department appropriately paid employees for the education allowance in accordance with Federal regulations and Department policies for two of three posts where audit fieldwork was conducted. Specifically, OIG could not determine whether education allowances were appropriately paid to Embassy Beijing or Mission Geneva employees for the 2014–2015 school year. This occurred because of insufficient supporting documentation and inconsistencies in the approach used by posts to track education allowance payments. For example, neither post obligated education allowance expenses by student. Additionally, CGFS has not provided guidance to posts regarding the appropriate method to track and document education allowance expenses. However, OIG was able to determine the amount paid to Embassy Berlin employees in education allowances for the 2014–2015 school year. Embassy Berlin obligated¹⁰⁴ education allowance expenses by student, which allowed the post to ensure employees received the correct allowance and allowed OIG to validate that the correct amount was paid. Nevertheless, without uniform guidance for posts to track and document “school at post” education allowance expenses, the risk increases that the Department will pay unallowable education expenses and exceed the education allowance rates authorized by the DSSR.

Insufficient Documentation and Inconsistent Practices for Tracking Education Allowance Payments

OIG attempted to test education allowance payments at three posts included in the audit—Embassy Berlin, Embassy Beijing, and Mission Geneva. OIG determined that the Department appropriately paid Embassy Berlin employees for education allowances for the 2014–2015 school year.¹⁰⁵ OIG tested education allowance payments for 27 of 53 students and did not identify any unallowable education expenses or students who received more than their allowance. However, OIG could not determine whether education allowances were appropriately paid to Embassy Beijing or Mission Geneva employees for the 2014–2015 school year, in accordance with Federal regulations and Department policies.

OIG was not able to fully test education allowance payments and determine the appropriateness of payments for Embassy Beijing because the student list maintained by the post did not contain sufficient information to reconcile to the Department’s financial records. OIG selected 25 of 125 students for the 2014–2015 school year for testing and did not identify any students who

¹⁰⁴ 4 FAM 087.1, “Definition of Obligations Incurred,” states that obligations incurred are amounts of orders placed, contracts awarded, services rendered, and similar transactions during a given period that will require payments during the same or a future period.

¹⁰⁵ OIG selected the 2014–2015 school year because it was the only full school year within the scope of the audit. See Appendix A: Purpose, Scope, and Methodology for additional details.

received more than their allowance. However, the spreadsheet maintained by post did not include voucher numbers¹⁰⁶ that could be traced to payments made in the Department's financial management system. Accordingly, OIG was not able to ascertain whether the spreadsheet described all education allowance payments made to an employee for each student.

OIG also could not test education allowance payments and determine the appropriateness of payments for Mission Geneva because the mission could not provide complete information to support the allowance payments. Specifically, OIG compared a list of students provided by Mission Geneva to a list of students provided by one school that children of mission employees attend and found that 20 of 31 students from the school list were not included on the list provided by U.S. Mission Geneva. Furthermore, the mission's student list did not provide other key information needed to determine whether payments were correct, such as the students' grades or individual payment information. Furthermore, at the time of this audit, Mission Geneva officials did not provide OIG with requested documentation for other education allowance payments that were reimbursed to parents directly, such as local transportation costs, stating that they did not have the staff in the Financial Management Office to comply in a timely manner. OIG therefore could not determine whether Mission Geneva appropriately paid employees for education allowance expenses.

Another reason OIG was unable to determine whether Embassy Beijing and Mission Geneva appropriately paid education allowances in accordance with the DSSR was because of inconsistent approaches used by posts to track education allowance payments. These inconsistencies, in turn, occurred because CGFS has not provided guidance to posts regarding the appropriate method to track and document education allowance expenses. The FAM¹⁰⁷ and FAH¹⁰⁸ require that posts examine each voucher prior to payment for compliance with the law and to ensure that all proposed payments are supported by valid obligations.¹⁰⁹ In addition, the DSSR requires that no employee receive an education allowance greater than the education allowance rate provided.¹¹⁰ However, CGFS has not provided guidance to posts to help ensure these requirements are fulfilled.

Because of the lack of standardized guidance, OIG observed that the three posts tested used different processes and procedures to obligate and track education payments. For example, Mission Geneva did not track payments by student. Instead the mission annually obligated a total amount for education allowances and tracked total education allowance payments against the total amount obligated. A Mission Geneva official explained that because the allowance voucher examiner position at post had been vacant for approximately 2 years, the post had to

¹⁰⁶ Voucher numbers are unique numbers assigned by the preparing office as a control mechanism to identify vouchers.

¹⁰⁷ 4 FAM 425, "Voucher Prepayment Examination."

¹⁰⁸ 4 FAH-3 H-425.1, "Objectives."

¹⁰⁹ 4 FAH-3 H-134.4, "Payment of Obligations."

¹¹⁰ DSSR, Section 272.2, "Rates of Education Allowance."

prioritize assignments and elected to pay invoices for education expenses without tracking whether each employee received the correct amount. OIG reviewed Mission Geneva's internal procedures for processing voucher payments and noted that the guidance contained general instructions on preparing standard forms for processing vouchers, reviewing invoices, and maintaining backup documentation but did not contain specific instructions for tracking education allowance payments by student.

Similar to Mission Geneva, Embassy Beijing obligated education allowance expenses by program fund. However, Embassy Beijing maintained a detailed list of education allowance payments by student in an attempt to track expenses by the authorized education allowance amount. Embassy Beijing's student list included the student name, the school the student attended, the grade of the student, tuition and other fees charged for each student by the school, the corresponding education allowance amount for each student, and the total amount paid for each student. Embassy Beijing officials used this spreadsheet to track payments by student to determine if the totals were within each student's allowance. OIG noted that the manually entered amounts represented payments for each student on the list, but the list lacked other information to reconcile these payments to specific voucher numbers in the financial system. OIG accordingly was not able to validate that all education payments processed were captured correctly.

Conversely, Embassy Berlin established effective procedures to ensure all education allowance payments recorded in the financial system complied with the DSSR. OIG identified Embassy Berlin's procedures (see Spotlight on Success box for details of Embassy Berlin procedures) as a practice that could

be incorporated into guidance to help other posts prevent instances of noncompliance with the education allowance. Without such uniform guidance for posts to track and document "school at post" education allowance expenses, the risk increases that the Department will pay unallowable education expenses and exceed

the education allowance rates authorized by the DSSR.

Spotlight on Success: Embassy Berlin Obligating and Tracking Education Allowance Payments by Student

Each school year, the Financial Management Office staff at Embassy Berlin prepared a spreadsheet of all fees charged by each school. This spreadsheet detailed students by grade level and included information on allowable tuition, transportation, and other fees so the accountants at post could determine the total education allowance amount to obligate for each student. This practice enabled Embassy Berlin to set up a separate obligation for each student equal to the total education allowance allowed for the student, including any one-time fees. Therefore, Embassy Berlin was able to ensure an individual student's education costs did not exceed the allowance authorized for that student.

Recommendation 14: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement uniform guidance for use by overseas posts to identify education allowance payments by student to comply with Department of State

Standardized Regulations. This process, at a minimum, should include setting up individual obligations by student for the education allowance and include documentation requirements. The process instructions should be disseminated to all posts and then formalized in relevant Foreign Affairs Manual or Foreign Affairs Handbook sections, accordingly.

Management Response: CGFS concurred with this recommendation, stating that it “will review the best method in identifying how education allowance obligations should be established, including by student.” CGFS will work with the Bureau of Administration to determine the documentation requirements needed to support the education allowances that are requested by employees. CGFS will then develop and formalize guidance and distribute to all posts.

OIG Reply: On the basis of CGFS concurrence with the recommendation and planned actions, OIG considers this recommendation resolved pending further action. OIG requests that CGFS provide estimated milestones for the distribution of formal guidance to posts for education obligations and payments in its response to the final report. This recommendation will be closed when OIG receives and accepts documentation demonstrating that CGFS developed and implemented uniform guidance for use by overseas posts to identify education allowance payments by student, in accordance with the DSSR.

OTHER MATTERS

During the course of the audit, OIG found that the Contracting Officer (CO),¹¹¹ who was an official in the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM),¹¹² did not provide adequate oversight of the eAllowances task order,¹¹³ as required by the Federal Acquisition Regulation.¹¹⁴ Instead, the CO generally relied on A/OPR/ALS analysts to provide feedback on the contractor’s performance on the basis of the analysts’ use of the eAllowances system. However, A/OPR/ALS analysts did not have sufficient technical understanding of the eAllowances system to identify system issues, including potential

¹¹¹ 14 FAH-2 H-141, “Responsibilities of the Contracting Officer,” states that the CO is the U.S. Government’s authorized agent for dealing with contractors.

¹¹² A/LM/AQM is responsible for managing, planning, and directing the Department’s acquisition programs and conducts contract operations in support of activities worldwide.

¹¹³ A/LM/AQM awarded blanket purchase agreement SAQMMA10A0177 to Geneva Software, Inc., on May 6, 2010, to provide professional and technical support, maintenance of systems, programming documentation, and software engineering support services. A/LM/AQM awarded task order SAQMMA12L1852, valued at approximately \$5.1 million, against the blanket purchase agreement on August 29, 2012, for eAllowances system development and operations and maintenance support. The task order covered a period of performance from September 4, 2012, through March 3, 2017.

¹¹⁴ Federal Acquisition Regulation 1.602-2, “Responsibilities,” states that the CO is responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships.

calculation errors. This oversight deficiency occurred, in part, because the CO did not timely appoint an official Government Technical Monitor (GTM) to oversee the eAllowances task order. In addition, the Contracting Officer's Representative designated for the base contract was not involved in overseeing the eAllowances task order. Furthermore, the Quality Assurance Surveillance Plan (QASP) for the eAllowances task order was insufficient. Without sufficient oversight, no assurance can be given that the contractor is complying with the contract terms. Moreover, a lack of oversight increases the risk that calculation errors could go undetected, which would have a financial impact on the Department and all the other agencies that pay COLA.

Oversight Personnel Were Not Appointed Timely and Quality Assurance Surveillance Plan for the eAllowances Task Order Was Insufficient

Contracting Officer Relied on eAllowances System Users

OIG found that the CO generally relied on A/OPR/ALS analysts to provide feedback on the contractor's performance based on the analysts' use of the eAllowances system. However, OIG found that, despite the A/OPR/ALS analysts being able to identify user-related issues with eAllowances, they did not have a sufficient understanding to identify system calculation issues, which is particularly important because contractor personnel stated that approximately 95 percent of the post allowance rates are automatically calculated by eAllowances. Specifically, OIG found that A/OPR/ALS officials did not understand how the eAllowances system calculated taxes and other items, such as the cost-of-living index. In addition, A/OPR/ALS officials stated that they would maintain the slides created by the contractor for OIG in an effort to educate A/OPR/ALS analysts on the system calculations. In another example, OIG found that the post allowance rate for Berlin, Germany, was incorrect because the value added tax and sales tax were inconsistently and improperly applied.¹¹⁵ The analyst responsible for performing the Berlin post allowance analysis stated that she was not aware that eAllowances added additional taxes to items if the "already included in price" option was not selected and she intended to remove the value added tax from item prices.

According to one Bureau of Administration, Office of the Executive Director, Information Technology Services official, her role in the oversight process was to serve as a liaison between the contractor and A/OPR/ALS officials when system issues were identified by those A/OPR/ALS officials.¹¹⁶ The same official stated that once the contractor resolved the issues, A/OPR/ALS analysts were responsible for performing tests to accept the resolution and update the eAllowances system. The Bureau of Administration, Office of the Executive Director, Information Technology Services official maintained documentation provided by the eAllowances contractor that included a log of system issues identified by analysts. However, this official did not review

¹¹⁵ OIG, *Management Assistance Report: Incorrect Post Allowance Rate for Embassy Berlin, Germany*, (AUD-FM-17-06, November 2016).

¹¹⁶ A/OPR/ALS identified 250 user-related issues from December 2015 through February 2017. A/OPR/ALS officials identified issues such as internet explorer compatibility issues, specific screens not saving during analysis, and cost-of-living data not displaying correctly.

or evaluate whether the issues identified by A/OPR/ALS were significant enough to report unsatisfactory contractor performance, and she did not take any action to evaluate whether calculations in the eAllowances system were correct.

No Government Technical Monitor or Contracting Officer's Representative Oversight

The CO did not have sufficient oversight of the contractor, in part because she did not formally appoint a GTM and assign oversight responsibilities to the GTM until 1 month before the end of the task order; which occurred only after OIG requested documentation confirming the appointment. In addition, the Contracting Officer's Representative for the base contract was not involved in oversight of the eAllowances task order. The statement of work for the contract, under which the eAllowances task order was issued, provided that the Department Contracting Officer's Representative or GTM would monitor and oversee the task order. The CO appointed a Contracting Officer's Representative for the base contract; however, the Contracting Officer's Representative was not involved with all task orders awarded under the base contract because the CO intended the Contracting Officer's Representative to handle only basic contract matters and for GTMs to provide task order oversight. Although a GTM was specified in the statement of work, the CO did not formally appoint the GTM until February 9, 2017, more than 4 years after the task order was issued. The GTM unofficially served in that role since 2006, but according to the GTM, she was never provided guidance as to the oversight responsibilities of the position. Without sufficient oversight of the eAllowances task order, the Department cannot ensure compliance with the terms of the contract and safeguard the interests of the United States in its contractual relationships.

Inadequate Quality Assurance Surveillance Plan

Oversight was also inadequate because A/LM/AQM developed a QASP that lacked a methodology to measure and document the contractor's performance. The Federal Acquisition Regulation¹¹⁷ states that QASPs should be prepared in conjunction with the preparation of the statement of work and should specify all work requiring surveillance and the method of that surveillance. Furthermore, the FAH¹¹⁸ states that the QASP should describe the Government's performance expectations. For example, the QASP should describe the standards and acceptable quality levels for outcomes or tasks, how often deliverables or services will be monitored and evaluated, and the presence of any incentives or penalties regarding performance.

OIG found the eAllowances QASP was insufficient to measure outcomes and evaluate contractor performance. Specifically, the QASP for the eAllowances task order contained five performance measures: project plan, staffing, deliverables, quality assurance, and help desk tickets. Each measure specified desired outcomes, minimum acceptable outcomes, and penalties. However, the eAllowances QASP did not explain how these performance expectations would be measured or how the results should be documented. For example, for the "quality assurance" performance measure, the QASP stated that the desired outcome was that all systems should be free from

¹¹⁷ Federal Acquisition Regulation Part 46.4, "Government Contract Quality Assurance."

¹¹⁸ 14 FAH-2 H-341.2-4(B), "Inspection and Acceptance," refers to the QASP as a "Quality Assurance Plan."

software issues and include all approved requirements and that the minimal acceptable outcome should be a maximum of five minor issues that do not affect the usefulness of the applications. However, the GTM stated that she did not receive guidance as to what constituted a “major” or “minor” issue.

The QASP also included as a penalty a “0.2-percent deduction for every business day late to a maximum of 2 percent of the total contract value” if the quality assurance performance measure was not met. However, the QASP did not specify how to measure timeliness if multiple issues were identified at the same time. The GTM’s log of issues did not contain dates, therefore the timeliness of resolving these issues could not be calculated. The QASP also did not include a specific surveillance method¹¹⁹ or other guidance explaining how the Government would assess the contractor for any of the performance measures, as required by the Federal Acquisition Regulation¹²⁰ and the FAH.¹²¹ In addition, when A/OPR/ALS did identify system issues, the GTM did not notify the contracting officer.

Risk of Errors in Cost-of-Living Allowance Calculations

Without sufficient oversight of contractors, the risk increases that errors, irregularities, and inadequate contractor performance could go undetected. These errors could have a financial impact on the Department as well as other agencies that rely on the allowance rates. The period of performance for the task order in question (SAQMMA12L1852) ended on March 3, 2017, and A/LM/AQM awarded a subsequent eAllowances task order (SAQMMA17L0164) the following day.¹²² As a result, OIG is offering the following recommendations to address the subsequent eAllowances task order.

Recommendation 15: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management determine the reason or reasons that the Contracting Officer failed to implement sufficient contractor oversight and assess whether disciplinary actions and revisions to the delegation structure or oversight roles need to be implemented for the eAllowances task order (SAQMMA17A0001).

¹¹⁹ 14 FAH -2 H-522, “Monitoring Methods Available to the Contracting Officer’s Representative,” states that the best method for monitoring the contractor’s work is through actual inspection which may include spot checks, scheduled inspections of functions performed by the contractor on a periodic basis, random sampling of routine functions, use of contract monitoring user reports, and performing a periodic review of the contractor’s quality control program and reports.

¹²⁰ Federal Acquisition Regulation Part 46.4, “Government Contract Quality Assurance.”

¹²¹ 14 FAH-2 H-341.2-4(B), “Inspection and Acceptance.”

¹²² A/LM/AQM awarded blanket purchase agreement SAQMMA17A0001 to Geneva Software, Inc., on November 16, 2016, as a follow on contract to SAQMMA10A0177. A/LM/AQM awarded task order SAQMMA17L0164, valued at approximately \$3.6 million, against the blanket purchase agreement on March 4, 2017, to provide information technology support to A/OPR/ALS for the eAllowances system. The task order covered a period of performance from March 4, 2017, through March 3, 2018, with 4 option years.

Management Response: A/LM/AQM concurred with the recommendation, stating that “[i]n an effort to improve contract oversight, the Business Operations Division has created a quality assurance checklist for all contracts.” In addition, A/LM/AQM stated that revisions have been made to the new contract (SAQMMA17A0001) and a Government Technical Monitor has been assigned. A/LM/AQM provided OIG with a copy of the quality assurance checklist for all contracts.

OIG Reply: On the basis of A/LM/AQM’s corrective actions taken to improve contract oversight, OIG considers the recommendation resolved pending further action. OIG notes, however, that the quality assurance checklist provided to OIG only addressed the overall blanket purchase agreement but did not include checklist items for the GTMs who are responsible for task order oversight under the contract. In addition, the response did not address the bureau’s determination regarding the reason or reasons that the Contracting Officer failed to implement sufficient contractor oversight and whether disciplinary actions and revisions to the delegation structure or oversight roles need to be implemented for the eAllowances task order. OIG requests that the Bureau of Administration fully address the recommendation and provide estimated milestones for implementation in its response to the final report. OIG may change the status of this recommendation to “unresolved” if the bureau’s response is incomplete and fails to address the retrospective analysis described in this recommendation. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration determined the reason or reasons that the Contracting Officer failed to implement sufficient contractor oversight and assessed whether disciplinary actions and revisions to the delegation structure or oversight roles need to be implemented for the eAllowances task order (SAQMMA17A0001).

Recommendation 16: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances, modify the quality assurance surveillance plan for the eAllowances task order (SAQMMA17A0001) to include a methodology to measure and document contractor performance in accordance with the Federal Acquisition Regulation and Department of State policies.

Management Response: A/LM/AQM concurred with the recommendation, stating that the QASP was updated in the new contract (SAQMMA17A0001) and accepted by the Government. A/LM/AQM provided OIG a copy of the new contract’s QASP.

OIG Reply: On the basis of OIG’s receipt and acceptance of the documentation provided by A/LM/AQM regarding the modification of the QASP, which includes a methodology to measure and document contractor performance, OIG considers this recommendation closed and no other action is necessary.

RECOMMENDATIONS

Recommendation 1: OIG recommends the Bureau of Administration develop and implement a plan to use independent economic data to determine post allowance rates where such data for post exist.

Recommendation 2: OIG recommends the Bureau of Administration re-determine and update by the end of FY 2018 post allowance rates using independent economic data where such data for post exist. Once the rates have been updated, the Bureau of Administration should determine the amount saved by implementing the new rates. OIG determined that using independent, economic data would have saved the Department approximately \$18.2 million between FY 2013 and FY 2015 for six posts tested (that is, funds that could have been put to better use).

Recommendation 3: For cases in which independent cost-of-living indexes are not available to establish post allowance rates, OIG recommends that the Bureau of Administration revise and distribute updated policies and procedures to posts related to the post allowance rate methodology that provide detailed procedures for (a) collecting and summarizing living pattern questionnaires in eAllowances, and (b) collecting prices that reflect the requirements outlined in the Department of State Standardized Regulations on the retail price schedule Parts 3 and 4.

Recommendation 4: For cases in which independent cost-of-living indexes are not available to establish post allowance rates, OIG recommends that the Bureau of Administration revise and distribute updated internal procedures for calculating post allowances to include detailed instructions to (a) verify post living pattern questionnaire summary information in eAllowances with hard copies provided by post, and (b) remove inappropriate or unreasonable prices from the retail price schedule in a consistent manner across all subcategories of goods, including the use of independent data when available.

Recommendation 5: For cases in which independent cost-of-living indexes are not available to establish post allowance rates, OIG recommends that the Bureau of Administration conduct and formally document an analysis to determine how to make the Washington, DC, prices used in the post allowance rate calculations reflective of the consumption patterns of the average salary level for a post employee stationed in a foreign area so that data are comparable between Washington, DC, and the overseas post. The Bureau of Administration should implement changes as necessary as a result of its analysis.

Recommendation 6: OIG recommends the Bureau of Administration revise the Department of State Standardized Regulations for changes in the post allowance methodology as a result of implementing recommendations from this report.

Recommendation 7: OIG recommends that the Bureau of Administration develop and implement standard operating procedures to specify how analysts maintain and update the base schools list.

Recommendation 8: OIG recommends that the Bureau of Administration develop and implement standard operating procedures for selecting base schools by grade for posts that do not have Department of State-assisted schools.

Recommendation 9: OIG recommends that the Bureau of Administration develop and implement standard operating procedures to maintain and update an independent list of the conclusions related to the adequacy of Department of State-assisted schools.

Recommendation 10: OIG recommends that the Bureau of Administration review and update voluntary and involuntary separate maintenance allowance rates in accordance with its internal standard operating procedures and update the rates in the Department of State Standardized Regulations accordingly.

Recommendation 11: OIG recommends that the Bureau of Administration develop and implement internal controls to ensure separate maintenance allowance rates are reviewed annually, as required.

Recommendation 12: OIG recommends that the Bureau of Administration develop and implement internal controls to ensure analysts document the results of their reviews and supervisors validate the procedures used to determine separate maintenance allowance rates.

Recommendation 13: OIG recommends that the Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, determine and report to OIG the amount saved for the first pay period after the recalculated separate maintenance allowance rates is applied [Recommendation 10], which OIG estimated would have been \$1.7 million from FY 2013 through FY2015.

Recommendation 14: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement uniform guidance for use by overseas posts to identify education allowance payments by student to comply with Department of State Standardized Regulations. This process, at a minimum, should include setting up individual obligations by student for the education allowance and include documentation requirements. The process instructions should be disseminated to all posts and then formalized in relevant Foreign Affairs Manual or Foreign Affairs Handbook sections, accordingly.

Recommendation 15: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management determine the reason or reasons that the Contracting Officer failed to implement sufficient contractor oversight and assess whether disciplinary actions and revisions to the delegation structure or oversight roles need to be implemented for the eAllowances task order (SAQMMA17A0001).

Recommendation 16: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances, modify the quality assurance surveillance plan for the eAllowances task order (SAQMMA17A0001) to

include a methodology to measure and document contractor performance in accordance with the Federal Acquisition Regulation and Department of State policies.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State (Department) established appropriate post allowance, education allowance, and separate maintenance allowance (SMA) rates for employees living overseas and whether the Department appropriately paid employees for education allowances in accordance with Federal regulations and Department policies. The scope period of the audit was FY 2013 through FY 2015.

The Office of Audits conducted this audit from March 2016 to June 2017. Audit work was performed in the Washington, DC, metropolitan area; U.S. Mission Geneva, Switzerland; Embassy Beijing, China; and Embassy Berlin, Germany. OIG conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions presented in this report.

To obtain background information, including criteria, OIG researched and reviewed Federal laws and regulations as well as policies relating to the selected cost-of-living allowances, such as the Foreign Affairs Manual (FAM), the Foreign Affairs Handbook (FAH), and the Department of State Standardized Regulations (DSSR). OIG also interviewed key personnel, including individuals from the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (A/OPR/ALS); the Bureau of Administration, Deputy Assistance Secretary for Operations, Office of Overseas Schools (A/OPR/OS); the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM); and the Bureau of Administration, Office of the Executive Director, Information Technology Services.

OIG also reviewed and analyzed hard copy files, such as living pattern questionnaires, retail price schedules, education allowance vouchers, and A/OPR/ALS analyst files for the three allowances tested, as applicable. At Mission Geneva, Embassy Beijing, and Embassy Berlin, OIG interviewed various post personnel such as Financial Management Office staff, General Services Office staff, and Human Resources Office staff. In addition, OIG reviewed and analyzed hard copy files such as voucher documentation and standard operating procedures at each site and performed detailed testing on the reasonableness of cost-of-living information submitted by posts.

To draw conclusions regarding whether post allowance rates were appropriate, OIG compared the post allowance rates set by A/OPR/ALS between FY 2013 and FY 2015 with the same rates listed in an independent economic data tool for each of the seven posts audited. OIG also reviewed the most recent living pattern questionnaires between FY 2013 and FY 2015 for the seven audited posts to determine whether they were adequate based on the DSSR. In addition, OIG collected pricing information for the selected items outlined in the retail price schedule for the three posts where OIG conducted audit fieldwork (Mission Geneva, Embassy Berlin, and

Embassy Beijing) and compared OIG's findings to the same cost-of-living information collected by posts to determine whether the prices submitted by posts were reasonable. Furthermore, OIG reviewed analysts' supporting documentation and files to determine whether the analysts removed unreasonable prices for the three sites where OIG conducted audit fieldwork.

To assess whether "school at post" education allowance rates were appropriate, OIG recalculated the education allowance rates for the 2014–2015 school year for the seven posts tested. The scope period of the audit was between FY 2013 and FY 2015. The 2014–2015 school year was the only full school year during the scope period. To recalculate the education allowance rates, OIG reviewed and analyzed the documentation and costs submitted by posts in eAllowances, an application used by A/OPR/ALS, as well as the documentation in the analysts' education rate file. In addition, OIG attempted to validate school adequacy documentation with A/OPR/OS personnel; however, OIG identified significant documentation problems as reported in the "Audit Results" section of this report.

To draw conclusions regarding whether voluntary and involuntary SMA rates were appropriate, OIG recalculated SMA rates for FY 2013 through FY 2015 using annual consumer expenditure information published by the Department of Labor, Bureau of Labor Statistics, in accordance with A/OPR/ALS standard operating procedures. To determine how much the Department should have paid in voluntary and involuntary SMA, OIG's statistician applied the recalculated SMA rates to what the Department paid for SMA allowance on the basis of Department payroll data for the same period.¹

To determine whether the Department paid employees' education allowances in accordance with Federal regulations and Department policies, OIG requested and analyzed all education allowance vouchers and supporting documentation for the 2014–2015 school year for the three posts where OIG conducted audit fieldwork. Furthermore, OIG reviewed and analyzed post Financial Management Office standard operating procedures for processing vouchers and other education allowance documentation, such as student listings for each of the three posts.

To obtain an understanding of the administration and oversight of the eAllowances task order, OIG interviewed the Contracting Officer in A/LM/AQM; the Government Technical Monitor in the Bureau of Administration, Office of the Executive Director, Information Technology Services; the eAllowances contractor; and A/OPR/ALS officials. OIG obtained and reviewed the blanket purchase agreement, task order and modifications, performance work statements, quality assurance surveillance plan, and other relevant contract documentation.

¹ The OIG statistician used the R statistical computing program to calculate the Department's potential cost savings for SMA.

Prior Reports

In November 2016, OIG reported² a discrepancy with the post allowance rate for Berlin, Germany, that was discovered during the conduct of this audit. As a result of OIG's finding, the eAllowances contractor (Geneva, Inc.) re-analyzed the data and informed OIG that the rate should have decreased from 25 percent to 20 percent (rather than increasing to 42 percent). OIG found that the error occurred because data on the value added tax and sales tax were inconsistently and improperly applied during analysis. OIG recommended that the Bureau of Administration recalculate the post allowance rate for Berlin to correctly apply data related to the value added tax and sales tax and update the post allowance rate for Berlin and other applicable posts within Germany accordingly. A/OPR/ALS issued a new post allowance rate for Berlin of 25 percent, effective May 28, 2017, in response to OIG's recommendation. In addition, OIG recommended that the Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, determine the amount saved, which during a 2-year period OIG estimated to be \$1.1 million for Embassy Berlin and \$44,000 for Consulate General Dusseldorf. As of June 2017, the Department had not calculated cost savings related to the rate change, therefore, OIG considered this recommendation "resolved" pending further action.

Work Related to Internal Controls

To assess the adequacy of internal controls related to policies, procedures, and processes related to the audit objectives, OIG reviewed A/OPR/ALS internal standard operating procedures and interviewed key individuals in the rate determination process for post allowance, education allowance, and SMA. In addition, OIG reviewed the DSSR, the Federal Acquisition Regulation, the FAM, and the FAH. Furthermore, OIG interviewed financial management personnel at overseas posts and contract management personnel responsible for oversight of eAllowances. OIG also performed independent analyses of post, education, and separate maintenance allowances to determine whether methodologies were reasonable. Issues identified during work related to internal controls during the audit are detailed in the "Audit Results" section of this report.

Use of Computer Processed Data

Global Financial Management System

OIG obtained the electronic transaction details on cost-of-living allowances expenditures from the Global Financial Management System (GFMS), which is the Department's official accounting system, for the period covering FYs 2013–2015. OIG relied on the work performed during the annual audit of the Department's FYs 2013–2015 financial statements because the independent auditors determined that the financial statements were free from material misstatements. Therefore, OIG concluded that the data from the Department's accounting system were sufficiently reliable to fulfill the objective of this audit.

² OIG, *Management Assistance Report: Incorrect Post Allowance Rate for Embassy Berlin, Germany* (AUD-FM-17-06, November 2016).

Consolidated American Payroll Payment System

OIG used the electronic salary data from the Department's Consolidated American Payroll Payment System for individuals who were paid post allowance and SMA between FY 2013 and FY 2015. OIG reconciled a sample pay period of the payroll data from FYs 2013–2015 to GFMS data and found that the amounts matched between GFMS and the payroll system. Additionally, the OIG statistician assisted the audit team in conducting reliability testing by reviewing the SMA amounts paid according to the data and comparing these to the published voluntary and involuntary SMA rates. The statistician identified discrepancies in the data. The team determined that the transaction discrepancies were related to transitional SMAs,³ correcting entries, and retroactive payments on the basis of explanations⁴ obtained from the Department's payroll division. From the results of the reconciliation and reliability testing, OIG determined that the Department's Consolidated American Payroll Payment System data were sufficiently reliable for purposes of this report.

Student Listings for Education Allowance Payments

OIG obtained listings from Mission Geneva, Embassy Beijing, and Embassy Berlin of students who received an education allowance during the 2014–2015 school year to reconcile payments made for those students with Department financial system transactions. For the listing provided by Mission Geneva, OIG could not determine its completeness when comparing it to an independent student listing provided by one of the schools in Geneva. Therefore, OIG could not ensure the reliability of the data on Mission Geneva's student listing. For Embassy Beijing's student listing, OIG also could not ensure the reliability of the data because that listing did not contain voucher data that could reconcile to payments recorded in the financial system. For Embassy Berlin, OIG reconciled the education allowance payments in the financial system to students on the listing for all payments processed during the 2014–2015 school year. As a result, OIG was able to ensure the reliability of the data for Embassy Berlin's student listing. Issues identified during work related to data reliability for student listings during the audit are detailed in Finding D of this report.

Detailed Sampling Methodology

The objectives of the sampling process were to select a sample of overseas posts to review the post and education allowance rates for adequacy and select a sample of overseas posts for site visits to review the post allowance rate determination process and the education allowance payment process. OIG selected a target universe of seven overseas posts to review the supporting documentation and analysis performed by the Department for determining the post and education allowance rates. OIG also selected three overseas posts to conduct audit fieldwork to collect independent data and further assess the adequacy of the supporting

³ Transitional SMA was not in the scope of the audit.

⁴ To provide explanations on the discrepancies, the Department's payroll division used supporting documentation on file.

information used in determining the post allowance rate and evaluate the education allowance payments made at each post for compliance with Department policies.

Post and Education Allowance Sampling Methodology

Original Universe

The audit team obtained data from GFMS from the independent auditor that audits the Department's financial statements on behalf of OIG. The independent auditor provided GFMS data for post and education allowance expenditures for FY 2013 through FY 2015 for all overseas posts, which totaled \$644,396,679, as shown in Table A.1.

Table A.1: Original Universe by Allowance Expenditures

Allowance	FYs 2013-2015 Total
Education	\$432,646,931
Post	\$211,749,748
Total	\$644,396,679

Source: OIG prepared on the basis of data from GFMS.

Target Universe of Overseas Posts

OIG selected seven posts as the target universe by identifying the post with the highest combined education and post allowance expenditures between FY 2013 and FY 2015 within each Bureau. Table A.2 provides details on the selected posts.

Table A.2: Target Universe by Post and Education Allowance Expenditures

Location	Bureau	Post Allowance Rate ^a (percentage)	Total Post Allowance FYs 2013–2015 ^b	Total Education Allowance FYs 2013–2015 ^b
Beijing	East Asian and Pacific Affairs	30	\$14,781,963	\$26,009,376
Berlin	European and Eurasian Affairs	25	\$6,872,044	\$18,558,393
Brasilia	Western Hemisphere Affairs	0 ^c	\$4,845,392	\$13,838,986
New Delhi	South and Central Asian Affairs	5	\$3,648,313	\$14,560,798
Geneva	International Organizations	50	\$6,469,706	\$5,226,568
Nairobi	African Affairs	10	\$2,676,492	\$6,610,843
Abu Dhabi	Near Eastern Affairs	25	\$2,370,322	\$5,741,276
Total			\$41,664,232	\$90,546,240

^a Post allowance rate as of February 21, 2016.

^b These amounts may include allowance expenditures paid for other nearby post locations as some Department posts serve as the paying offices for other posts in that country.

^c Embassy Brasilia's post allowance rate was zero as of February 21, 2016; however, because of fluctuations in Brasilia's post allowance rate during FYs 2013–2015, the total post allowance amount for Brasilia was \$4.8 million.

Source: OIG prepared on the basis of information from GFMS and the Department of State Standardized Regulations.

Post and Education Allowance Rates Reviewed

After further examination, OIG noted that the amounts for each post included expenditures for other nearby post locations. For example, payments reported for Berlin included payments for other locations in Germany, such as Consulate General Frankfurt and Consulate General Dusseldorf. Consequently, OIG selected the Department embassy or mission for each country to test post and education allowance rate methodologies, as shown in Table A.3. The seven selected posts paid approximately \$24.1 million in post allowances between FY 2013 and FY 2015.

Table A.3: Selected Overseas Posts and Post Expenditures between FY 2013 and FY 2015

Post	Post Expenditures
Embassy Beijing	\$7,802,316
Embassy Berlin	\$2,987,666
Embassy Brasilia	\$1,518,955
Embassy New Delhi	\$1,711,345
Mission Geneva	\$6,334,341
Embassy Nairobi	\$2,534,831
Embassy Abu Dhabi	\$1,214,256
Total	\$24,103,710

Source: OIG prepared on the basis of data from GFMS.

During OIG's review of education expenditures, OIG found that the education allowance account included other expenditures not covered by the "school at post" education allowance rate. For example, the education allowance account could also include expenses for home study, private instruction, or special needs, which have separate rates or limited amounts as outlined in the DSSR. As a result, OIG was unable to determine the total amount paid for the education allowance for each sampled post. Some of the expenditures included in Table A.3 consisted of special needs and home study expenses that were outside of the scope of the audit.

From the seven cities listed in Table A.2, OIG selected the three posts with the highest post allowance rates—Embassy Beijing, Embassy Berlin, and Mission Geneva—to conduct audit fieldwork.⁵

Education Allowance Payment Sampling Methodology

Embassy Berlin

OIG obtained Embassy Berlin's 2014–2015 school year listing of all students to whom the embassy had paid education allowances. Embassy Berlin's student listing contained 53 students and included the obligation number, fund source, student names and grades, and other information. OIG selected a random sample of 30 student obligation numbers from this listing for testing. OIG removed 3 of the 30 samples from testing because 2 students were covered under the special needs education allowance⁶ and 1 student did not incur any education expenses, leaving a total of 27 students selected for testing for Embassy Berlin. Results of OIG's testing are included in the "Audit Results" section of this report.

⁵ When selecting sites from the cities in Table A.2, OIG noted that Embassy Berlin and Embassy Abu Dhabi had the same post allowance rate and chose Embassy Berlin for testing because it had higher post and education allowance expenditures.

⁶ Students with expenses for special needs or home study expenses were outside of the scope of the audit.

Embassy Beijing

OIG obtained Embassy Beijing's 2014–2015 school year listing of all students to whom the embassy had paid education allowances. The listing consisted of 272 students and included the school name, student name, education allowance amount and type, and total amount paid during the school year. OIG removed 123 students from the list who were from post locations other than Embassy Beijing, such as Consulate General Shanghai, 6 students who were home schooled, and 18 special needs education allowance recipients, leaving a universe of 125 students. OIG selected the five students with the highest education allowance payments and five students on the basis of school location. OIG then randomly selected 15 additional students from the remaining population for a total of 25 selected students to ensure adequate coverage for testing. Results of OIG's testing are included in the "Audit Results" section of this report.

APPENDIX B: BUREAU OF ADMINISTRATION, DEPUTY ASSISTANT SECRETARY FOR OPERATIONS, RESPONSE




United States Department of State

Washington, D.C. 20520

July 19, 2017

UNCLASSIFIED

TO: OIG/AUD- Norman P. Brown

FROM: A/OPR – Harry Mahar 

SUBJECT: Draft Office of Inspector General (OIG) Report on Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas (AUD-FM-17-XX July 2017)

The Office of Allowances (A/OPR/ALS) has reviewed OIG Draft Report AUD-FM-17-XX and offers the following comments in response to recommendations Nos. 1 through 13. If you have questions or need additional information please contact the A/OPR/ALS Management Officer, Geoffrey Bishop, at (202) 261-8043.

Recommendation 1: OIG recommends the Bureau of Administration develop and implement a plan to use independent economic data to determine post allowance rates where such data for post exist.

Response: Since the inspection, A/OPR/ALS conducted a market survey to determine the feasibility of outsourcing data collection and analysis for post allowance. We plan to move to a pilot phase shortly to help us develop a scope of work for the proposal.

Recommendation 2: OIG recommends the Bureau of Administration re-determine and update by the end of FY 2018 post allowance rates using independent economic data where such data for post exist. Once the rates have been updated, the Bureau of Administration should determine the amount saved by implementing the new rates. OIG determined that using independent, economic data would have saved the Department approximately \$18.2 million between FY 2013 and FY 2015 for six posts tested (that is, funds that could have been put to better use).

Response: A/OPR/ALS' market survey shows that we need a contract to re-determine post allowance based on independent economic data. We plan to implement a pilot shortly to help us develop a scope of work for the proposal. Once procurement is concluded, we will be able to provide the information required in Recommendation 2.

Recommendation 3: In cases where independent cost-of-living indexes are not available to establish post allowance rates, OIG recommends that the Bureau of Administration revise and distribute updated policies and procedures to posts related to the post allowance rate methodology that provide detailed procedures for (a) collecting and summarizing living pattern questionnaires in eAllowances, and (b) collecting prices that reflect the requirements outlined in the Department of State Standardized Regulations on the Retail Price Schedule Parts 3 and 4.

UNCLASSIFIED

UNCLASSIFIED

-2-

Response: A/OPR/ALS is working to develop a means to outsource all post allowance data collection with the view to providing a standard methodology for all posts overseas.

Recommendation 4: In cases where independent cost-of-living indexes are not available to establish post allowance rates, OIG recommends that the Bureau of Administration revise and distribute updated internal procedures for calculating post allowances to include detailed instructions to (a) verify post living pattern questionnaire summary information in eAllowances with hard copies provided by post, and (b) remove inappropriate or unreasonable prices from the Retail Price Schedule in a consistent manner across all subcategories of goods, including the use of independent data when available.

Response: A/OPR/ALS is working to develop a means to outsource all post allowance data collection with the view to providing a standard methodology for all posts overseas.

Recommendation 5: In cases where independent cost-of-living indexes are not available to establish post allowance rates, OIG recommends that the Bureau of Administration conduct and formally document an analysis to determine how to make the Washington, DC, prices used in the post allowance rate calculations reflective of the consumption patterns of the average salary level for a post employee stationed in a foreign area so data are comparable between Washington, DC, and the overseas post. The Bureau of Administration should implement changes as necessary as a result of its analysis.

Response: A/OPR/ALS is working to develop a means to outsource all post allowance data collection with the view to providing a standard methodology for all posts overseas.

Recommendation 6: OIG recommends the Bureau of Administration revise the Department of State Standardized Regulations for changes in the post allowance methodology as a result of implementing recommendations from this report.

Response: Once the market research and procurement have been concluded, A/OPR/ALS will review the Department of State Standardized Regulations as necessary to reflect the change to post allowance.

Recommendation 7: OIG recommends that the Bureau of Administration develop and implement standard operating procedures to specify how analysts maintain and update the base schools list.

Response: The Bureau of Administration will implement these standard operating procedures.

Recommendation 8: OIG recommends that the Bureau of Administration develop and implement standard operating procedures for selecting base schools by grade for posts that do not have Department of State-assisted schools.

Response: The Bureau of Administration will develop and implement these standard operating procedures.

UNCLASSIFIED

UNCLASSIFIED

-3-

Recommendation 9: OIG recommends that the Bureau of Administration develop and implement standard operating procedures to maintain and update an independent listing of the conclusions related to the adequacy of Department of State-assisted schools.

Response: The Bureau of Administration will develop and implement these standard operating procedures.

Recommendation 10: OIG recommends that the Bureau of Administration review and update voluntary and involuntary separate maintenance allowance rates in accordance with its internal standard operating procedures and update the rates in the Department of State Standardized Regulations accordingly.

Response: A/OPR/ALS has reviewed the voluntary and involuntary separate maintenance allowance rates. Because updating the rates will require a change to the Department of State Standardized Regulations which will affect all Federal civilian agencies with employees serving overseas, we are currently in the process of sending proposed updated rates out for interagency consultation.

Recommendation 11: OIG recommends that the Bureau of Administration develop and implement internal controls to ensure separate maintenance allowance rates are reviewed annually, as required.

Response: A/OPR/ALS is updating its standard operating procedures to ensure these rates are reviewed annually.

Recommendation 12: OIG recommends that the Bureau of Administration develop and implement internal controls to ensure analyst document the results of their reviews and supervisors validate the procedures used to determine separate maintenance allowance rates.

Response: A/OPR/ALS will include these internal controls in the revised standard operating procedures.

Recommendation 13: OIG recommends that the Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, determine and report to OIG the amount saved for the first pay period after the recalculated separate maintenance allowance rates is applied [Recommendation 10], which OIG estimated would have been \$1.7 million between FY 2013 and FY2015.

Response: A/OPR/ALS will work with the Bureau of the Comptroller and Global Financial Services to develop this report.

UNCLASSIFIED

UNCLASSIFIED

-4-

Drafted: A/OPR/ALS– Geoffrey Bishop, ext. 4-8408

Cleared: A/OPR/ALS – Cheryl N. Johnson (ok)
A/OPR/OS - Keith Miller (ok)
A/EX/CSM – Joe McGuire (ok)
A/OPR – Jean Baer (ok)
A/FO – Danielle Wood (ok)
CGFS- William Davisson (ok)
M/PRI – Sandra Cimino (ok)
M – Hayward Alto (ok)

UNCLASSIFIED

APPENDIX C: BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT, RESPONSE



United States Department of State

Washington, D.C. 20520

July 24, 2017

UNCLASSIFIED
MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Jennifer A. McIntyre *J.A. McIntyre*

SUBJECT: Draft Report *Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas*

Below is the Office of Logistics Management's response to the subject draft report. The point of contact for this response is Jim Moore who may be reached at 703-875-6285.

Recommendation 15. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management determine the reason or reasons that the Contracting Officer failed to implement sufficient contractor oversight and assess whether disciplinary actions and/or revisions to the delegation structure or oversight roles need to be implemented for the eAllowances task order (SAQMMA17A0001).

Management Response to Draft Report: The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM) agrees with this recommendation. In an effort to improve contract oversight, the Business Operations Division has created a quality assurance checklist for all contracts. A copy of the checklist is attached at Tab 1. In addition, revisions have been made to the new contract (SAQMMA17A0001) and a Government Technical Monitor (GTM) has been assigned and the delegation letter is attached at Tab 2.

Recommendation 16. OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances, modify the quality assurance surveillance plan for the eAllowances task order (SAQMMA17A0001) to include a methodology to measure and document contractor performance in accordance with the Federal Acquisition Regulation and Department of State policies.

Management Response to Draft Report: AQM agrees with this recommendation. The Quality Assurance Surveillance Plan (QASP) was updated in the new contract (SAQMMA17A0001) and accepted by the Government (see Tab 3). Section 4.4.3 of the attached QASP lays out the acceptable performance measures and minimum Acceptable Quality Levels (AQLs). Section 12 lays out the surveillance method and schedule.

Attachments:

- Tab 1 – BPA Checklist (E-file).
- Tab 2 – GTM Designation Letter.
- Tab 3 – eAllowances QASP.

UNCLASSIFIED

Attachments to the auditee's response are available upon request, consistent with applicable law.

APPENDIX D: BUREAU OF THE COMPTROLLER AND GLOBAL FINANCIAL SERVICES RESPONSE



United States Department of State
Deputy Comptroller
P.O. Box 150008
Charleston, SC 29415-5008
JUL 26 2017

UNCLASSIFIED

MEMORANDUM

TO: OIG – Norman P. Brown, Assistant Inspector General for Audits

FROM: CGFS/Deputy Comptroller – William B. Davisson

SUBJECT: Draft Audit of Select Cost-of -Living Allowances for American
Employees Stationed in Foreign Areas AUD-FM-17-XX, July 2017

The Bureau of the Comptroller and Global Financial Services (CGFS) appreciates the opportunity to provide comments on the Inspector General's Draft Audit of Select Cost-of -Living Allowances for American Employees Stationed in Foreign Areas.

Recommendation 13: "OIG recommends that the Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, determine and report to OIG the amount saved for the first pay period after the recalculated separate maintenance allowance rates is applied [Recommendation 10], which OIG estimated would have been \$1.7 million between FY 2013 and FY2015."

Response: CGFS concurs with the recommendation and will work with the Bureau of Administration to determine and report to the OIG any savings that might be calculated when the new rates have been applied by the Bureau of Administration.

Recommendation 14: "OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement uniform guidance for use by overseas posts to identify education allowance payments by student to comply with Department of State Standardized Regulations. This process, at a minimum, should include setting up individual obligations by student for the education allowance and include documentation requirements. The process instructions should be disseminated to all posts and then formalized in relevant Foreign Affairs Manual or Foreign Affairs Handbook sections accordingly."

Response: CGFS will review the best method in identifying how education allowance obligations should be established, including by student. We will work with

UNCLASSIFIED

UNCLASSIFIED

UNCLASSIFIED

-2-

the Bureau of Administration to determine the documentation requirements needed to support the educational allowances that are requested by employees. CGFS will then develop and formalize guidance and distributed to all posts.

The operational point of contact is Paul McVicker. He may be reached by email at mcvickerpj@state.gov or by phone at (843) 202-3858.

UNCLASSIFIED

UNCLASSIFIED

APPENDIX E: BUREAU OF EUROPEAN AND EURASIAN AFFAIRS AND BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS, EXECUTIVE OFFICE, RESPONSE



United States Department of State

Washington, D.C. 20520

July 21, 2017

TO: OIG/AUD – Norman B. Brown, Assistant Inspector General for Audits
FROM: EUR-IO/EX – Heather A. Townsend, Executive Director *HAT*
SUBJECT: Draft Report - Audit of Select Cost-of-Living Allowances for American
 Employees Stationed in Foreign Areas

Thank you for the opportunity to respond to this report. We have the following comments and observations.

We share the view of Embassy Berlin and Mission Geneva that the current methodology for determining allowances could be improved. The current methodology requires significant manual entry, is prone to error, and is a highly subjective process.

That being said, we object to any implications that either post somehow manipulated the survey process or engaged in selection bias to deliver particular results. Although both posts took different approaches, those approaches were equally consistent with the LPQ methodology, insofar as that is currently defined.

We have concerns with a number of apparent errors and inconsistencies in the audit which Geneva raised, and would like to see those addressed in the final report.

Finally, we have reservations about the idea of using off-the-shelf data unless such data actually reflects the conditions in which our embassy staff live.

APPENDIX F: U.S. MISSION GENEVA RESPONSE




*U.S. Mission to the United Nations and
Other International Organizations*

Geneva, Switzerland

July 20, 2017

UNCLASSIFIED
MEMORANDUM

TO: Norman P. Brown
Assistant Inspector General for Audits
Office of Inspector General

FROM: Theodore Allegra 
Chargé d'Affaires ad interim

SUBJECT: Comments on draft report *Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas*

Mission Geneva welcomes the opportunity to respond to the Office of Inspector General (OIG)'s July 2017 draft *Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas* (Audit). We offer the following comments:

We agree that the current post allowance rate methodology could be improved; this was the subject of extensive discussion with the OIG team at post. Because of vagueness, gaps, and/or lack of relevance in portions of the Living Pattern Questionnaires (LPQs), there is considerable potential for subjectivity. Moreover, because the outdated process used to collect LPQ data requires significant manual work, it is prone to error. We would thus welcome progress on improving data collection, clarifying processes, and reducing bias while continuing to ensure that the actual living conditions experienced by American staff are reflected in the product post submits. In any event, we have found no evidence that this post did anything other than follow existing Department guidance on how to prepare and submit information for the cost of living allowance determinations.

That said, we disagree with OIG's assumption of selection bias in 2014. Although it is correct that post did not submit an RPS by the 2013 deadline, our understanding from local staff (direct knowledge by current American staff exists only from summer 2015 onward) reflects that this was not a purposeful act; this Mission was short-staffed due to a series of unexpected events and post was unable to attain the minimum LPQ response percentage at that time. Because of serious staffing shortages, redoing the LPQs and preparing a new RPS evidently took significantly longer than expected in 2014. As for the selection choices of the price collector, we cannot comment on what thought process guided that individual, whom we have not interviewed and who has long since left post. But OIG accusations of manipulation do not ring true with common practice at this post, and do not comport with institutional knowledge of local staff. Whatever the flaws in the 2014 RPS (see following paragraph), any characterization that they existed simply due to selection bias seem to be speculative and should be excised from the report accordingly.

Moreover, despite its concerns, it appears that OIG nonetheless relied on the 2014 RPS to conduct this audit. This is surprising. As explained to the OIG team during its visit, post had long since recognized deficiencies in the 2014 RPS and had conducted a new RPS in 2015 to correct errors, improve accuracy, and significantly broaden the representation of American employees from that which was possible given the constraints at post in 2014. To the extent the audit relied on the 2014 RPS instead of the 2015 RPS, therefore, the report's conclusions on item pricing are based generally on flawed data instead of the considerably strengthened data in the 2015 RPS, which adhered more closely to existing allowance practices and process. Indeed, in reviewing the RPS submitted in 2015,¹ we have identified neither any specific items as unreasonably priced nor any general price anomalies. Geneva is widely regarded as one of the world's most expensive markets for most items (it was just ranked as second only to Zurich for the highest average taxi fares in the world). Thus, even with the benefit of hindsight, the 2015 RPS appears accurate.

Specifically, two items cited by the OIG team as examples of unreasonably priced items seem misplaced based on the 2015 RPS. The first is a washing machine, which the OIG audit cited as costing "349 Swiss Francs compared to Mission Geneva's RPS price of 3,499 Swiss Francs at the same store." The 2015 RPS lists no washing machine costing 3,499 Swiss francs. In the RPS,² post listed a typical washing machine from the most frequent outlet (Fust) at 1,199 Swiss francs and from the second frequent outlet (Interdiscount) at 1,099 Swiss francs. After again recently researching washing machines at both Fust and Interdiscount, we found only one washing machine sold at Fust³ costing 3,499 Swiss francs and none from Interdiscount; the Fust machine, however, did not match any item description provided in the 2015 RPS -- in price or otherwise.

The second item of concern in the report is men's dress shoes. The audit stated that "in Mission Geneva's 2014 RPS, men's dress shoes were priced between \$167.42 and \$313.48 at Manor (a moderately priced department store) and Globus (a high-end department store)." But post's 2015 RPS⁴ for men's dress shoes listed Manor as our most frequent outlet and H&M, not Globus, as our second frequent outlet. Further, the price for a typical pair of men's dress shoes from Manor was listed as 129 Swiss Francs (or roughly \$135) and from H&M was listed as 79.99 Swiss Francs (or roughly \$84). Although both prices are higher than the price of men's dress shoes OIG found in Washington, there are very few discount or low-end stores in Geneva, especially for clothing, and the medium market at Manor or H&M is simply the lowest market generally available to employees if they wish to shop for clothing in Geneva.

The OIG audit also focused extensively on post's system of tracking education allowance payments, noting that Mission Geneva had not tracked payments by student. To be clear, the severe staffing shortages in 2014, exacerbated by the death of a key FMO staff member, made post's normal procedures at the time difficult or impossible to sustain.

¹ See Attachment A "Retail Price Summary 2015"

² See Attachment B "Retail Price Summary 2015 – Washing Machine and Men's Shoes"

³ See Attachment C "Fust Washing Machine"

⁴ See Attachment B "Retail Price Summary 2015 – Washing Machine and Men's Shoes"

Beginning in early 2016, however, and continuing through the present, Geneva has used a comprehensive spreadsheet⁵ to track payments by student at each grade level to document clearly that no individual student receives a greater allowance than they are allotted.

The OIG audit also cited the “inconsistent selection of base schools at posts without Department-assisted schools.” Although there may have theoretically been concern during the 2014-2015 school year with an insufficient education allowance rate for eligible children at both International School of Geneva (ISG) and College Du Lemman (CDL), local staff report that no employee ever raised an actual case of being out-of-pocket for the basic expenses (tuition, books and transportation) that the allowance is designed to cover. Moreover, since then, the issue of a potential inadequate education allowance rate has ceased to exist for Geneva; for the 2016-17 school year, the amount of education allowance is sufficient to pay tuition costs of any grade at either ISG or CDL.⁶

Finally, post would like to express general concern about the automatic use of the Economist’s Intelligence Unit index or other off-the-shelf living indexes in determining post allowance amounts. Although these indices have merit and can provide some comparative value, they are not tailored to reflect the needs, lifestyles, constraints, and actual living and working environments of those in our diplomatic community. That is most certainly true in Geneva, a city whose population, characteristics, neighborhoods, and even lifestyles are largely divided figuratively and quite literally between an international and non-international side of the river that divides the city. Thus, broad indices for this city will never be truly either representative or responsive to the actual living situations of Mission employees, and any adjustment to the current methodology or system of determining post allowances should maintain accuracy with the actual local living and working conditions in each diplomatic community. Perhaps in part for this reason, there is no consistency among the various off-the-shelf cost of living indices available for Geneva, with the Economist’s showing it to be 7% more expensive than New York while another from Numbeo showing Geneva as 41% more expensive than New York. Especially with such wide variation among commercial products, the best and most accurate methodology is likely to remain one based on actual, reliable, on-the-ground survey data keyed to actual living patterns in real neighborhoods in real time.

Attachments:

- A – Retail Price Summary 2015
- B – Retail Price Summary 2015 – Washing Machine and Men’s Shoes
- C – Fust Washing Machine
- D – Education Allowances Internal Spreadsheet
- E – Education Questionnaire 2016-2017

cc: IO: Tracey A. Jacobson, Acting

⁵ See Attachment D “Education Allowances Internal Spreadsheet”

⁶ See Attachment E “Education Questionnaire 2016-2017”

Attachments to the auditee's response are available upon request, consistent with applicable law.

APPENDIX G: U.S. EMBASSY BERLIN RESPONSE

EMBASSY OF THE UNITED STATES OF AMERICA
BERLIN, GERMANY

The Chargé d'Affaires, a.i.



July 21, 2017

Mr. Norman P. Brown
U.S. Department of State
Office of the Inspector General
Room 8100, SA-3
2201 C Street,
N.W. Washington, D.C. 20520-0308

Dear Mr. Brown,

Embassy Berlin welcomes the opportunity to respond to the draft report of the *Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas* (Audit) that was prepared by the Office of Inspector General (OIG) in July 2017.

Post agrees with the OIG that the manual process required by posts to collect data used to determine the cost-of-living (COLA) allowance can be onerous and prone to errors. The Local Price Questionnaire (LPQ) submitted by embassy employees and used to determine from which stores sample prices should be collected are highly subjective and may or may not capture a true picture of the embassy community's average shopping habits. Embassy Berlin followed all instructions for both the LPQ and Retail Price Survey (RPS) preparation and agrees that the methodology highlighted in the Audit, coupled with improperly applied value added tax and sales tax by A/OPR/ALS (as noted in the Audit), are the direct cause for Embassy Berlin's inaccurate COLA as determined by the OIG.

Much discussion was made in the Audit about Embassy Berlin's price data for clothing. While discount apparel can be found in Berlin, Post does not believe the purpose of the exercise was to go out and find the lowest cost items available (as the OIG did in finding children's jeans for 19.99 Euro), but rather to determine where embassy employees said they shopped and then to find the average costs for the requested items within these primary stores as instructed. This is how Embassy Berlin proceeded.

Post discussed the findings in the Audit with the same Price Collector interviewed by the OIG. She confirmed that Kaufhaus des Westens ("Kadawe") department store was listed as a primary store for clothing purchases by embassy employees as determined by the LPQ and RPS instructions. She stated that she found this "questionable" based on her opinion that the majority of her colleagues did not dress in luxury brand clothing carried by the store. Post does not believe it is in the position to question respondent's answers to the surveys they completed, nor to alter LPQ survey results based on a subjective determination of what reasonable costs should

be without regard for the data supplied. In fact, Kadawe is known to be frequented by some Embassy employees due to its proximity, quality and convenience to the two of the three main neighborhoods where the embassy community live. Rather than taking the action noted in the Audit as Mission Geneva, which disregarded some stores on the LPQ in favor of other stores "believed" to be actually frequented, Embassy Berlin instructed our Price Collector to use the actual submission data.

The OIG came to the same conclusion in its analysis of Embassy Berlin's decision to use a hair service provider identified by only five persons as the primary provider because the rest of the community had listed a wide variety of 38 different service providers; as well as an unidentified restaurant frequented by only four persons. The OIG found, that "...this was appropriate according to the post allowance methodology..."

Embassy Berlin also comments that any new methodology or guidance developed by the Department for COLA determinations take unique conditions and constantly changing embassy community demographics into account. For example, Berlin's excellent public transportation system is often specifically sought by officers when bidding. Several of these officers have noted that the savings they gain from living without an automobile and its associated costs allows them to "splurge" on higher end dining and shopping. LPQ survey responses by these employees could skew the picture of the embassy community's shopping habits, but they still represent real shopping patterns, which should not be ignored. Additionally, the majority of Berlin's stores, both within the city center and in the suburbs, close early in the evenings and all day on Sundays. Coordinating shopping at discount or chain stores with limited transportation and limited shopping hours is complicated. Some employees will pay more to shop at a more convenient store.

Post welcomes any new methodology and/or data collection guidance that may be implemented as a result of this Audit which allows for more accurate and practical collection of data from post, reduces the manual workload on Price Collectors, and reduces inherent subjectivity throughout the process. We are concerned, however, that any off-the-shelf pricing data available will not reflect the unique conditions in which our diplomatic community lives. For a place as large and diverse as Berlin, any "average" price for the city as a whole while necessarily not reflect the shopping options available to our community.

Embassy Berlin is pleased that the OIG found its employees received the correct education allowances and will continue the processes put in place for tracking this allowance.

Sincerely,



Kent D. Logsdon

APPENDIX H: SUMMARIES OF AND REPLIES TO THE BUREAU OF EUROPEAN AND EURASIAN AFFAIRS AND BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS, EXECUTIVE OFFICE

In response to a draft of this report, the Bureau of European and Eurasian Affairs and Bureau of International Organization Affairs, Executive Office (EUR-IO/EX) acknowledged that the post allowance rate methodology could be improved but disagreed with portions of Finding A in this report (see Appendix E for EUR-IO/EX's response to a draft of this report).

OIG has included a summary of EUR-IO/EX's general comments regarding the audit findings and OIG's replies. OIG did not address areas of agreement, nor has it attempted to reply to every point set forth in EUR-IO/EX's response. Moreover, the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (A/OPR/ALS) is responsible for cost-of-living allowances and has agreed to the recommendations OIG offered in this report.

EUR-IO/EX Comment: Although EUR-IO/EX agreed that the post allowance rate methodology could be improved, it expressed reservations about the idea of using off-the-shelf data unless such data actually reflect the conditions in which embassy staff live.

OIG Reply: As OIG reported in Finding A of this report, the current methodology implemented by the Department of State for obtaining cost-of-living information does not consistently result in accurate, reliable, and unbiased information on which to derive post allowance rates. EUR-IO/EX's suggestion that the commercial off-the-shelf data should reflect "the conditions in which our embassy staff live" is, in fact, illustrative of the very flaws detailed in this report. As defined in the Foreign Affairs Manual,¹ post allowance is designed to permit Federal employees stationed in foreign areas to spend the same portion of their salaries for their standard living expenses as they would if they resided in Washington, DC. Furthermore, A/OPR/ALS sets post allowance rates for the entire Federal Government. Accordingly, post allowance is not designed to ensure that certain "conditions" are maintained for the embassy community, although this belief is articulated in the comments of each post that responded. OIG does not know what aspects of life for the diplomatic community, as opposed to any other group living in a particular location, warrant a unique approach towards determining a cost-of-living allowance. OIG did not make any changes in the report on the basis of this comment.

EUR-IO/EX Comment: EUR-IO/EX objected to "any implications that either post [that is U.S. Mission Geneva and U.S. Embassy Berlin] somehow manipulated the survey process or engaged in selection bias to deliver particular results." EUR-IO/EX stated that "[a]lthough both posts took different approaches, those approaches were equally consistent with the [post allowance] methodology, insofar as that is currently defined." EUR-IO/EX also referred to concerns raised by

¹ 3 Foreign Affairs Manual, Exhibit 3210, "Allowance References Table."

Mission Geneva in its comments to a draft of this report (see Appendix F for Mission Geneva's response to a draft of this report).

OIG Reply: OIG's report does not contend that any post or particular employee engaged in misconduct. Instead, as OIG reported in Finding A of this report, the post allowance rate determination process is itself inherently flawed for a variety of reasons, including the fact that it relies on subjective determinations of individuals who have a financial interest in the ultimate outcome. Although OIG reported areas of concern related to Mission Geneva's and Embassy Berlin's submission of documents related to the post allowance rate determination process, OIG attributed those concerns to a lack of sufficient guidance from A/OPR/ALS and other flaws in the methodology. OIG further addressed Mission Geneva's concerns in Appendix I. OIG did not make any changes in the report on the basis of this comment.

APPENDIX I: SUMMARIES OF AND REPLIES TO U.S. MISSION GENEVA, GENERAL COMMENTS

In response to a draft of this report, U.S. Mission Geneva acknowledged a number of the Office of Inspector General's (OIG) findings and recommendations, including that the post allowance rate methodology could be improved, but it disagreed with others (see Appendix F for Mission Geneva's response to a draft of this report).

OIG has included a summary of Mission Geneva's most significant general comments regarding the audit findings and OIG's replies. OIG has not addressed areas of agreement, nor has it attempted to reply to every point set forth in Mission Geneva's response. Moreover, the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (A/OPR/ALS) is responsible for cost-of-living allowances and has agreed to the recommendations OIG offered in this report.

Mission Geneva Comment: Mission Geneva agreed that post did not submit a retail price schedule (RPS) by the 2013 deadline. However, Mission Geneva stated that missing the deadline was not a "purposeful act" but was the result of staffing shortages due to a series of unexpected events. Therefore, Mission Geneva was unable to attain the minimum living pattern questionnaire (LPQ) response percentage at the time.

OIG Reply: Mission Geneva may have had valid reasons for not submitting its RPS by the 2013 deadline; however, those reasons were not communicated to the A/OPR/ALS Director. As OIG reported, the former A/OPR/ALS Director stated that it was only when he informed Mission Geneva that he intended to lower the post allowance rate to zero that Mission Geneva submitted a new RPS. OIG did not make any changes in the report on the basis of this comment.

Mission Geneva Comment: Although Mission Geneva agreed that the post allowance rate methodology could be improved because the process contains potential subjectivity and is prone to errors, Mission Geneva also included a variety of comments regarding its own 2014 and 2015 RPS processes. Mission Geneva questioned OIG's reliance on the 2014 RPS to conduct the audit in light of OIG's expressed concerns regarding that information. Mission Geneva also stated that it explained to OIG during audit fieldwork that post recognized deficiencies in the 2014 RPS and conducted a new RPS in 2015 to "correct errors, improve accuracy, and significantly broaden the representation of American employees from that which was possible given the constraints at post in 2014." On a related point, Mission Geneva questioned the report's conclusions on item pricing because they were based on what it described as generally flawed data provided in 2014 instead of the "considerably strengthened data in the 2015 RPS." Mission Geneva also provided examples of item selections from the 2015 RPS, compared them to the 2014 RPS, and stated that it believes that the specific items were not unreasonably priced or did not have general price anomalies. Moreover, Mission Geneva stated that "there are very few discount or low-end stores in Geneva" and that this explained the higher shoe prices in 2015, when compared to the price "OIG found in Washington."

Mission Geneva also disagreed with what it characterized as “OIG’s assumption of selection bias in 2014.” Mission Geneva stated that “OIG accusations of manipulation do not ring true with common practice at this post, and do not comport with institutional knowledge of local staff.” Mission Geneva also stated, “[w]hatever the flaws in the 2014 RPS . . . , any characterization that they existed simply due to selection bias seem to be speculative and should be excised from the report accordingly.”

Furthermore, Mission Geneva stated that it did not find evidence that post did anything other than follow existing Department guidance on how to prepare and submit information for the cost-of-living allowance determinations.

OIG Reply: Mission Geneva’s comments regarding the 2014 and 2015 RPS process do not acknowledge the factual conclusions set forth in OIG’s report regarding the post allowance rate methodology, which Mission Geneva agrees may be subjective and prone to error, and instead focuses on details related to the sample OIG selected to test the process at post. During its audit fieldwork in Geneva, OIG explained that its audit scope was FY 2013 through FY 2015, and as reported in Appendix A, OIG reviewed LPQs and RPSs based on the post allowance rates set during those fiscal years. Therefore, the RPS prepared by Mission Geneva in 2015 that was submitted in January 2016 was outside the scope of the audit.

OIG did not make assumptions regarding selection bias in its review of the 2014 RPS. Instead, OIG based its conclusions on its independent analyses of the LPQs submitted by Mission Geneva to identify the most frequented stores, as required by the Department of State Standardized Regulations. As OIG reported in Finding A, there were discrepancies between the stores that were reported as the most frequented in the underlying LPQs and the stores reported by Mission Geneva in its RPS submission. During OIG’s audit fieldwork at Mission Geneva in June 2016, Mission Geneva management coordinated a meeting with the 2014 price collector, and OIG discussed with that individual how she determined the most frequently used stores. As OIG reported, the price collector visited some stores on the basis of her personal knowledge of the habits of the Mission Geneva community rather on the basis of selections set forth in the LPQs, because, in her opinion, the LPQ stores selections did not reflect reality. The post allowance rate resulting from the 2014 RPS submission was substantially lower than the prior allowance. This, in turn, prompted dissatisfaction and led the post to begin the RPS process anew in 2015, which could have also led to “strengthened data” as Mission Geneva stated. Because OIG did not audit the 2015 RPS, it cannot comment on the accuracy or reliability of the data. OIG did, however, report in Finding A:

Along with submitting new price data in January 2016, Mission Geneva provided a memorandum to A/OPR/ALS explaining the special circumstances and “unseen costs” that it contended are higher in Geneva than in Washington, DC. Specific examples included fees for the Boy Scouts of America, value added taxes on automobile fuel, trash bags, medical service prices, winter tires for automobiles, extracurricular school

activities, school lunches, and the mandatory schooling for children at 4 years of age in Switzerland. The A/OPR/ALS analyst charged with recalculating the post allowance rate in 2016 noted that most of the post's comments concerned costs outside the scope of the post allowance or were covered by other allowances, such as the education allowance and living quarters allowances. The A/OPR/ALS analyst removed the expenses not applicable to post allowance and recalculated the post allowance rate. As a result, the post allowance rate for Mission Geneva was ultimately set at an overall rate of 60 percent, effective May 1, 2016.

Finally, as also reported in Finding A, OIG collected prices when on site in Geneva (as well as Berlin and Beijing) and did not use Washington prices for comparison as Mission Geneva stated. OIG did not make any changes in the report on the basis of these comments.

Mission Geneva Comment: Mission Geneva expressed "general concern about the automatic use of The Economist's Intelligence Unit index or other off-the-shelf living indexes in determining post allowance amounts." Mission Geneva stated that "[a]lthough these indices have merit and can provide some comparative value, they are not tailored to reflect the needs, lifestyles, constraints, and actual living and working environments of those in our diplomatic community." Furthermore, Mission Geneva cited wide differences in third-party cost-of-living indices for Geneva (compared to New York) and stated that "the best and most accurate methodology is likely to remain one based on actual, reliable, on-the-ground survey data keyed to actual living patterns in real neighborhoods in real time."

OIG Reply: OIG agrees that the post allowance rate should be based on accurate, reliable, and unbiased information. However, as presented in Finding A of this report, the current methodology used by the Department of State (Department) for obtaining this information does not consistently result in such information on which to derive post allowance rates. Mission Geneva's suggestion that the diplomatic community's particular lifestyle should be taken into consideration when determining post allowance rates misunderstands the purpose of the allowance. As explained in the Foreign Affairs Manual,¹ post allowance is designed to permit Federal employees stationed in foreign areas to spend the same portion of their salaries for their standard living expenses as they would if they resided in Washington, DC. Furthermore, A/OPR/ALS sets post allowance rates for the entire Federal Government, and post allowance is not designed to ensure that a certain "lifestyle" is maintained for the diplomatic community. Indeed, as previously noted, Mission Geneva's RPS submission in January 2016 to A/OPR/ALS raised similar arguments regarding special circumstances and "unseen costs." However, as the A/OPR/ALS analyst at the time correctly noted, those are not factors that are considered when determining the post allowance rate.

With regard to the various cost-of-living indices cited by Mission Geneva, OIG did not recommend using a specific commercial provider in its recommendations to the Bureau of

¹ 3 Foreign Affairs Manual, Exhibit 3210, "Allowance References Table."

Administration. OIG used The Economist Intelligence Unit for its analysis because, as detailed in Finding A of this report, the Department previously maintained a subscription to this company's data and the Department's Office of the Chief Economist corroborated its reliability. Furthermore, pricing information collected by The Economist Intelligence Unit was very similar to the types of price data collected in the Department's RPS, and, in some cases, was more detailed than the Department's pricing information. As an example, Table I.1. compares items for which prices are collected in the clothing category.

Table I.1: Comparison of Clothing Items for Which Pricing Data is Collected

The Economist Intelligence Unit	Department Retail Price Survey
Children's Clothing	
Child's jeans	Jeans, child's
Child's shoes, dresswear	Shoes, child's athletic
Child's shoes, sportswear	
Girl's dress	
Boy's jacket, smart	
Boy's dress trousers	
Men's Clothing	
Man's business suit, two piece, medium weight	Slacks, man's dress
Men's business shirt, white	Shirt, man's dress
Man's raincoat, Burberry type	Shoes, man's dress
Men's shoes, business wear	
Socks, wool mixture	
Women's Clothing	
Women's dress, ready to wear, daytime	Blouse, woman's
Women's shoes, town	Skirt, woman's
Women's cardigan sweater	Slacks, woman's
Women's raincoat, Burberry type	
Women's tights, panty hose	

Source: OIG generated on the basis of data provided from The Economist Intelligence Unit and the Department RPS.

OIG cannot comment on Mission Geneva's second source or its methods cited in its comments but again emphasizes that it is not proposing the Department use any particular source. OIG also notes that variations in the third party sources do not provide support for maintaining the current system but instead simply mean that the Department should select the source it ultimately uses with care. OIG did not make any changes in the report on the basis of these comments.

Mission Geneva Comment: Mission Geneva stated that "[a]lthough there may have theoretically been concern during the 2014–2015 school year with an insufficient education allowance rate for eligible children" at both international schools, local staff reported that no employee ever raised an actual case of having out-of-pocket costs for the basic expenses that the allowance is designed to cover. Furthermore, Mission Geneva stated that for the 2016–2017 school year, the amount of education allowance is sufficient to pay tuition costs of any grade at both schools.

OIG Reply: OIG takes no position with respect to this point because, as reported in Finding D of this report, OIG was unable to determine whether education allowances were appropriately paid to Mission Geneva employees for the 2014–2015 school year because of insufficient documentation and because Mission Geneva did not have internal controls in place to track education allowance expenses by student. In addition, as reported in Appendix A of this report, OIG’s scope was from FY 2013 through FY 2015. OIG did not make any changes in the report on the basis of this comment.

APPENDIX J: SUMMARIES OF AND REPLIES TO U.S. EMBASSY BERLIN, GENERAL COMMENTS

In response to a draft of this report, U.S. Embassy Berlin acknowledged that the post allowance rate methodology could be improved but disagreed with portions of Finding A in this report (see Appendix E for Embassy Berlin's response to a draft of this report).

OIG has included a summary of Embassy Berlin's most significant general comments regarding the audit findings and OIG's replies. OIG has not addressed areas of agreement, nor has it attempted to reply to every point set forth in Embassy Berlin's response. Moreover, the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (A/OPR/ALS) is responsible for cost-of-living allowances and has agreed to the recommendations OIG offered in this report.

Embassy Berlin Comment: Embassy Berlin stated that "[w]hile discount apparel can be found in Berlin, Post does not believe the purpose of the exercise was to go out and find the lowest cost items available (as the OIG did in finding children's jeans for 19.99 euros), but rather to determine where embassy employees said they shopped and then to find the average costs for the requested items within these primary stores as instructed. This is how Embassy Berlin proceeded." Furthermore, Embassy Berlin stated that it instructed the price collector to collect prices on the basis of actual submission data.

OIG Reply: OIG did not act on the assumption that employees were required to purchase "discount apparel," and OIG did not collect prices for the lowest cost items available during its audit fieldwork in Berlin. As reported in Finding A, OIG performed independent analyses of the living pattern questionnaires (LPQ) submitted by Embassy Berlin for the retail price schedule (RPS) to identify the most frequented stores, as required by the Department of State Standardized Regulations. As OIG reported, there were discrepancies between the stores that the LPQs identified as most frequented and the stores used by Embassy Berlin to obtain prices. One of these discrepancies was for children's clothing: Embassy Berlin collected prices from a high-end store rather than the store actually identified in the LPQs. OIG collected the price for children's jeans (19.99 euros) from the store identified in the LPQs. Embassy Berlin did not maintain copies of the LPQs submitted for the RPS or any supporting documentation justifying or explaining how the most frequented stores were selected. Moreover, when OIG collected the price of children's jeans at the store that was actually identified in the LPQs (as it did for all other prices it collected), it followed the Department of State's (Department) instructions for retail price collecting. Those instructions state that the prices collected "must reflect the consumption habits of the average U.S. family (3-4 persons – average income of \$44,500) living in Washington, DC. This family has budget constraints in [DC] as well as abroad." OIG did not make any changes in the report on the basis of this comment.

Embassy Berlin Comment: Although Embassy Berlin agreed that the post allowance rate methodology could be improved, it expressed general concern that "any off-the-shelf pricing

data available will not reflect the unique conditions in which our diplomatic community lives." Furthermore, Embassy Berlin commented that the new methodology should "take unique conditions and constantly changing embassy community demographics into account." For example, Embassy Berlin stated that Berlin's excellent public transportation allow Foreign Service Officers the ability to save money by living without an automobile and to "'splurge' on higher end dining and shopping." As a result, Embassy Berlin stated "LPQ survey responses by these employees could skew the picture of the embassy community's shopping habits, but they still represent real shopping patterns, which should not be ignored." In another example, Embassy Berlin stated that "the majority of Berlin's stores, both within the city center and in the suburbs, close early in the evenings and all day on Sundays" and "[c]oordinating shopping at discount or chain stores with limited transportation and limited shopping hours is complicated."

OIG Reply: Embassy Berlin's comments reflect a variety of misconceptions about the purpose of post allowance and of OIG's conclusions. First, as noted previously, OIG did not proceed on the assumption that "discount" stores or the absolute lowest cost item were the standard; OIG provided detailed explanations of its approach in Finding A. Second, as also presented in Finding A, the current methodology used at the Department for obtaining pricing data does not consistently result in accurate, reliable, and unbiased information on which to derive post allowance rates. OIG's audit fieldwork at each of the posts confirmed these problems. Finally, as explained previously, the suggestion that the diplomatic community's lifestyle should be taken into consideration when determining post allowance rates is an example of a fundamental misunderstanding of the purpose of the post allowance. As explained in the Foreign Affairs Manual,¹ post allowance is designed to permit Federal employees stationed in foreign areas to spend the same portion of their salaries for their standard living expenses as they would if they resided in Washington, DC. Furthermore, A/OPR/ALS sets post allowance rates for the entire Federal Government. Accordingly, post allowance is not designed to ensure that the "unique conditions" of the diplomatic community—whatever those conditions may be—are maintained. If Department employees have the ability to "splurge" on "higher end dining and shopping," based on the existing allowance, this suggests that the 20 percent post allowance rate that OIG determined based on independent economic data rather than the existing 50 percent (see Table 3) is appropriate despite Embassy Berlin's expressed concerns. OIG did not make any changes in the report on the basis of these comments.

¹ 3 Foreign Affairs Manual, Exhibit 3210, "Allowance References Table."

ABBREVIATIONS

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
A/OPR/ALS	Bureau of Administration, Office of Deputy Assistant Secretary for Operations, Office of Allowances
A/OPR/OS	Bureau of Administration, Office of Deputy Assistant Secretary for Operations, Office of Overseas Schools
BLS	Bureau of Labor Statistics
CGFS	Bureau of the Comptroller and Global Financial Services
CO	Contracting Officer
COLA	cost-of-living allowances
DSSR	Department of State Standardized Regulations
EUR-IO/EX	Bureau of European and Eurasian Affairs and Bureau of International Organization Affairs, Executive Office
FAH	Foreign Affairs Handbook
FAM	Foreign Affairs Manual
GFMS	Global Financial Management System
GTM	Government Technical Monitor
LPQ	living pattern questionnaire
QASP	Quality Assurance Surveillance Plan
RPS	retail price schedule
SMA	separate maintenance allowance

OIG AUDIT TEAM MEMBERS

Beverly J.C. O'Neill, Director
Financial Management Division
Office of Audits

Wilvia Espinoza, Audit Manager
Financial Management Division
Office of Audits

Karen Crue, Senior Auditor
Financial Management Division
Office of Audits

Rong Wang, Senior Auditor
Financial Management Division
Office of Audits

Jahmai Nicome, Management Analyst
Financial Management Division
Office of Audits

Marilyn Reyes, Statistician
Audit Compliance and Followup Division
Office of Audits

UNCLASSIFIED



HELP FIGHT

FRAUD. WASTE. ABUSE.

1-800-409-9926

HOTLINE@stateoig.gov

If you fear reprisal, contact the
OIG Whistleblower Ombudsman to learn more about your rights:

WPEAOmbuds@stateoig.gov

oig.state.gov

Office of Inspector General • U.S. Department of State • P.O. Box 9778 • Arlington, VA 22219

UNCLASSIFIED