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Office of Inspector General
United States Department of State

AUD-FM-21-31

Office of Audits

June 2021

Audit of Foreign Per Diem Rates Established by the Department of State

FINANCIAL MANAGEMENT DIVISION

UNCLASSIFIED



HIGHLIGHTS

Office of Inspector General
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What OIG Audited

Foreign per diem is provided to U.S. Government employees and eligible dependents to cover temporary lodging and meals while on official business overseas. The Bureau of Administration's Office of Allowances (ALS) is responsible for establishing the maximum foreign per diem rates used by all Federal employees traveling overseas.

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State's (Department) methodology and process to establish foreign per diem rates adequately cover the cost of U.S. Government employees and eligible dependents traveling overseas and comply with Federal regulations and Department policies. OIG performed detailed testing for Consulate Generals Frankfurt, Germany; and Istanbul, Turkey; and Embassies Kyiv, Ukraine; Mexico City, Mexico; and San Salvador, El Salvador. OIG performed additional analyses of data from 15 other overseas locations.

What OIG Recommends

OIG made 14 recommendations to improve efforts to establish foreign per diem rates. On the basis of management's response to a draft of this report, OIG considers one recommendation closed; nine recommendations resolved, pending further action; and four recommendations unresolved. A synopsis of management's response to the recommendations offered and OIG's reply follow each recommendation in the Audit Results section of this report. Responses from the Bureau of Administration, Consulate General Frankfurt, and Embassy Mexico City are reprinted in their entirety in Appendices C, D, and E, respectively.

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Audit of Foreign Per Diem Rates Established by the Department of State

What OIG Found

OIG found that ALS did not implement processes to establish foreign per diem rates in accordance with Department requirements and ALS standard operating procedures. For example, selected posts did not always submit hotel and restaurant data biennially, as required. OIG also identified errors in ALS's calculations of foreign per diem rates. Furthermore, exchange rates were not always applied due to issues with an ALS web-based application. The deficiencies identified occurred, at least in part, because ALS did not implement sufficient internal controls to ensure that foreign per diem rates were appropriate and complied with requirements. Specifically, OIG found that ALS and selected posts did not have sufficient policies and procedures. In addition, ALS did not sufficiently monitor the foreign per diem rate-setting process, nor did ALS and the posts involved maintain adequate documentation. Implementing a sufficient internal control environment would help the Department save resources and establish adequate and appropriate per diem rates for U.S. Government personnel and eligible dependents traveling overseas.

In addition, ALS's methodology to establish foreign per diem rates needs improvement to adequately cover the cost of U.S. Government employees and eligible dependents traveling overseas. Specifically, OIG found that the rates established by ALS were higher than what was supported by available independent economic data available for three of four posts. The primary reason the foreign per diem rates differed could be attributed, in part, to the inefficient methodology used by ALS to calculate the rates. For example, ALS established per diem rates for more than 1,000 locations worldwide and relied on hotel and restaurant data manually collected by personnel at overseas posts. In addition, ALS has not evaluated the potential benefit of using other sources to obtain data for establishing rates. For instance, using available independent economic data would reduce the need for manual data collection and calculations, leading to workload efficiencies, while also potentially resulting in rates that would better reflect current market conditions.

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OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State's (Department) methodology and process to establish foreign per diem rates adequately cover the cost of U.S. Government employees and eligible dependents traveling abroad and comply with Federal regulations and Department policies.

BACKGROUND

Federal law authorizes Federal employees, when traveling on official business away from the employee's designated post of duty, home, or regular place of business, an entitlement to a per diem allowance, reimbursement for actual and necessary expenses of official travel, or a combination of both.¹ The law also states that neither the per diem allowance nor the reimbursement of actual expenses shall exceed an amount established by the Administrator of General Services for travel within the continental United States (CONUS) or established by the President or designee for travel outside CONUS. According to data obtained from the Department's travel system,² the Department expended approximately \$290.5 million for foreign per diem³ in travel vouchers from FY 2018 to FY 2019.

The Secretary of State has been delegated authority by Executive Order to establish maximum rates of per diem allowances and reimbursements for official travel in localities outside the United States, the Commonwealth of Puerto Rico, and possessions of the United States.⁴

Office of Allowances

According to the Foreign Affairs Manual (FAM), the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (ALS), develops and coordinates policies, regulations, standards, and procedures for the administration of U.S. Government-wide allowances and differentials program for employees assigned to foreign areas.⁵ ALS establishes post cost-of-living, post hardship differential, danger pay, education, living quarters, foreign and home service transfer, separate maintenance allowances, and evacuation payments.⁶ ALS also

¹ Title 5 United States Code § 5702, "Per diem; employees traveling on official business."

² The Department uses E2 Solutions, serviced by CWT SatoTravel, to process travel authorizations and travel vouchers. OIG obtained the travel data directly from CWT SatoTravel.

³ OIG was unable to determine the exact amount expended by the Department on foreign per diem because of the nature of the Department's accounting records, which do not segregate per diem expenses obligated by location incurred.

⁴ The most recent delegation is included in Executive Order 12561, Delegating certain functions of the President relating to Federal civilian employee and contractor travel expenses, July 1, 1986.

⁵ 1 FAM 213.2(a), "Office of Allowances (A/OPR/ALS)."

⁶ 1 FAM 213.2(b).

establishes maximum per diem rates for U.S. Government civilian and uniformed services travelers in foreign areas.⁷

ALS has 14 positions: a Director, Management Officer, program assistant, 2 team supervisors, seven analysts (2 of whom rotate as team leads), a regulations and policy specialist, and a contractor assigned to special projects. All analysts have the ability to perform per diem rate analyses. Per diem rate analyses are reviewed by team leaders, then by team supervisors. The Management Officer or the Director performs a final review of per diem rate analyses prior to the publication of the rate.

ALS publishes the foreign per diem rates monthly in Section 925, "Maximum Rates of Per Diem Allowances for Travel in Foreign Areas," of the "Department of State Standardized Regulations" (DSSR). Although ALS is responsible for establishing foreign per diem rates, per diem travel policy is governed by the Federal Travel Regulation.⁸

Foreign per diem rates are used to calculate allowances to be provided to travelers for temporary duty⁹ (TDY) or detail to a foreign area, permanent change of station travel between the United States and a foreign area,¹⁰ permanent change of station travel from one foreign area to another,¹¹ and temporary quarters subsistence allowance¹² when permanently assigned to a foreign location.¹³

Foreign Per Diem and Rate Determination Process

The Federal Travel Regulation¹⁴ defines "per diem allowance" as a daily payment instead of reimbursement for actual expenses for lodging, meals, and related incidental expenses, that is designed to cover all charges and services, including any service charges where applicable. The

⁷ 1 FAM 213.2(c).

⁸ The Federal Travel Regulation, Chapters 300 through 304, maintained by the General Services Administration, summarizes the travel and relocation policy for all Federal civilian employees and others authorized to travel at the Government's expense. Policy specific to per diem is contained in Federal Travel Regulation §301-11, "Per Diem Expenses."

⁹ Federal Travel Regulation § 300-3.1, "What do the following terms mean?" defines a TDY location as a place away from an employee's official station, where the employee is authorized to travel. Federal Travel Regulation §301-11.7, "What determines my maximum per diem reimbursement rate?" states that a traveler's TDY location determines the employee's maximum per diem reimbursement rate.

¹⁰ Federal Travel Regulation § 302-4, "Allowances for Subsistence and Transportation."

¹¹ Ibid.

¹² According to Federal Travel Regulation Part 302-6, "Allowance for Temporary Quarters Subsistence Expenses," temporary quarters subsistence allowance is granted to an employee for the reasonable cost of temporary quarters, meals, and laundry expenses incurred by the employee and/or family member(s) at a foreign post upon initial arrival when permanent quarters are not yet available or preceding final departure after necessary evacuation of quarters.

¹³ Federal Travel Regulation § 302-6.102, "What is the 'applicable per diem rate' under the actual [temporary quarters subsistence expenses] reimbursement method?"

¹⁴ Federal Travel Regulation § 300-3.1.

Federal Travel Regulation also states that lodging taxes and laundry and dry cleaning expenses are part of the foreign per diem rate. According to guidance published by ALS,¹⁵ foreign per diem rates are composed of a maximum lodging portion and a maximum meals and incidental expenses (M&IE) portion. The lodging portion of the foreign per diem rate is intended to substantially cover the cost of lodging at adequate, suitable, and moderately priced facilities, including lodging taxes. The M&IE portion of the foreign per diem rate is intended to substantially cover the cost of breakfast, lunch, and dinner (including related tips and taxes) and incidental expenses (e.g., laundry, dry cleaning, and fees and tips given to porters, baggage carriers, and hotel staff).¹⁶

The Department's foreign per diem rate determination process starts with overseas posts preparing and submitting a Hotel and Restaurant Report (Form DS-2026) that details lodging rates and meal prices at hotels and restaurants frequently used by U.S. Government travelers. According to the DSSR,¹⁷ posts are supposed to submit a DS-2026 biennially in accordance with reporting requirements in Section 920, "Allowances by Location."¹⁸ The reporting requirements identify the lead agency by location that is required to submit the DS-2026 and the month and the year (even or odd) that the report is due.¹⁹

Lodging Data

When completing the DS-2026, post officials are supposed to provide room rate prices for three moderately priced hotels that are frequently used by U.S. Government travelers. According to the DSSR²⁰ and the DS-2026, posts should maintain records of the reservations made in local hotels for Federal travelers (i.e., a hotel log) and use this information as the basis for selecting lodging facilities for preparing the biennial report. The DS-2026 instructions state that posts should select hotels that meet U.S. standards of size, cleanliness, security, and safety, as much as possible, and refrain from reporting costs for hotels that offer luxury accommodations or are primarily used by very important persons or congressional delegations. The DS-2026 guidance also instructs posts to report seasonal rates if hotels have "high" and "low" seasons and to report any changes in hotels listed or price levels from the previous DS-2026 submission. The DSSR states that whenever a substantial change in hotel costs occurs, new hotels are built, or old ones cease to be available or acceptable, a revised DS-2026 should be sent in advance of the regularly scheduled submission so that the per diem rate may be reconsidered.²¹

¹⁵ ALS publishes guidance regarding foreign per diem rates on the Department's publicly available website at https://aoprals.state.gov/content.asp?content_id=207&menu_id=75.

¹⁶ Federal Travel Regulation § 300-3.1.

¹⁷ DSSR § 074.2, "Required Submission of DS-2026."

¹⁸ Section 920 reporting requirements are not published in the DSSR. Instead, Section 920 reporting requirements are accessible through the ALS public website at https://aoprals.state.gov/Web920/location.asp?menu_id=95.

¹⁹ DSSR § 920.

²⁰ DSSR § 074.2.

²¹ DSSR § 074.3, "Changes in Hotel Situation."

Meals Data

The DS-2026 requires post officials to provide the average price levels for a main course and additional meal items for three breakfast, lunch, dinner, and fast-food restaurants that represent those facilities most frequently used by U.S. Government travelers. Posts must also report tax rates and service charges for each restaurant if those charges are not included in the meal price. Table 1 describes the lodging and meals pricing data that are required to be collected and reported by post on the DS-2026.

Table 1: Lodging and Meals Pricing Data That Is Required To Be Collected and Reported by Posts on the DS-2026

Component	Description of the Data Required for the Three Most Frequently Used Facilities
Lodging	<ul style="list-style-type: none"> • Room rate for a single room available to travelers during most of the year. • Higher seasonal rate and dates in effect, if applicable. • Mandatory service charges and taxes (if not included in the room rate). • Indication of whether meals are included in the rate. • Number of reservations made at the hotel obtained from post logs. • Number of rooms in the hotel. • Whether the hotel meets U.S. equivalent fire/safety standards. • Whether prices are reported in local currency. • Explanation for any change in hotels listed or price levels from the previous DS-2026.
Breakfast*	<ul style="list-style-type: none"> • Combined price of bacon, two eggs, juice, toast, and coffee or tea (i.e., the price of a “typical American breakfast”). • Taxes and service charges or tips (if not included in the meal price). • Indication of whether prices are reported in local currency.
Lunch*	<ul style="list-style-type: none"> • Price of main course (chicken, beef, or fish). • Prices of one side; one dessert; and coffee, tea, or soda (if not included in the price of the main course). • Taxes and service charges or tips (if not included in meal price). • Indication of whether prices are reported in local currency.
Dinner*	<ul style="list-style-type: none"> • Price of main course (chicken, beef, or fish). • Prices of soup; salad; two typical sides; typical dessert; and coffee, tea, or soda (if not included in the price of the main course). • Taxes and service charges or tips (if not included in meal price). • Indication of whether prices are reported in local currency.
Fast Food	<ul style="list-style-type: none"> • Price of hamburger; fried chicken; French fries; and coffee, tea, or soda. • Taxes and service charges or tips (if not included in meal price). • Indication of whether prices are reported in local currency.

* Breakfast, lunch, and dinner components may include pricing data for military and post facilities, in addition to the three most frequently used restaurants.

Source: OIG generated using the DS-2026.

Upon completion of the hotel and restaurant data collection, the post officer responsible for preparing the report is supposed to sign the DS-2026, certifying it is accurate, complete, current, and in compliance with the DSSR prior to submitting the form to ALS using

eAllowances.²² The DSSR does not require posts to submit any additional documentation along with the DS-2026. The DS-2026 states that posts should submit “other supporting documentation” directly to ALS but does not specify what types of documentation this would encompass.

ALS Analysis

ALS analysts review the DS-2026s that are submitted by posts and use the reported pricing data as the basis for calculating the lodging and M&IE portions of the foreign per diem rates. According to the ALS standard operating procedures,²³ ALS analysts compare the current and previous DS-2026 submissions for completeness and contact the post to obtain additional information as needed. Using the current DS-2026 submission, ALS analysts calculate a weighted average²⁴ of the lodging and meal prices. For the lodging portion of the per diem rate, analysts evenly apply weight²⁵ to all reported hotel prices unless the analyst can justify alternative weighting.²⁶ Analysts are supposed to review the reported hotel reservation log information provided by the post to determine if the final recommended rate will adequately cover the cost of the first or second most frequently used hotel.

For the meals portion of the foreign per diem rate, ALS analysts calculate, by meal, a weighted average of all restaurant prices provided; weighting the reported breakfast,²⁷ lunch, and dinner restaurant facilities equally.²⁸ According to the standard operating procedures, the ALS analyst may consider applying less weight or no weight to a reported restaurant that “is out of line with other restaurant facilities” and may also edit out “extreme” meal prices. The incidentals portion of the foreign per diem rate is 10 percent of the total weighted average of the lodging and meal amounts.

²² eAllowances is a web-based application used by ALS to develop and administer Government-wide allowances and benefits for civilian employees and their families overseas. eAllowances was designed to allow posts worldwide to collect and send data to ALS and enable ALS to analyze the data to determine allowance rates, including foreign per diem rates.

²³ ALS, “Standard Operating Procedures Per Diem for Foreign Locations,” April 2019.

²⁴ Weighted average is a means of determining the average of a set of values by assigning weight to each value in relation to their relative significance.

²⁵ Default weighting for the three reported hotels is to weight the listed prices of two hotels at 33 percent and weight the price of the hotel with either the highest price or the highest number of reservations at 34 percent.

²⁶ If a post reported seasonal lodging rates, the analyst may establish a seasonal lodging rate only if the higher rate is \$20 or more than the standard rate and lasts for more than 30 days.

²⁷ According to the standard operating procedures, ALS policy is to use an \$8 nominal breakfast token in lieu of using hotel restaurant prices when breakfast is included in the cost of all reported hotels. When breakfast is included in some hotel rates, but not all, the analyst is to weight the more reasonably priced hotel restaurant and the \$8 breakfast token at 50 percent each. When breakfast is not included in the hotel rate, the \$8 breakfast token is applied, and equal weight is applied.

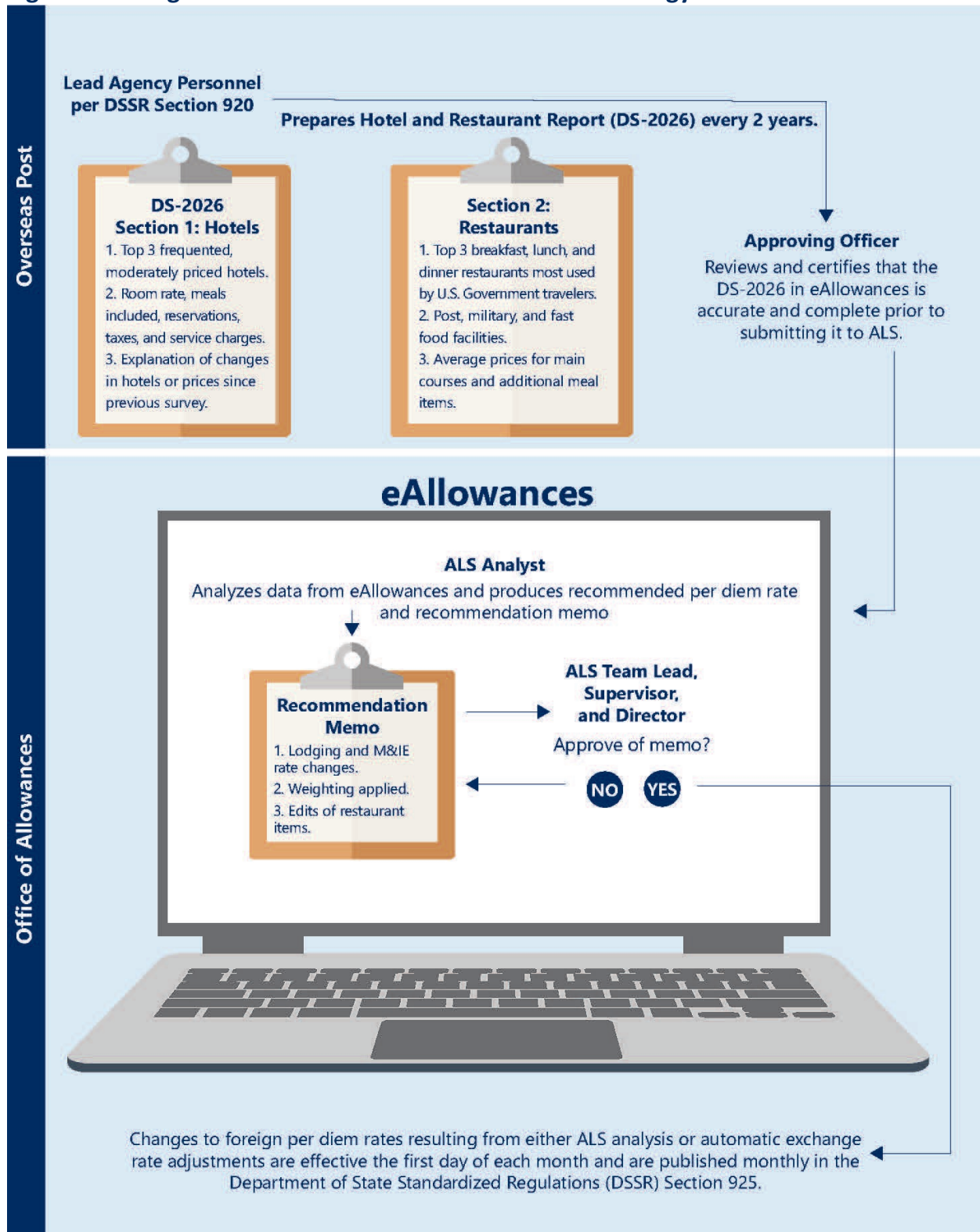
²⁸ According to the standard operating procedures, ALS policy is to treat fast-food and military restaurants, and restaurants within the post’s compound as one facility, rather than separate restaurants.

After completing the analysis, the ALS analyst is supposed to draft a Recommendation Memorandum explaining recommended changes to the lodging and M&IE portions of the per diem rate. The Recommendation Memorandum must include justifications for deviating from default weighting guidelines and for excluding meal prices. Within eAllowances, the analyst submits the Recommendation Memorandum for review and approval by the analyst's team leader, team supervisor, and the ALS office director. Once approved by all three levels, the changes to the foreign per diem rate will be effective the first day of the month in which the rate is published in the DSSR, Section 925.

Once the foreign per diem rate is published in the DSSR, it may be subject to monthly, automatic exchange rate adjustments in eAllowances. According to an ALS official, eAllowances determines which posts are subject to adjustments based on the type of currency used by post to report data on the DS-2026. If a post reports hotel and restaurant prices in local currency or if ALS discovers that post experienced double-digit inflation during a cost-of-living allowance review, the location is marked as "Exchange Rate Adjusted" in eAllowances and the foreign per diem rate is supposed to be automatically updated when there is a 5 percent or more fluctuation in exchange rates. According to ALS, posts that report hotel and restaurant prices in U.S. dollars are not subject to monthly exchange rate adjustments.

Figure 1 presents the foreign per diem determination methodology developed by ALS.

Figure 1: Foreign Per Diem Rate Determination Methodology.



Source: OIG generated from analyses of the DSSR, DS-2026, and per diem rate methodology data obtained from ALS.

AUDIT RESULTS

Finding A: Processes To Establish Foreign Per Diem Rates Were Not Implemented in Accordance With Requirements

OIG found that ALS did not implement processes to establish foreign per diem rates in accordance with the DSSR and ALS standard operating procedures. For example, selected posts did not always submit their DS-2026 reports biennially, as required. OIG also identified errors in the calculation of foreign per diem rates for the 20 locations selected for this audit.

Furthermore, automatic exchange rate adjustments were not always applied to designated foreign per diem rates due to issues with an ALS web-based application known as eAllowances. The deficiencies identified occurred, at least in part, because ALS did not implement sufficient internal control measures to ensure that foreign per diem rates were appropriate and complied with requirements. Specifically, OIG found that ALS and selected posts did not have sufficient policies and procedures. In addition, ALS did not sufficiently monitor the foreign per diem rate-setting process, nor did ALS and the posts involved maintain adequate documentation. Implementing a sufficient internal control environment would help the Department save resources and establish consistent, objective, and appropriate per diem rates for U.S. Government personnel and eligible dependents traveling overseas.

Hotel and Restaurant Reports Were Not Submitted Timely and Were Incomplete

According to the DSSR, posts shall submit a certified²⁹ DS-2026 biennially in accordance with reporting requirements. The DS-2026 should include information on lodging and restaurants for the location.³⁰ ALS officials stated that ALS will not initiate the review, establishment, and publication of foreign per diem rates until a DS-2026 is received. However, OIG found that posts were not always submitting a DS-2026 biennially as required. For instance, of the 1,128 foreign per diem rates established by ALS as of October 2020, 457 (41 percent) had effective dates³¹ ranging from 1993 through September 2018.

Additionally, OIG found that none of the 20 locations selected for testing³² submitted a DS-2026 biennially as required (i.e., in accordance with their reporting schedule).³³ In fact, 11 (55 percent) of 20 locations had not submitted a DS-2026 since 2018 or earlier. As a result of this audit, three posts (Consulate Generals Frankfurt and Istanbul and Embassy Kyiv) submitted updated DS-2026 reports to ALS, resulting in updated foreign per diem rates.

²⁹ DSSR § 074.2 states that the DS-2026 submitted to ALS is to be signed by the officer responsible for preparing the report certifying that it is accurate, complete, current and in compliance with the DSSR.

³⁰ Table 1, in the Background section of this report, provides a list of the lodging and meals data that are required to be collected and reported by post on the DS-2026.

³¹ The effective date indicates the last time the published rate was updated by ALS, either as a result of a post-submitted DS-2026 or through an automatic exchange rate adjustment.

³² Appendix A: Purpose, Scope, and Methodology includes details of the location selection methodology.

³³ Appendix B: eAllowances Testing Results includes information on the date of the most recent and previously submitted DS-2026 and reporting schedule due date for the 20 selected locations.

The DSSR states that the agencies responsible for preparing and submitting DS-2026s shall provide complete, accurate, and supportable information in the biennial hotel and restaurant reports and that the instructions on the DS-2026 should be followed in preparing the report.³⁴ However, during a review of the most recent DS-2026 submissions for the 20 selected locations, OIG found that 19 (95 percent) locations prepared and submitted an incomplete DS-2026, and found other deficiencies as detailed in Table 2.

Table 2: Deficiencies Identified in DS-2026 Submissions

DS-2026 Deficiencies Identified	Number of Locations
Number of reservations for each hotel was not reported	4
No explanation for changes in hotels that were reported	3
No explanation for not reporting lodging prices in local currency	7
No explanation for using hotel restaurants for meals, as opposed to local restaurants	11

Source: OIG generated based on its analysis of the most recent DS-2026s submitted by 20 selected posts.

ALS Foreign Per Diem Computations Were Inaccurate and Inconsistent

The DSSR states that the DS-2026 “is used to review and establish appropriate foreign travel per diem rates.”³⁵ The ALS standard operating procedures provide guidance to analysts on how to review and analyze the DS-2026 data submitted by posts to determine foreign per diem rates. OIG found that the rates established by ALS were not accurate or consistent with the ALS standard operating procedures for weighting the lodging and meal prices reported on the DS-2026. Specifically, OIG identified errors in the calculation of foreign per diem rates for all selected locations. OIG recalculated the foreign per diem rates for the 20 selected locations in accordance with the ALS standard operating procedures, which resulted in differences in foreign per diem rates ranging from \$34 less than the ALS calculated rate to \$64 more than the ALS calculated rate.³⁶

ALS analysts may deviate from the default rate determination procedures prescribed in the ALS standard operating procedures; however, deviations must be explained in Recommendation Memoranda.³⁷ OIG identified three instances in which Recommendation Memoranda identified deviations; however, ALS did not implement the deviations, which caused differences between the rates calculated by ALS and OIG. OIG also found that ALS analysts did not consistently or

³⁴ DSSR § 074.2.

³⁵ DSSR § 074.1, “DS-2026.”

³⁶ See Appendix B: eAllowances Testing Results for details on the differences between the OIG-calculated foreign per diem rates and the ALS-calculated rates for the 20 selected locations.

³⁷ ALS Analysts draft a Recommendation Memorandum to summarize and record their analysis of the DS-2026 submitted by post, specifically to explain why the per diem rate is changing or staying the same. The Recommendation Memorandum should include, among other things, an explanation of the weighting applied to hotels and restaurants, justifications for deviating from the default weighting when applicable, and explanations for edits and exclusions of reported meal prices.

accurately apply the weighting methodology³⁸ to hotel and restaurant data to compute per diem rates or fully justify deviations from the methodology, as required by its standard operating procedures.

Inaccurate and Inconsistent Lodging Calculations

According to the ALS standard operating procedures, the default lodging weighting methodology is an average of all reported hotel rates, including tax and service charges (i.e., all hotels are weighted equally). However, ALS analysts are allowed to use an alternative methodology to calculate the lodging rate; specifically, analysts can simply use the rate of the most expensive hotel provided (i.e., one hotel is 100 percent of the weighting), if the hotel is widely used and the rate is no more than \$20 above the average cost of the other reported hotels. The standard operating procedures require analysts to document determinations to use something different than the default lodging weighting methodology in a Recommendation Memorandum.

OIG found that ALS analysts did not apply the default lodging weighting methodology for 14 (70 percent) of 20 per diem analyses selected for review. OIG also found that 10 (71 percent) of 14 Recommendation Memoranda justifications were insufficient. Specifically, the justifications stated that the alternative weighting methodology was used to cover the cost of all reported hotels. Additionally, OIG found one Recommendation Memorandum lacked a justification for the weighting methodology used and another incorrectly described the weighting methodology used by the analyst. Furthermore, OIG found that the alternative weighting methodology cited in the Recommendation Memoranda was not always applied correctly, meaning lodging rates were miscalculated. For example, OIG identified instances in which ALS:

- Applied 100 percent of weight to the second most expensive hotel with no reservation data because of its proximity to the consulate.
- Applied 100 percent of weight to the most expensive, less frequented hotel.
- Applied 100 percent of weight to the second most expensive, least frequented hotel.
- Divided weights between two hotels and excluded the third.

Inaccurate and Inconsistent Meal Calculations

According to the ALS standard operating procedures, the default meal weighting methodology requires the analyst to evenly distribute weighting to all reported restaurants by meal service.^{39,40} The ALS standard operating procedures also state that analysts may apply less weight or no weight to a restaurant “that is out of line with other restaurant facilities” and that “editing out extreme prices reported for that restaurant is an acceptable practice.” The

³⁸ The ALS standard operating procedures require analysts to apply percentages (i.e., weighting) to hotel and restaurant data based on pricing and frequency of use.

³⁹ For lunch, analysts are to weight fast food restaurants, restaurants within the post’s compound, and military facility restaurants as one entity, with the weight divided equally among the reported facilities.

⁴⁰ The weighting applied to breakfast restaurants differs depending on whether breakfast is included in the lodging rate.

standard operating procedures require analysts to document determinations to use something different than the default meal weighting methodology in the Recommendation Memorandum.

OIG found that ALS analysts did not apply the default meal weighting methodology in 14 (70 percent) of 20 per diem analyses selected for review and failed to document the exclusion of meal items from calculations for 12 (60 percent) of 20, as required. In addition, as shown in Table 3, OIG found that the alternative weighting methodology was not always applied correctly, meaning meal rates were miscalculated.

Table 3: Deficiencies Identified in ALS Meal Calculations and Restaurant Weighting

Meals Weighting Deficiency	Number of Deficiencies
Failure to add a breakfast token	6
Breakfast token incorrectly weighted	6
Failure to use default weighting or justify alternative weighting of lunch restaurants	7
Failure to use default weighting or justify alternative weighting of dinner restaurants	4
Meal items excluded from calculations without explanation in the Recommendation Memorandum	12
Meal items included in calculations contrary to Recommendation Memorandum explanation for exclusion	3
Meal item cost decreased without explanation	1
Meal item cost inflated to manipulate the total per diem rate	1

Source: OIG generated based on its review of ALS' foreign per diem analyses of the 20 selected locations obtained from eAllowances.

Automatic Exchange Rate Adjustments

The eAllowances application allows ALS to designate posts to receive automatic monthly adjustments to foreign per diem rates based on the fluctuation of exchange rates.⁴¹ Although ALS does not have formal policies or procedures to assist in determining which posts should receive automatic exchange rate adjustments, ALS officials stated that a location would generally be designated to receive an automatic adjustment if the location is linked to cost-of-living allowance⁴² exchange rates or if the location experiences extremely high inflation.

Eleven (55 percent) of 20 selected locations were designated to receive automatic adjustments related to exchange rates. OIG compared the September 2020 and October 2020 post allowance, or cost-of-living allowance, rate adjustments to the October 2020 and November 2020 foreign per diem rates to determine whether the automatic per diem adjustments occurred. As shown in Table 4, OIG found that eAllowances did not automatically adjust and

⁴¹ Each country is assigned a "prime" location, and each per diem rate in that country is tied to exchange rate fluctuations in that country.

⁴² The cost-of-living allowance reimburses employees for certain excess costs resulting from being officially stationed in a foreign area.

apply foreign per diem rate changes at any of the 10 locations when cost-of-living allowances changed.

Table 4: Comparison of Changes in Cost-of-Living Allowance to Foreign Per Diem Rates

Location	Change in Cost-of-Living Allowance Effective September 2020	Foreign Per Diem Rate, October 2020 ^a	Change in Cost-of-Living Allowance Effective October 2020	Foreign Per Diem Rate, November 2020 ^b
Amman, Jordan	No Change	No Change	Decrease	No Change
Beijing, China	Increase	No Change	Increase	No Change
Brussels, Belgium	No Change	No Change	Increase	No Change
Frankfurt, Germany	No Change	No Change	Increase	No Change
Geneva, Switzerland	No Change	No Change	Increase	No Change
Johannesburg, South Africa	No Change	Increase	No Change	No Change
London, United Kingdom	No Change	No Change	Decrease	No Change
Paris, France	No Change	No Change	Decrease	No Change
Singapore, Singapore	No Change	No Change	Increase	No Change
Tokyo City, Japan	Increase	No Change	Increase	No Change
Vienna, Austria	No Change	No Change	Increase	No Change

^a Change in foreign per diem rate, effective October 2020, compared to rates that were effective September 2020.

^b Change in foreign per diem rate, effective November 2020, compared to rates that were effective October 2020.

Source: OIG generated based on its analysis of cost-of-living allowance changes effective September 13, 2020, September 27, 2020, and October 11, 2020, and foreign per diem rates that were effective September, October, and November 2020.

An ALS official stated that an eAllowances system update in 2008 caused the exchange rate adjustment links between the cost-of-living allowance and foreign per diem rates to break. Efforts to reconnect links were unsuccessful because only the ALS Team Supervisor had the ability to update the designation. An ALS official stated they did not know why the connectivity between the cost-of-living allowance and foreign per diem rates was broken, but as a result of the audit, they are working with the contractor to reinstate this feature.

Sufficient Internal Controls Were Not Implemented

OIG found that ALS did not implement sufficient internal control measures to ensure that foreign per diem rates were appropriate and complied with requirements. Maintaining a sufficient internal control environment is essential for an organization to run its operations efficiently and effectively and to comply with laws and regulations. However, OIG found that ALS and selected posts did not have sufficient policies and procedures. In addition, ALS did not sufficiently monitor the foreign per diem rate-setting process, nor did ALS and the posts involved maintain adequate documentation. Implementing internal control measures would help the Department achieve its desired result of establishing appropriate foreign travel per diem allowances for U.S. Government personnel and eligible dependents traveling overseas.

Policies and Procedures

One reason ALS did not establish appropriate foreign per diem rates for the audited locations is because ALS had not implemented sufficient internal control measures. According to the Government Accountability Office (GAO) “control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity’s information system.”⁴³ OIG found that the ALS standard operating procedures contain unclear and contradictory guidance and permit inconsistent analyses by allowing analysts to judgmentally include or exclude hotels, restaurants, and meal items from calculations to “arrive at a lodging rate that will meet the needs of the majority of U.S. Government employees.”

For example, the ALS standard operating procedures state that if breakfast is not included in the rate of any reported hotels, the analyst should apply full weight to the breakfast token. However, an ALS official stated that the standard operating procedures contain an error and that the proper weighting is to either apply full weight to the breakfast token or divide the weight evenly between the token and the lowest priced restaurant. Similarly, the standard operating procedures are unclear about applying lodging weights. Specifically, the standard operating procedures state that “the default setting should be accepted unless the analyst can justify alternative weighting” but “after considering the default average, the analyst can consider giving 100 [percent] weight to the most expensive hotel if reservation numbers confirm the hotel is widely used.” The standard operating procedures also allow for a significant amount of discretion for the analysts to set foreign per diem rates. For example, the standard operating procedures state that the guidelines for meals and lodging may not fit all cases and the analyst should use their judgment. However, this discretionary methodology promotes arbitrary and inconsistent results that undermines the ability for ALS to achieve objective, unbiased, and appropriate foreign per diem rates.

OIG also found that ALS did not have sufficient policies or procedures indicating which posts should be designated as receiving automatic monthly adjustments to foreign per diem rates. Currently ALS staff must make a judgment call about when and how to implement this option. Furthermore, none of the five posts that OIG selected for testing (Consulate Generals Frankfurt, Germany; Istanbul, Turkey; and Embassies Kyiv, Ukraine; Mexico City, Mexico; and San Salvador, El Salvador) had designed post-specific procedures or guidance on implementing the requirements for collecting data for foreign per diem rates, which led to inaccurate, incomplete, and untimely reporting of information by posts. As a result of this audit, Consulate Generals Frankfurt and Istanbul initiated process changes, including developing procedures related to gathering data for foreign per diem rate calculations.

Monitoring

Another essential control described by GAO is monitoring internal control. Specifically, GAO states that management should perform “ongoing monitoring of the design and operating

⁴³ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014), at 44.

effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities . . . and other routine actions.”⁴⁴ ALS management did not sufficiently monitor the collection of data or the calculation of foreign per diem rates. For example, ALS did not ensure that posts complied with the DSSR requirement to submit data on lodging and meals to ALS biennially. According to an official at Consulate General Frankfurt, the hotel and restaurant data collection process is generally triggered by a fluctuation in rates, inflation, a significant jump in prices, or a lack of lodging that costs less than the maximum per diem rate, not by prompting from ALS or a specific timetable. ALS officials also indicated that posts submit a DS-2026 when they determine the per diem rate is insufficient or when a traveler reports that the rate is insufficient. Furthermore, ALS officials stated that posts are directed to obtain information from the ALS website for DS-2026 submission due dates. An ALS official stated that foreign per diem rates are considered “low risk” because the most significant portion of per diem is lodging, which is only reimbursed for actual amounts. However, ALS officials also stated that ALS does not monitor the use of foreign per diem rates. Without assessing the availability of adequate lodging that is less than the allowed per diem rate or reviewing the frequency that Federal travelers secured lodging at a rate lower or higher than the per diem rate, ALS cannot be assured that taxpayer funds are being used in the best manner.

OIG found limited follow-up by ALS officials when posts did not provide all required information in the DS-2026 or when information was unclear. According to the ALS standard operating procedures, analysts should contact the Management Officer at post when information in the DS-2026 is missing or unclear. However, ALS could not provide documentation demonstrating that an analyst contacted a post for clarification or requested additional information for 18 of 20 (90 percent) of locations selected for testing.

Furthermore, OIG found that ALS management was not always sufficiently reviewing the foreign per diem calculations. According to the ALS standard operating procedures, once the per diem analysis is completed, the analyst should submit the Recommendation Memorandum for approval. The standard operating procedures require three levels of management review and approval for each analysis (i.e., team leader, team supervisor, and director or director’s designee). According to the standard operating procedures, the review should include an evaluation of hotel and restaurant weightings used and the justifications cited in the Recommendation Memorandum for logic and clarity. OIG found that 3 (15 percent) of 20 Recommendation Memoranda were not reviewed by all levels of management before being submitted to the ALS Director for approval. These three Recommendation Memoranda and supporting analyses contained lodging and meal calculation errors resulting from the improper application of the ALS standard operating procedures. Specifically, the latest Recommendation Memorandum for Mexico City did not include justifications for the exclusion of meal items, which, when included in OIG’s calculations, resulted in a \$27 increase to the per diem rate. Similarly, the Recommendation Memorandum for Singapore cited weighting of lodging and

⁴⁴ GAO-14-704G, at 65.

breakfast facilities contrary to the standard operating procedures, which, when properly weighted would have resulted in \$7 decrease to the per diem rate.

Maintaining Documentation

Another essential control described by GAO is related to using quality information to achieve objectives. Specifically, GAO states that management should “obtain relevant data from reliable . . . sources in a timely manner based on the identified information requirements.”⁴⁵ To achieve this objective, it is essential for ALS and posts to maintain documentation related to the calculation of foreign per diem rates. OIG found that documentation supporting the establishment of foreign per diem rates was not always retained by ALS or by overseas posts. For example, a DS-2026 submitted by Consulate General Frankfurt in eAllowances in 2013 was deleted by ALS. According to an ALS official, eAllowances lacks the capability to track deleted DS-2026s or justifications and the official could therefore not explain why Frankfurt’s 2013 DS-2026 was deleted. In addition, OIG found that eAllowances did not contain the most recent DS-2026 records (or the prior DS-2026) for 3 of 20 (15 percent) selected locations. OIG also found that two of five (40 percent) selected locations failed to retain documents supporting per diem rate calculations.

Furthermore, OIG found that none of the five selected posts tested (Consulate Generals Frankfurt, Germany; and Istanbul, Turkey; and Embassies Kyiv, Ukraine; Mexico City, Mexico; and Salvador, El Salvador) had maintained hotel reservation logs of all Federal travelers, as required by the DSSR⁴⁶ and DS-2026. Post officials stated that they contacted hotels directly to obtain Federal traveler reservation numbers because posts’ travel offices did not have visibility on reservations made by Federal travelers that did not use the travel offices.

Implementing a sufficient internal control environment would help the Department to save resources and establish consistent, objective, and appropriate per diem rates for U.S. Government personnel and eligible dependents traveling overseas. To assist ALS in establishing and implementing improved processes when establishing foreign per diem rates, OIG is making the following recommendations.

Recommendation 1: OIG recommends that the Bureau of Administration review its “Per Diem for Foreign Locations Standard Operating Procedures” for sufficiency and update the guidance as needed. As part of this effort, the Bureau of Administration should require the consistent application of the established methodology and should eliminate the contradictory guidance related to the calculation of the breakfast portion of the foreign per diem rate.

Management Response: The Bureau of Administration concurred with the recommendation, stating that the “Standard Operating Procedures were updated in 2019, reviewed in 2020, and will be formally updated upon issuance of this final report.”

⁴⁵ GAO-14-704G, at 59.

⁴⁶ DSSR § 074.2.

OIG Reply: On the basis of the Bureau of Administration’s concurrence with this recommendation and planned actions, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has reviewed its “Per Diem for Foreign Locations Standard Operating Procedures” for sufficiency and updated the guidance accordingly.

Recommendation 2: OIG recommends that the Bureau of Administration formalize key requirements related to the foreign per diem rate-setting process in the Department of State Standardized Regulations, including information to be submitted by posts and how posts should collect the required data.

Management Response: The Bureau of Administration concurred with the recommendation, stating that it plans to add instructions for the process to the DSSR.

OIG Reply: The draft of this report recommended that the Bureau of Administration update the FAM or the Foreign Affairs Handbook with information on the foreign per diem rate-setting process. In its response, the Bureau of Administration stated that the DSSR is for all U.S. Government agencies, while the FAM and the Foreign Affairs Handbook are only for the Department. To address the Bureau of Administration’s comments, OIG modified the recommendation to focus on the DSSR rather than the FAM or Foreign Affairs Handbook.

On the basis of the Bureau of Administration’s concurrence with this recommendation and planned actions, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has formalized key requirements related to the foreign per diem rate-setting process, including information to be submitted by posts and how posts should collect the required data, in the DSSR.

Recommendation 3: OIG recommends that the Bureau of Administration develop and implement (a) formal guidance related to which locations to designate to have automatic updates to their foreign per diem rates based on fluctuations in exchange rates and (b) a methodology for conducting periodic assessments of exchange rate adjusted locations, adding or deleting designations in accordance with the guidance.

Management Response: The Bureau of Administration concurred with the recommendation, stating that the eAllowance application “will be updated in October 2021 to automatically update foreign per diem rates based on exchange rate fluctuations. The methodology for conducting periodic assessments of exchange rate adjusted locations already exists and occurs biannually with a review of exchange rates in order to determine hyper-inflation locations.”

OIG Reply: On the basis of the Bureau of Administration’s concurrence with this recommendation and planned actions, OIG considers this recommendation resolved,

pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has developed and implemented (a) formal guidance related to which locations to designate to have automatic updates to their foreign per diem rates based on fluctuations in exchange rates and (b) a methodology for conducting periodic assessments of exchange rate adjusted locations.

Recommendation 4: OIG recommends that the Bureau of Administration review and update all foreign per diem locations designated in eAllowances as exchange rate adjusted in accordance with the guidance developed in response to Recommendation 3.

Management Response: The Bureau of Administration concurred with the recommendation, citing its response to Recommendation 3.

OIG Reply: On the basis of the Bureau of Administration's concurrence with this recommendation and planned actions, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has reviewed and updated all foreign per diem locations designated in eAllowances as exchange rate adjusted, in accordance with the guidance developed.

Recommendation 5: Until Recommendations 11 and 12 are implemented, OIG recommends that the Bureau of Administration develop and institute a process to ensure that posts submit hotel and restaurant data for foreign per diem rate calculations on a biennial basis, as required by Department of State Standardized Regulations § 074.2.

Management Response: The Bureau of Administration concurred with the recommendation, stating that it "already requires posts to submit foreign per diem rate data on a biennial basis as required by the DSSR."

OIG Reply: The draft of this report recommended that the Bureau of Administration require posts to submit data for foreign per diem calculations biennially, as required by the DSSR. The Bureau of Administration responded that the DSSR already requires posts to provide that data biennially. The intent of the recommendation was for the Bureau of Administration to take steps to ensure that posts comply with the requirement. Therefore, OIG modified the recommendation to clarify its intent that the Bureau of Administration institute a process that ensures that posts submit hotel and restaurant data for foreign per diem rate calculations on a biennial basis, as required.

On the basis of the Bureau of Administration's response to this recommendation, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has developed and implemented a process to ensure that posts are submitting hotel and restaurant data for foreign per diem rate calculations on a biennial basis, as required by DSSR § 074.2.

Recommendation 6: Once Recommendations 11 and 12 are implemented, for locations where independent economic data are unavailable, OIG recommends that the Bureau of Administration develop and institute a process to ensure that posts submit hotel and restaurant data for foreign per diem rate calculations on a biennial basis, as required by Department of State Standardized Regulations § 074.2.

Management Response: The Bureau of Administration concurred with the recommendation, stating that it “already requires posts to submit foreign per diem rate data on a biennial basis as required by the DSSR.”

OIG Reply: The draft of this report recommended that the Bureau of Administration require posts to submit data for foreign per diem calculations biennially, as required by the DSSR. The Bureau of Administration responded that the DSSR already requires posts to provide that data biennially. The intent of the recommendation was for the Bureau of Administration to take steps to ensure that posts comply with the requirement. Therefore, OIG modified the recommendation to clarify its intent that the Bureau of Administration institute a process that ensures that posts submit hotel and foreign per diem rate calculations on a biennial basis, as required.

On the basis of the Bureau of Administration’s response to this recommendation, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has developed and implemented a process for locations where independent economic data are unavailable to ensure that posts are submitting hotel and restaurant data for foreign per diem rate calculations on a biennial basis, as required by DSSR § 074.2.

Recommendation 7: OIG recommends that the Bureau of Administration develop and implement internal controls to verify that managers validate the procedures and justifications used to support the recommended foreign per diem rate changes prior to final approval.

Management Response: The Bureau of Administration concurred with the recommendation, stating “internal controls were implemented in 2015 in the [eAllowances] application where each level must validate the procedures and justifications prior to moving forward to final approval.”

OIG Reply: Although the Bureau of Administration may have implemented some internal controls in eAllowances, they are insufficient, as evidenced in Finding A of this report. Specifically, the Bureau of Administration’s standard operating procedures require three levels of management review and approval for each analysis (i.e., team leader, team supervisor, and director or director’s designee). OIG found that 3 (15 percent) of 20 Recommendation Memoranda were not reviewed by all levels of management before being submitted to the ALS Director for approval. These three Recommendation Memoranda and supporting analyses contained lodging and meal calculation errors resulting from the improper application of the ALS standard operating procedures.

On the basis of the Bureau of Administration's response, OIG considers this recommendation unresolved. The recommendation will be considered resolved when the Bureau of Administration provides a plan of action for addressing this recommendation or provides an acceptable alternative that meets the intent of the recommendation. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration developed and implemented internal controls to verify that managers are validating all procedures and justifications used to support the recommended foreign per diem rate changes prior to final approval.

Recommendation 8: OIG recommends that the Bureau of Administration incorporate in the Foreign Affairs Manual or the Foreign Affairs Handbook record retention requirements for foreign per diem rate-setting supporting documentation.

Management Response: The Bureau of Administration did not concur with the recommendation, stating "[t]he Department of State's record retention requirements for all records are outlined in 5 FAM 430 ['Records Disposition and Other Information']."

OIG Reply: On the basis of the Bureau of Administration's response and the Bureau of Administration's assurance that the records retention requirements in 5 FAM 430 are sufficient to meet the intent of this recommendation, OIG considers this recommendation closed, and no other action is required.

Finding B: Methodology To Establish Foreign Per Diem Rates Needs Improvement

OIG found that ALS's methodology to establish foreign per diem rates needs improvement to adequately cover the cost of U.S. Government employees and eligible dependents traveling overseas. Specifically, OIG assessed the adequacy of the foreign per diem rates established by ALS during FY 2016 to FY 2019 at four posts using data related to lodging and M&IE from an independent source, the Economist Intelligence Unit,⁴⁷ which is used globally by private-sector companies. OIG found that the rates established by ALS ranged from \$6 to \$246 higher than what was supported by the available Economist Intelligence Unit data for the four posts included in OIG's analysis. The primary reason that the foreign per diem rates differed could be attributed, in part, to the inefficient methodology used by ALS to calculate the rates. For example, ALS used a partially automated process to establish rates for more than 1,000 locations worldwide and relied on hotel and restaurant data collected by personnel at overseas posts. In addition, ALS has not evaluated the potential benefits of using other sources of data for establishing rates. For instance, using available independent, third-party hotel and restaurant data could reduce the need for manual data collection and calculations, leading to

⁴⁷ OIG used data from this company because, as OIG reported in its *Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas* (AUD-FM-17-51, August 2017), ALS previously had a subscription to Economist Intelligence Unit data and an official in the Department's Office of the Chief Economist stated that the Economist Intelligence Unit is highly regarded in the economist community.

workload efficiencies for both post personnel and ALS, while also resulting in rates that may better reflect current market conditions.

Foreign Per Diem Rates Calculated by the Department Often Exceeded Available Independent Data

ALS guidance⁴⁸ states that the lodging portion of foreign per diem rates is intended to cover the cost of lodging at adequate, suitable, and moderately priced facilities, including lodging taxes, and the M&IE portion is intended to substantially cover the cost of breakfast, lunch, and dinner (including related tips and taxes), and incidental expenses (e.g., laundry, dry cleaning, and fees and tips given to porters, baggage carriers, and hotel staff).

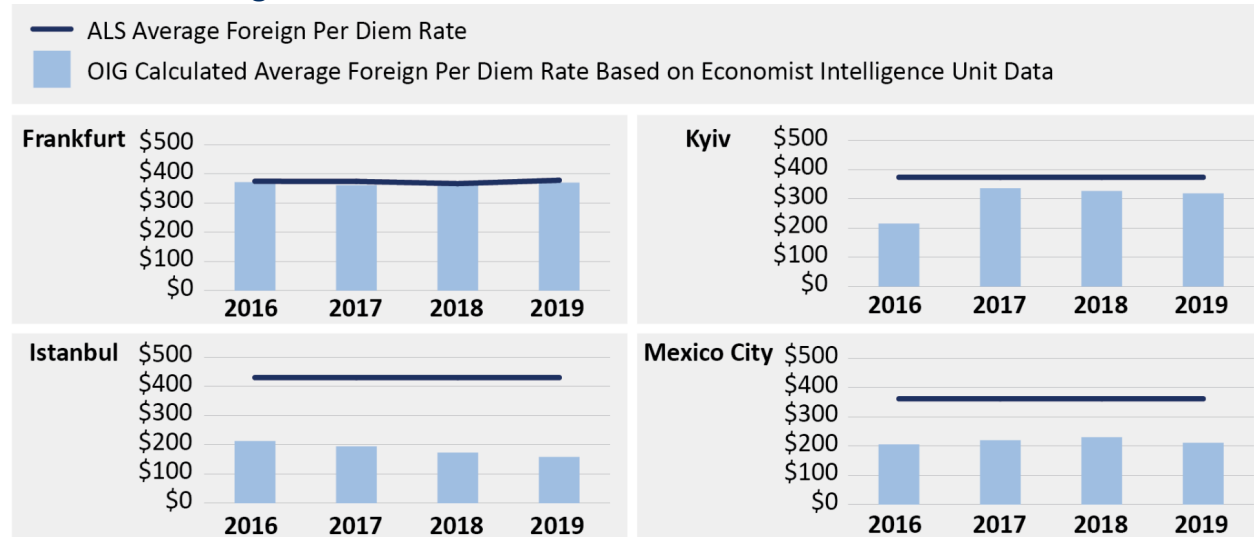
OIG assessed the adequacy of the foreign per diem rates established by ALS during FY 2011 to FY 2019. Specifically, OIG compared⁴⁹ the rates established for four⁵⁰ locations to data related to lodging and M&IE from the Economist Intelligence Unit. The Economist Intelligence Unit data included pricing data for lodging, meals, business trip, and laundry and dry cleaning, similar to the data reported by posts in the DS-2026. Although the rates calculated by OIG for 2014 through 2019 using the available Economist Intelligence Unit data were generally comparable to the rates that ALS established for Frankfurt, Germany, the rates calculated by ALS for the other three locations (i.e., Istanbul, Turkey; Kyiv, Ukraine; and Mexico City, Mexico) were higher than the rates calculated using the available Economist Intelligence Unit data. Specifically, the foreign per diem rates established by ALS exceeded OIG's calculated rates from 2016 through 2019 by an average of \$6 for Frankfurt, \$246 for Istanbul, \$75 for Kyiv, and \$145 for Mexico City. Figure 2 shows the comparison of ALS foreign per diem rates and OIG's calculations using available Economist Intelligence Unit data.

⁴⁸ ALS guidance is accessible through the ALS public website at https://aoprals.state.gov/content.asp?content_id=207&menu_id=75.

⁴⁹ Using available independent data from the Economist Intelligence Unit, OIG calculated an average, comparable per diem rate for each year and location and compared those rates to the average foreign per diem rates established by ALS for the same locations and years. Appendix A: Purpose, Scope, and Methodology provides details regarding OIG's methodology for calculating comparable foreign per diem rates using Economist Intelligence Unit data.

⁵⁰ OIG performed assessments of the adequacy of the foreign per diem rates for Frankfurt, Germany; Istanbul, Turkey; Kyiv, Ukraine; and Mexico City, Mexico. Economist Intelligence Unit data were not available for San Salvador, El Salvador; therefore, this location was excluded from the assessment.

Figure 2: Comparison of ALS Foreign Per Diem Rates to Rates Calculated Using Economist Intelligence Unit Data for Four Posts



Source: OIG prepared based on its analysis of foreign per diem rates published by ALS and Economist Intelligence Unit data.

Foreign Per Diem Methodology Is Inefficient

The reason that the foreign per diem rates differed could be attributed, in part, to the inefficient methodology used by ALS to establish and maintain rates. For example, as of October 2020, ALS had established rates for 1,077 locations across 224 countries, plus a standard rate for all other foreign localities.⁵¹ In addition, 50 of those locations included a standard and a high-season rate, meaning there were 1,128 foreign per diem rates established and maintained by ALS. In fact, ALS established 20 or more foreign per diem rates in 9 countries, as shown in Table 5. These 9 countries, that collectively had 301 foreign per diem rates, comprised 27 percent of all foreign per diem rates established and maintained by ALS.

⁵¹ Travel to any country that does not have an established foreign per diem rate uses the “Other Foreign Localities” per diem rate.

Table 5: Countries With 20 or More Foreign Per Diem Rates

Country	Number of Rates
Japan	62 ^a
Mexico	41
Germany	37
Canada	33 ^a
China	31
Italy	31 ^b
United Kingdom	24 ^b
South Korea	22
Spain	20
Total	301

^a Includes high-season rates for two locations.

^b Includes high-season rate for one location.

Source: OIG generated based on its analysis of October 2020 “Maximum Travel Per Diem Allowances for Foreign Areas.”

OIG also learned that ALS had not performed an analysis to determine the need for or usage of per diem rates at all locations, indicating inefficiencies in ALS’s scope of work for establishing and maintaining foreign per diem rates. ALS officials stated that ALS establishes foreign per diem rates for specific locations upon receiving a request from any U.S. Government agency that has civilian employees overseas. Specifically, the agency would notify ALS that it had employees frequently traveling to a location that did not have a specific per diem rate assigned and that the “other”⁵² amount for that country was too high or too low for the identified location. An ALS official stated that it would not be possible to determine the need for or usage of the different rates worldwide because ALS does not track travel data for the Department and does not have access to travel information for officials from other U.S. Government agencies.

Furthermore, OIG found that some per diem rates for Japan, Mexico, and Germany (i.e., countries with the most foreign per diem rates) had not been used or were underutilized by Department personnel during FY 2018 and FY 2019. Specifically, of 62 rates established for Japan, 49 (79 percent) were unused or underutilized by Department personnel. For the 41 rates established for Mexico, 9 (22 percent) were underutilized. For the 37 rates established for Germany, 23 (62 percent) were unused or underutilized, as shown in Table 6. OIG notes that while rates may not have been used by Department personnel, they may have been used by other government agency personnel.

⁵² In addition to setting per diem rates for specific locations within a country, ALS also sets an “other” rate, which is a general rate used for travel to areas without a dedicated per diem rate. As of October 2020, ALS established “other” foreign per diem rates for 175 countries.

Table 6: Department Personnel Use of Foreign Per Diem Rates in Japan, Mexico, and Germany During FY 2018 and FY 2019

Country	Number of Rates	Number of Rates Used	Number of Rates Not Used	Number of Rates Used 50 or Fewer Times
Japan	62 ^a	44 ^b	17	32
Mexico	41	41	0	9
Germany	37	23	14	9

^a Includes high-season rates for two locations—Hiroshima and Okinawa Prefecture. The high-season rate for Hiroshima was not established by ALS until January 2020. The high-season rate for Okinawa Prefecture was in effect for FYs 2018 and 2019.

^b Excludes Hiroshima high-season rate because it was not in effect during FYs 2018 and 2019.

Source: OIG generated based on its analysis of data obtained from the E2 travel system for FY 2018 and FY 2019 and analysis of October 2020 “Maximum Travel Per Diem Allowances for Foreign Areas.”

Another inefficient aspect of the ALS methodology is the way ALS obtains and analyzes economic data to calculate foreign per diem rates. In addition to the deficiencies identified in Finding A of this report, OIG found that ALS does not use all data requested on the DS-2026, such as the number of hotel rooms or whether hotels meet U.S. fire safety standards, when calculating the foreign per diem rates. Requesting posts to gather and report data that is not used is an indicator that ALS should review the need for certain data points and eliminate unnecessary requirements so as to streamline data collection procedures.

Using independent economic data is an alternative option that may result in rates that better reflect current market conditions and reduce potential bias in hotel and restaurant data currently provided by posts and used by ALS analysts in the rate determination process. It is important to note that other Federal agencies responsible for establishing certain types of per diem rates for Federal travelers have recognized the potential for bias and have either contracted out data collection efforts or are in the process of doing so. The General Services Administration (GSA), which establishes CONUS per diem rates, uses independent data from a third party to calculate per diem rates. Specifically, GSA began using data from Smith Travel Research⁵³ in 2005 to identify average lodging rates annually and restaurant data every 3 years. According to a GSA official, the agency started using third-party data because of the “Governmentwide Per Diem Advisory Board Report,”⁵⁴ which recommended that GSA contract with a lodging industry data resource to obtain data for establishing per diem rates. A GSA official stated that the decision to use third-party data was also based on frustration with prior processes because it led to unreliable data collection and did not ensure that taxpayer funds were used efficiently and effectively.

⁵³ Smith Travel Research primarily serves the hotel industry, collecting data from approximately 67,000 hotels across 180 countries and providing various data analytic and consulting services.

⁵⁴ GSA, “Governmentwide Per Diem Advisory Board Report,” July 2003.

Additionally, the Department of Defense (DoD), which establishes per diem rates for non-foreign locations outside of CONUS,⁵⁵ planned to contract out the collection of hotel data⁵⁶ once funding was available because DoD officials believed that independent data would be more reliable and that using an external organization to collect hotel data would provide neutral and unbiased information. DoD officials stated that they began using data from the Defense Travel System and travel charge card data to identify commonly used hotels and restaurants in FY 2019 and the most frequently used facilities are surveyed for lodging and meal pricing data. DoD officials then go TDY to collect restaurant data and to validate lodging data. Before FY 2019, DoD officials stated that DoD used points of contact at each location to collect meal prices; however, that practice was stopped because data were determined to be unreliable.

OIG found that the type of economic data needed to calculate reasonable foreign per diem rates is readily available for many of the locations where U.S. Government officials need to travel. For example, the Economist Intelligence Unit offers a CityData tool that contains pricing information for 123 cities in 90 countries outside the United States, including pricing information for hotels, meals, and incidentals (e.g., laundry and dry cleaning).

An ALS official stated that ALS has not considered using independent third-party data in lieu of post-provided hotel and restaurant prices. The ALS official stated that obtaining hotel and restaurant data is not difficult for the posts and that ALS verifies post-provided data by using information available on the internet, so the data are reliable. However, as described in detail in Finding A of this report, OIG identified data reliability issues related to post-provided data, indicating the need for ALS to consider using external data sources, when available, for the foreign per diem rate determination process. Specifically, OIG identified deficiencies with data collected by posts and how ALS analyzed the data to calculate foreign per diem rates. For example, OIG found that ALS analysts did not contact posts regarding untimely DS-2026 submissions because they relied on posts to submit data once the posts determined that foreign per diem rates were insufficient. OIG also found that ALS analysts did not always contact posts regarding incomplete DS-2026 submissions because ALS did not use all the data provided when calculating the lodging and M&IE portions of the foreign per diem rates.

Additionally, OIG found that hotel data submitted by posts can reflect negotiated hotel rates that are established on the basis of current per diem rates. The negotiated rates are used by ALS to establish the lodging portion of the foreign per diem rate. For example, Embassy Kyiv officials stated that negotiated hotel rates have not changed in over 10 years, despite inflation, because hotels, which want Embassy-related travel business, will offer room rates equal to or less than published per diem rates. Embassy San Salvador officials reported a similar situation. Although potentially beneficial to the Government, using the negotiated hotel rates to calculate

⁵⁵ DoD establishes approximately 70 per diem rates, including locations in Alaska, Hawaii, American Samoa, Midway Islands, Guam, Northern Mariana Islands, Wake Island, Puerto Rico, and the U.S. Virgin Islands.

⁵⁶ DoD does not plan to use a contractor to gather data related to M&IE.

foreign per diem rates rather than using current market rates increases the risk that changing market situations, such as inflation and deflation, are not taken into consideration.

According to ALS officials, per diem rates, especially the lodging portion, are “low risk” because the amount travelers can claim for lodging is based on actual expenditures incurred and must be supported by receipts in accordance with the Federal Travel Regulation.⁵⁷ In addition, ALS uses the “survey-driven” methodology for establishing foreign per diem rates because of limitations with eAllowances and ALS analysts’ workloads. For example, until April 2020, ALS employees could not upload supporting documentation, such as emails or restaurant menus, into eAllowances.⁵⁸ Furthermore, ALS officials indicated that ALS requested funding to upgrade eAllowances or to fill contractor vacancies in prior years, but the requests were not approved. In May 2020, ALS submitted a funding request for “Next Generation eAllowances integration and contract support.”⁵⁹ In response, a request of \$2.9 million for FY 2022 through FY 2024 has been submitted to provide a “modern platform to support eAllowances that will result in,” among other things:

- A robust, reliable system to support growing needs while eliminating unsupported, aging technology.
- Allowance data collection via webpage, thus eliminating time-consuming and error-prone manual data calls.
- More accurate calculations for allowances.
- Automated biweekly allowance updates to employees worldwide.

Although upgrading eAllowances will be beneficial, OIG concludes that the methodology presently used by ALS to establish foreign per diem rates is inefficient. OIG identified similar issues with ALS’s methodology for calculating post allowance rates.⁶⁰ Specifically, OIG reported that ALS did not establish appropriate post allowance rates for audited posts because ALS’s methodology to calculate the rates was flawed and contained potential bias and ALS had insufficient policies and procedures to guide the rate setting process. Furthermore, the process used to collect data was manual, onerous, and prone to errors. OIG reported that although ALS had access to readily available independent third-party data, ALS did not use them to calculate the post allowance rates or ensure rates were reasonable. As a result of this audit, ALS began

⁵⁷ Federal Travel Regulation § 301-11.25, “Must I provide receipts to substantiate my claimed travel expenses?” and § 301-52.4, “What must I provide with my travel claim?” require travelers to provide lodging receipts to substantiate claimed travel expenses.

⁵⁸ This feature can be used only by ALS employees, not by post officials. Posts are unable to upload supporting documentation to eAllowances, such as menus and negotiated hotel rates, and instead may provide these documents to ALS via email.

⁵⁹ According to the request, “there is a critical need to upgrade” eAllowances and “current funding levels only allow for support from a single contract resource, building into the system a single point of failure, as [ALS] does not have technical staffing for to [SIC] identify system issues, including potential calculation errors or irregularities.” The request also states that “eAllowances has no backup system.”

⁶⁰ OIG, *Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas* (AUD-FM-17-51, August 2017).

using independent economic data and published cost of living allowance rates using this data that were effective October 11, 2020. Specifically, rather than tasking posts with collecting data, the Department's contractor provided data for 210 locations.⁶¹ ALS projected \$2.5 million in cost savings by using the independent economic data.⁶²

The efficiencies in post allowance rate determination could be leveraged by ALS for the foreign per diem rate determination process. Using independent, readily available hotel and restaurant data could result in process and workload efficiencies for both ALS and the posts involved. Specifically, using available independent third-party data to establish foreign per diem rates could help ensure that the rates better reflect current market conditions, taking inflation and deflation into account, which could also lead to cost savings through reduced per diem rates. Furthermore, the use of available independent economic data for determining foreign per diem rates could lead to process and workload efficiencies by allowing post and ALS personnel to focus efforts on other priorities,⁶³ rather than the subjective collection and review of hotel and restaurant data. OIG is therefore offering the following recommendations to improve the methodology used by ALS to establish foreign per diem rates.

Recommendation 9: OIG recommends that the Bureau of Administration develop and implement (a) a policy requiring periodic assessments of the need for foreign per diem rates for multiple locations within one country and (b) a methodology for conducting the periodic assessments. The assessment policy and methodology should take other U.S. Government agency needs and interests into consideration.

Management Response: The Bureau of Administration concurred with the recommendation, stating that the "practice is in place and will be followed with a formal policy."

OIG Reply: On the basis of the Bureau of Administration's concurrence with this recommendation and planned actions, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has developed and implemented a policy requiring periodic assessments of the need for foreign per diem rates for multiple locations within one country and a methodology for conducting the periodic assessments.

⁶¹ According to ALS, the contractor uses a uniform methodology to calculate an index for Washington, DC, and compared other locations to that index. The rate for each post is based on how the post index compares to Washington, DC.

⁶² The projected cost savings did not take into account the cost of the contract with the independent economic data contractor and did not reflect savings realized by posts in time and money to monitor, report, and submit the data.

⁶³ Other priorities include establishing adequate and supportable amounts for other allowances, such as post hardship differential and danger pay.

Recommendation 10: OIG recommends that the Bureau of Administration develop and implement a process to consolidate the number of foreign per diem rate locations in a country based on the assessments and methodology developed in response to Recommendation 9.

Management Response: The Bureau of Administration did not concur with the recommendation, stating that “[b]y executive order,” the Department “was instructed to support all [U.S. Government] agencies with civilians working in foreign locations” and that “any location that is not covered under [‘]other[’] is listed because it met the criteria for a separate per diem rate.”

OIG Reply: On the basis of the Bureau of Administration’s response, OIG considers this recommendation unresolved. During the audit, ALS did not provide OIG with any formalized criteria that it used to determine whether to create a per diem rate for a new location. Instead, ALS officials stated that ALS would create a per diem rate for any location that was requested by officials from another Government agency. Although OIG agrees that ALS can and should support other agencies, it must ensure that requests for new foreign per diem rates are valid and reasonable. In addition, OIG found that ALS does not have a formal process in place to determine whether the per diem rates it agreed to establish are still needed by an agency. As such, OIG concludes that ALS needs to take additional steps to improve the efficiency of establishing per diem rates.

This recommendation will be considered resolved when the Bureau of Administration provides a plan of action for addressing this recommendation or provides an acceptable alternative that meets the intent of the recommendation. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has developed and implemented a process to consolidate the number of foreign per diem rate locations in a country based on the assessments and methodology developed in response to Recommendation 9.

Recommendation 11: OIG recommends that the Bureau of Administration review its methodology for determining foreign per diem rates to identify opportunities to streamline the process. At a minimum, the Bureau of Administration should consider whether the use of independent economic data would be more efficient and cost-effective for establishing foreign per diem rates.

Management Response: The Bureau of Administration concurred with the recommendation to identify opportunities to streamline its process. However, the Bureau of Administration did not concur with using independent economic data, stating that the “existing process is objective because the data collectors do not benefit from the rate established and hotel/restaurant information is generally available on the internet.”

OIG Reply: On the basis of the Bureau of Administration’s response, OIG considers this recommendation unresolved. OIG is not recommending that independent economic data be used for establishing foreign per diem rates. Instead, OIG is recommending that the Bureau

of Administration consider this option by performing a reasonable assessment of the costs and benefits of using independent economic data. Until the Bureau of Administration performs a reasonable assessment regarding the use of independent economic data, it cannot be certain that its current methodology is the best option. As noted in the report, other agencies that establish per diem rates are using or planning to use independent economic data, which suggests that the Bureau of Administration may also find value in its use.

This recommendation will be considered resolved when the Bureau of Administration provides a plan of action for addressing this recommendation or provides an acceptable alternative that meets the intent of the recommendation. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has:

- Reviewed its methodology for determining foreign per diem rates to identify opportunities to streamline the process.
- Performed a reasonable assessment to determine whether the use of independent economic data would be more efficient and cost-effective for establishing foreign per diem rates.

Recommendation 12: OIG recommends that the Bureau of Administration develop and implement a plan to revise the methodology for determining foreign per diem rates based on the results of Recommendation 11.

Management Response: The Bureau of Administration concurred with the recommendation to review its methodology. However, the Bureau of Administration did not concur with using independent data, stating that the “existing process is objective because the data collectors do not benefit from the rate established and hotel/restaurant information is generally available on the internet.”

OIG Reply: On the basis of the Bureau of Administration’s response, OIG considers this recommendation unresolved. As noted in OIG’s response to the Bureau of Administration’s response regarding Recommendation 11, OIG is not recommending that independent economic data be used for establishing foreign per diem rates. Instead, OIG is recommending that the Bureau of Administration consider the use of independent economic data by performing a reasonable assessment of the costs and benefits of using such data. Until the Bureau of Administration performs this assessment, it cannot be certain that its current methodology is the best option. The recommendation will be considered resolved when the Bureau of Administration provides a plan of action for addressing this recommendation or provides an acceptable alternative that meets the intent of the recommendation. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has developed and implemented a plan to revise the methodology for determining foreign per diem rates based on its actions in response to Recommendation 11.

Recommendation 13: After implementing Recommendation 12, OIG recommends that the Bureau of Administration recalculate the foreign per diem rates for the locations based on the revised methodology.

Management Response: The Bureau of Administration concurred with the recommendation.

OIG Reply: On the basis of the Bureau of Administration's concurrence with this recommendation, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has recalculated foreign per diem rates based on the revised methodology.

Recommendation 14: OIG recommends that the Bureau of Administration complete its efforts to upgrade and update its eAllowances application. As part of this effort, the Bureau of Administration should ensure that posts are able to upload supporting documentation, such as reservation logs, into the application.

Management Response: The Bureau of Administration concurred with the recommendation.

OIG Reply: On the basis of the Bureau of Administration's concurrence with this recommendation, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has completed its efforts to upgrade and update its eAllowances application.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration review its “Per Diem for Foreign Locations Standard Operating Procedures” for sufficiency and update the guidance as needed. As part of this effort, the Bureau of Administration should require the consistent application of the established methodology and should eliminate the contradictory guidance related to the calculation of the breakfast portion of the foreign per diem rate.

Recommendation 2: OIG recommends that the Bureau of Administration formalize key requirements related to the foreign per diem rate-setting process in the Department of State Standardized Regulations, including information to be submitted by posts and how posts should collect the required data.

Recommendation 3: OIG recommends that the Bureau of Administration develop and implement (a) formal guidance related to which locations to designate to have automatic updates to their foreign per diem rates based on fluctuations in exchange rates and (b) a methodology for conducting periodic assessments of exchange rate adjusted locations, adding or deleting designations in accordance with the guidance.

Recommendation 4: OIG recommends that the Bureau of Administration review and update all foreign per diem locations designated in eAllowances as exchange rate adjusted in accordance with the guidance developed in response to Recommendation 3.

Recommendation 5: Until Recommendations 11 and 12 are implemented, OIG recommends that the Bureau of Administration develop and institute a process to ensure that posts submit hotel and restaurant data for foreign per diem rate calculations on a biennial basis, as required by Department of State Standardized Regulations § 074.2.

Recommendation 6: Once Recommendations 11 and 12 are implemented, for locations where independent economic data are unavailable, OIG recommends that the Bureau of Administration develop and institute a process to ensure that posts submit hotel and restaurant data for foreign per diem rate calculations on a biennial basis, as required by Department of State Standardized Regulations § 074.2.

Recommendation 7: OIG recommends that the Bureau of Administration develop and implement internal controls to verify that managers validate the procedures and justifications used to support the recommended foreign per diem rate changes prior to final approval.

Recommendation 8: OIG recommends that the Bureau of Administration incorporate in the Foreign Affairs Manual or the Foreign Affairs Handbook record retention requirements for foreign per diem rate-setting supporting documentation.

Recommendation 9: OIG recommends that the Bureau of Administration develop and implement (a) a policy requiring periodic assessments of the need for foreign per diem rates for multiple locations within one country and (b) a methodology for conducting the periodic

assessments. The assessment policy and methodology should take other U.S. Government agency needs and interests into consideration.

Recommendation 10: OIG recommends that the Bureau of Administration develop and implement a process to consolidate the number of foreign per diem rate locations in a country based on the assessments and methodology developed in response to Recommendation 9.

Recommendation 11: OIG recommends that the Bureau of Administration review its methodology for determining foreign per diem rates to identify opportunities to streamline the process. At a minimum, the Bureau of Administration should consider whether the use of independent economic data would be more efficient and cost-effective for establishing foreign per diem rates.

Recommendation 12: OIG recommends that the Bureau of Administration develop and implement a plan to revise the methodology for determining foreign per diem rates based on the results of Recommendation 11.

Recommendation 13: After implementing Recommendation 12, OIG recommends that the Bureau of Administration recalculate the foreign per diem rates for the locations based on the revised methodology.

Recommendation 14: OIG recommends that the Bureau of Administration complete its efforts to upgrade and update its eAllowances application. As part of this effort, the Bureau of Administration should ensure that posts are able to upload supporting documentation, such as reservation logs, into the application.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State's (Department) methodology and process to establish foreign per diem rates adequately cover the cost of U.S. Government employees and eligible dependents traveling abroad and comply with Federal regulations and Department policies.

OIG conducted this audit from April to October 2020 in the Washington, DC, metropolitan area. The scope of this audit was foreign per diem rates established by the Department for selected locations. OIG faced delays in completing this work because of the COVID-19 pandemic and resulting operational challenges. These challenges included prohibitions on travel to overseas locations, the inability to conduct in-person meetings, difficulty accessing information, and related difficulties within the Department that affected its ability to respond to OIG requests for information in a timely manner. 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 based on the audit objective.

To determine whether foreign per diem rates adequately covered the costs of U.S. Government employees and eligible dependents traveling abroad, OIG compared foreign per diem rates established by the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (ALS) between 2011 and 2019 with selected, similar, and available independent economic data obtained from the Economist Intelligence Unit for Frankfurt, Germany; Istanbul, Turkey; Kyiv, Ukraine; and Mexico City, Mexico.¹ To test ALS's foreign per diem rate determination procedures, OIG selected 20 overseas locations from the universe of FY 2018 and FY 2019 travel expense records from E2 Solutions foreign travel project universe.² Of the 20 selected posts, OIG judgmentally selected Consulate Generals Frankfurt, Germany; Istanbul, Turkey; and Embassies Kyiv, Ukraine; Mexico City, Mexico; and San Salvador, El Salvador to assess the adequacy of the methodology and processes used to establish foreign per diem rates for those locations.

During the audit, OIG reviewed and analyzed Federal laws and regulations and Department guidance and policies related to foreign per diem, such as the Federal Travel Regulation, the Department of State Standardized Regulations (DSSR), the Foreign Affairs Manual, the Foreign Affairs Handbook, and standard operating procedures. OIG interviewed Department officials from ALS, Consulate Generals Frankfurt and Istanbul, and Embassies Kyiv, Mexico City, and San Salvador. OIG also interviewed contractor personnel that support a computer application

¹ The Economist Intelligence Unit's CityData was not available for San Salvador. Therefore, OIG excluded San Salvador from its comparative analysis and focused solely on Frankfurt, Istanbul, Kyiv, and Mexico City.

² See the Sampling Methodology section of Appendix A: Purpose, Scope, and Methodology for additional details on the universe and sample selection.

known as eAllowances,³ which is used by ALS officials to help establish per diem rates. OIG also interviewed officials from the General Services Administration's (GSA) Office of Asset and Transportation Management, the Department of Defense's Defense Travel Management Office, and from the Economist Intelligence Unit,⁴ an organization that produces independent economic data.

OIG reviewed and analyzed data included on Forms DS-2026, Hotel and Restaurant Report, that were submitted in eAllowances by selected posts to determine whether the information was reported in a timely manner and was complete. In addition, OIG reviewed ALS's analyses of DS-2026 data within eAllowances to determine whether foreign per diem rates were accurate and established in accordance with the ALS standard operating procedures. For example, OIG compared DS-2026 data to the information and calculations included by ALS analysts in eAllowances to verify that required data were entered and calculated correctly. OIG also reviewed and analyzed ALS foreign per diem rate Recommendation Memoranda in eAllowances for completeness and accuracy. Furthermore, OIG reviewed "approval logs" in eAllowances to determine whether ALS management approved the foreign per diem rates in accordance with ALS standard operating procedures. OIG also reviewed hardcopy files maintained by ALS that involved the posts selected for this audit when that information was not available in eAllowances, including DS-2026 submissions by posts, ALS analyses of data, Recommendation Memoranda, and evidence of communication between post and ALS concerning incomplete or untimely DS-2026 submissions.

OIG also compared the Department's policies, procedures, and methodologies to those used by GSA for establishing per diem rates for locations within the continental United States (CONUS) and the Department of Defense for establishing per diem rates for non-foreign locations outside of CONUS.

To determine whether foreign per diem rates for the fieldwork locations selected for this audit adequately covered the costs of U.S. Government employees and eligible dependents traveling abroad, OIG compared foreign per diem rates established by ALS between 2011 and 2019 with selected, similar, and available independent economic data obtained from the Economist Intelligence Unit. ALS did not have a subscription to the Economist Intelligence Unit's CityData; therefore, OIG purchased selected CityData pricing information available for four cities: Frankfurt, Istanbul, Kyiv, and Mexico City. Specifically, OIG purchased lodging, meals, business

³ eAllowances is a web-based application used by ALS to develop and administer Government-wide allowances and benefits for civilian employees and their families overseas. eAllowances was designed to allow posts worldwide to collect and send data to ALS and enable ALS to analyze the data to determine allowance rates, including foreign per diem rates.

⁴ OIG used data from this company because ALS had a subscription to Economist Intelligence Unit data at one time. Furthermore, during a prior audit (*Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas*, AUD-FM-17-51, August 2017), an official in the Department's Office of the Chief Economist stated that the Economist Intelligence Unit is reputable and was highly regarded in the economist community. However, there are numerous reputable companies that provide similar economic data.

trip, and laundry and dry cleaning pricing data. All pricing data were provided in local currencies.

OIG calculated average annual exchange rates for each countries' currency for 2011 through 2019 using daily international currency exchange rate data obtained from the Bureau of the Comptroller and Global Financial Services. OIG applied the average annual exchange rate to the CityData pricing information to convert the pricing to U.S. dollars.

OIG grouped CityData pricing data into lodging costs, meals, and incidental costs categories and calculated the average yearly lodging and meal and incidental expense (M&IE) rates for each country. Specifically, for lodging, OIG averaged the pricing data for a single hotel room, which included breakfast, taxes, and service charges. For M&IE, OIG averaged the pricing data for meals,⁵ including fast food. The M&IE pricing data included tips, taxes, service charges, and the average price of dry cleaning and laundry for men's and women's clothing. At the request of the Economist Intelligence Unit, OIG is not disclosing actual CityData pricing data for any specific location or year in this report.

OIG also calculated the yearly average foreign per diem rate established by ALS for the same four locations. When a location had more than one foreign per diem rate in effect during a year, OIG calculated a weighted average of the rates based on the number of months each rate was in effect. The Audit Results section of this report describes the results of OIG's comparison of the average foreign per diem rates established by ALS with the average per diem rate that OIG calculated using the Economist Intelligence Unit data.

Data Reliability

OIG used computer-processed data to support findings and conclusions presented in this report. Specifically, OIG used data from DS-2026s reported in eAllowances. To assess the completeness of the eAllowances data, OIG tested the data for compliance with collection and reporting requirements included in the DSSR and DS-2026 instructions. During testing, OIG found the data in eAllowances were not always complete. To overcome the deficiencies identified, OIG discussed the methodologies used to collect and report hotel and restaurant data within eAllowances with ALS officials, post officials at selected locations, and eAllowances contractor personnel. OIG also reviewed eAllowances system requirement documentation to corroborate the information obtained during the interviews. As a result, OIG determined that eAllowances data were sufficiently reliable to fulfill the objective of this audit. Issues identified during the audit with eAllowances data are detailed in the Audit Results section of this report.

⁵ Federal Travel Regulation § 300-3.1, "What do the following terms mean?" states that alcoholic beverage expenses and any expenses incurred for another person are specifically excluded from the meals portion of the per diem allowance. One of the CityData meal prices used in OIG's average calculations was the price of a two-course meal for two people, including one bottle of wine. OIG divided the total price by two to yield a price for one person. OIG did not attempt to remove the cost of the wine; therefore, the meals portion of the CityData includes alcohol, contrary to the Federal Travel Regulation.

OIG also used third-party data obtained from the Economist Intelligence Unit. OIG discussed the methodologies used to collect and report the economic data with Economist Intelligence Unit officials. OIG also reviewed Economist Intelligence Unit methodology documentation to corroborate information obtained during the interview. As a result, OIG determined that eAllowances data were sufficiently reliable to fulfill the objective of this audit.

Work Related to Internal Control

During the audit, OIG considered several factors, including the subject matter of the project, to determine whether internal control was significant to the audit objective. Based on its consideration, OIG determined that internal control was significant to this audit. OIG then considered the components of internal control and the underlying principles included in the *Standards for Internal Control in the Federal Government*⁶ to identify internal controls that were significant to the audit objectives. Considering internal control in the context of a comprehensive internal control framework can help auditors to determine whether underlying internal control deficiencies exist.

For this audit, OIG concluded that two of five internal control components from the *Standards for Internal Control in the Federal Government*—Control Activities and Information and Communication—were significant to the audit objectives. The Control Activities component includes the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity’s information system. The Information and Communication component relates to the quality information that management and personnel communicate and use to support the internal control system. In addition, OIG concluded that three principles related to the selected components were significant to the audit objectives, as described in Table A.1.

Table A.1: Internal Control Components and Principles Identified as Significant

Components	Principles
Control Activities	Management should implement control activities through policies.
Information and Communication	Management should use quality information to achieve the entity’s objectives.
Information and Communication	Management should internally communicate the necessary quality information to achieve the entity’s objectives.

Source: OIG generated from an analysis of internal control components and principles from the Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

OIG interviewed Department officials and contractors, reviewed documentation, and performed walkthroughs to gain an understanding of the internal controls related to the components and principles that were identified as significant for this audit. OIG performed

⁶ Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

procedures to assess the design and implementation of key internal controls to the extent necessary to address the audit objective. Specifically, OIG:

- Reviewed ALS standard operating procedures to determine the extent to which ALS had established and applied control activities and information and communication components of internal control for establishing foreign per diem rates.
- Performed independent analyses of foreign per diem rates to determine if hotel and restaurant data were timely and complete and whether the methodology used to establish the rates was reasonable.
- Analyzed hotel and restaurant data collection processes at selected posts to determine the extent to which posts established and applied control activities and information and communication components of internal control to ensure data were conveyed to ALS timely.
- Reviewed eAllowances system documentation to determine the extent to which eAllowances was designed to collect, process, and maintain hotel and restaurant pricing data and analyses.

Internal control deficiencies identified during the audit that are significant within the context of the audit objective are presented in the Audit Results section of this report.

Sampling Methodology

OIG's sampling objective was to select a sample of overseas locations to determine to what extent:

- ALS established appropriate foreign per diem rates.
- ALS established internal controls over the foreign per diem rate determination process to ensure rates were valid.
- The selected locations applied internal controls over the foreign per diem reporting process to ensure hotel and restaurant data were complete and conveyed to ALS timely.

Project Universe

OIG obtained FY 2018 and FY 2019 travel expense records from E2 Solutions, which is the application used by the Department to track and maintain employee travel. OIG filtered out records for travel to non-foreign locations and identified 335,942 records for travel to 9,183 foreign locations, with per diem expenditures totaling \$290,590,324.

Target Universe of Overseas Locations

Using a risk-based process, OIG selected 20 overseas locations from the foreign travel project universe to test ALS's foreign per diem rate determination procedures. OIG considered certain factors when selecting the 20 locations: locations with the most frequent travel; locations with the highest lodging, M&IE, and total per diem amounts; and the length of time since the per

diem rates for each location were updated. OIG assigned risk rankings to each of these factors,⁷ which were then averaged to identify the top 20 locations. OIG also considered travel advisories.⁸ Table A.2 provides details on the target universe of overseas locations.

Table A.2. Locations Selected

Location	Number of Visits	Total Lodging ^a	Total M&IE ^a	Total Per Diem ^a	Effective Date of Rate ^b	Average Risk ^c	Travel Advisory Warning ^b
Mexico City	2,761	\$2,505,659	\$1,641,917	\$4,147,577	04/1/2013	21	Level 2
Bangkok, Thailand	5,764	\$3,886,652	\$3,336,356	\$7,223,008	02/1/2018	27	Level 1
Frankfurt	5,360	\$4,350,243	\$3,840,734	\$8,190,977	10/1/2019	31	Level 2
Kyiv	1,108	\$1,157,150	\$1,088,306	\$2,245,456	03/1/2011	31	Level 2
Dubai, United Arab Emirates	3,619	\$1,463,278	\$1,502,125	\$2,965,403	10/1/2016	31	Level 1
Istanbul	2,530	\$834,904	\$830,321	\$1,665,224	06/1/2011	31	Level 2
London, United Kingdom	4,347	\$3,595,270	\$3,788,137	\$7,383,407	01/1/2020	32	Level 2
Paris, France	3,902	\$3,005,020	\$2,954,966	\$5,959,986	10/1/2019	33	Level 2
Johannesburg, South Africa	3,387	\$2,275,920	\$1,643,356	\$3,919,276	03/1/2020	36	Level 2
Vienna, Austria	2,639	\$2,007,917	\$1,880,292	\$3,888,210	01/1/2020	36	Level 1
Nairobi, Kenya	2,332	\$1,914,730	\$1,372,709	\$3,287,439	04/1/2019	37	Level 2
Brussels, Belgium	2,864	\$1,354,890	\$1,708,029	\$3,062,918	10/1/2019	38	Level 2
Amman, Jordan	3,081	\$1,436,435	\$1,369,285	\$2,805,720	03/1/2019	38	Level 2
Singapore, Singapore	1,782	\$1,686,953	\$1,272,191	\$2,959,144	10/1/2018	39	Level 1
San Salvador	1,932	\$506,706	\$782,362	\$1,289,068	02/1/2008	39	Level 2
Beijing, China	2,053	\$1,582,629	\$1,175,850	\$2,758,479	01/1/2019	39	Level 4
Tokyo, Japan	2,221	\$1,177,224	\$1,992,379	\$3,169,603	03/1/2020	40	Level 2
Lima, Peru	1,647	\$1,209,238	\$1,313,401	\$2,522,639	05/1/2018	40	Level 2
Jerusalem, Israel	1,614	\$1,514,755	\$1,818,575	\$3,333,330	03/1/2020	41	Level 2

⁷ OIG assigned rankings for the risk factors considered in numerical order (i.e., the lower the number, the higher the risk).

⁸ During the planning phase of this audit, OIG anticipated performing on-site work at some of the selected posts. Therefore, travel advisories were considered when selecting posts for testing. OIG was not able to perform on-site work because of COVID-19-related travel restrictions.

Location	Number of Visits	Total Lodging ^a	Total M&IE ^a	Total Per Diem ^a	Effective Date of Rate ^b	Average Risk ^c	Travel Advisory Warning ^b
Geneva, Switzerland	1,336	\$1,586,821	\$1,136,260	\$2,723,081	11/1/2018	42	Level 1
Total	56,279	\$39,052,394	\$36,447,550	\$75,499,943			

^a Numbers have been rounded to the nearest dollar amount; therefore, figures may not add up precisely to the totals provided.

^b Data as of March 1, 2020.

^c The average risk rating is an average of all factors considered. Lower numbers reflect higher risk.

Source: OIG generated based on FY 2018 and FY 2019 data obtained from E2 Solutions, data published in DSSR § 925, as of March 2020, and travel advisory warnings issued by the Department, as of March 2020.

Of the 20 selected posts, OIG judgmentally selected Consulate Generals Frankfurt and Istanbul, and Embassies Kyiv, Mexico City, and San Salvador for additional testing to assess the adequacy of the methodology and processes used to establish foreign per diem rates. Specifically, OIG assessed whether the posts designed and implemented internal controls over the foreign per diem reporting process to ensure hotel and restaurant data were complete and conveyed to ALS timely.

Prior Office of Inspector General Reports

In its report *Audit of Select Cost-of-Living Allowances for American Employees Stationed in Foreign Areas* (AUD-FM-17-51, August 2017), OIG reported that ALS had not established appropriate post allowance rates for the seven posts audited and could have saved \$18.2 million had it used available independent cost-of-living economic data to determine rates rather than the methodology employed. Specifically, OIG reported that ALS's methodology used to set rates was manual and prone to errors; ALS did not have sufficient policies and procedures to guide the process for rate setting; and ALS could not ensure that post allowance rates were based on complete and accurate information or reasonable prices. The report made six recommendations to address the issues identified. As of March 2021, all recommendations have been implemented and closed.

In addition, OIG issued 11 inspection reports between 2012 and 2020⁹ that identified instances in which posts had not submitted DS-2026s in a timely manner. Each report recommended that posts submit an updated DS-2026 to ALS. As of November 2020, all recommendations have been implemented and closed.

⁹ OIG, *Inspection of Embassy Dhaka, Bangladesh* (ISP-I-20-17, June 2020); *Inspection of Embassy Port-au-Prince, Haiti* (ISP-I-19-18, June 2019); *Inspection of Embassy Bogota, Colombia* (ISP-I-19-14, April 2019); *Inspection of Embassy New Delhi and Constituent Posts, India* (ISP-I-19-10, December 2018); *Inspection of Embassy Nairobi, Kenya* (ISP-I-19-08, October 2018); *Inspection of Embassy Riyadh and Constituent Posts, Saudi Arabia* (ISP-I-18-17, May 2018); *Inspection of Embassy Riga, Latvia* (ISP-I-15-21A, May 2015); *Inspection of Embassy Baku, Azerbaijan* (ISP-I-15-09A, January 2015); *Inspection of Embassy Khartoum, Sudan* (ISP-I-13-37A, July 2013); *Inspection of Embassy Caracas, Venezuela* (ISP-I-12-09A, February 2012); and *Inspection of Embassy Nassau, The Bahamas* (ISP-I-12-08A, January 2012).

APPENDIX B: eALLOWANCES TESTING RESULTS

Table B.1 displays the dates of the most recent and previous DS-2026 submitted for the selected locations as well as the reporting schedule due date.

Table B.1: Dates of Most Recently Submitted DS-2026 in eAllowances and Reporting Schedule Due Date

Location	Date of Most Recent DS-2026 ^a	Date of Previous DS-2026	Reporting Schedule Due Date
San Salvador, El Salvador ^b	12/13/2007	03/01/2007 ^c	Odd Years in June
Beijing, China	02/05/2012	06/23/2011	Even Years in October
Mexico City, Mexico	02/26/2013	04/03/2007 ^d	Even Years in May
Singapore, Singapore	01/14/2014	01/03/2013	Odd Years in December
Johannesburg, South Africa	02/19/2016	02/25/2014	Not Applicable ^e
Dubai, United Arab Emirates	08/30/2016	05/12/2014	Even Years in June
London, England	08/04/2017	03/02/2014	Odd Years in September
Paris, France	05/18/2017	02/04/2014	Even Years in April
Bangkok, Thailand	01/01/2018	10/27/2014	Odd Years in June
Geneva, Switzerland	03/06/2018	10/24/2013	Odd Years in February
Lima, Peru ^f	04/23/2018	03/15/2018	Even Years in April
Amman, Jordan	02/04/2019	04/06/2013	Odd Years in June
Nairobi, Kenya ^g	03/05/2019	01/23/2019	Odd Years in December
Vienna, Austria	11/26/2019	02/29/2016	Even Years in May
Brussels, Belgium	02/24/2020	02/04/2008 ^h	Odd Years in December
Jerusalem, Israel	02/19/2020	10/02/2017	Even Years in May
Tokyo City, Japan	02/09/2020	12/23/2019 ⁱ	Odd Years in June
Frankfurt am Main, Germany ^j	06/16/2020	02/12/2014	Odd Years in November
Istanbul, Turkey ^j	08/13/2020	05/16/2011	Odd Years in February
Kyiv, Ukraine ^j	08/28/2020	01/20/2011	Even Years in March

^a As of October 2020.

^b San Salvador's most recent and previous DS-2026 were not available in eAllowances and were obtained from Office of Allowances (ALS) hardcopy files.

^c San Salvador's previous DS-2026 was undated but was marked as received by ALS on 03/01/2007.

^d Mexico City's previous DS-2026 was not available in eAllowances and was obtained from ALS hardcopy files. The DS-2026 was undated but was marked as received by ALS on 04/03/2007.

^e The due date for Johannesburg is not included in ALS's reporting schedule.

^f Lima's most recent DS-2026 is a duplicate of the previous DS-2026. The duplicate was created to delete the high season rate established by ALS based upon Lima's 03/15/2018 DS-2026. Prior to the March 2018 submission, a DS-2026 for Lima had not been submitted since 10/17/2016.

^g Nairobi's most recent DS-2026 was submitted to correct errors on the previous DS-2026. Prior to the January 2019 submission, a DS-2026 for Nairobi had not been submitted since 01/05/2011.

^h Brussels' previous DS-2026 was not available in eAllowances and was obtained from ALS hardcopy files. The hardcopy DS-2026 was dated 01/08/2008 and was marked as received by ALS on 02/04/2008.

ⁱ According to ALS, an incomplete DS-2026 was submitted for Tokyo City on 12/13/2019 and at ALS' request, a revised DS-2026 for Tokyo City was entered into eAllowances on 12/23/2019. Prior to the December 2019 DS-2026 submissions, a DS-2026 for Tokyo City had not been submitted since 12/01/2015.

^j Most recent DS-2026 was submitted to ALS as a result of this audit.

Source: OIG generated based on its analysis of DS-2026 submissions in eAllowances, ALS hardcopy files, and the ALS reporting schedule.

Table B.2 displays the Office of Allowances (ALS) calculated foreign per diem rate resulting from the most recent DS-2026 submission for the 20 selected locations and the Office of Inspector General's (OIG) recalculated foreign per diem rate based on the same DS-2026 submission in accordance with the ALS standard operating procedures. Specifically, OIG reviewed ALS's analyses of DS-2026 data within eAllowances to determine whether foreign per diem rates were accurate and established in accordance with the ALS standard operating procedures by comparing DS-2026 data to the information and calculations included by ALS analysts in eAllowances to verify that required data were entered and calculated correctly. OIG also reviewed and analyzed ALS foreign per diem rate Recommendation Memoranda in eAllowances for completeness and accuracy and to determine if deviations from the ALS standard operating procedures were properly documented and reflected in the ALS calculated foreign per diem rate.

Table B.2: Inaccurate or Inconsistent Foreign Per Diem Rates for Selected Locations

Location	ALS Calculated Rate ^a	OIG Calculated Rate ^a	Difference
Dubai, United Arab Emirates	\$553	\$519	(\$34)
Nairobi, Kenya	\$339	\$311	(\$28)
London, United Kingdom	\$479	\$452	(\$27)
Brussels, Belgium (high season) ^b	\$355	\$330	(\$25)
Brussels, Belgium (standard)	\$298	\$283	(\$15)
Frankfurt am Main, Germany	\$344	\$331	(\$13)
Kyiv, Ukraine	\$341	\$328	(\$13)
Singapore, Singapore	\$453	\$446	(\$7)
Johannesburg, South Africa	\$304	\$298	(\$6)
Bangkok, Thailand	\$241	\$243	\$2
Lima, Peru	\$358	\$360	\$2
Jerusalem, Israel	\$555	\$561	\$6
Tokyo City, Japan	\$470	\$476	\$6
Geneva, Switzerland	\$498	\$513	\$15
Istanbul, Turkey	\$310	\$328	\$18
Amman, Jordan	\$384	\$404	\$20
San Salvador, El Salvador	\$221	\$244	\$23
Vienna, Austria	\$393	\$417	\$24
Mexico City, Mexico	\$362	\$389	\$27
Paris, France	\$549	\$607	\$58
Beijing, China	\$377	\$441	\$64

^a Rates do not factor in exchange rate adjustments.

^b Seasonal rates may be established during peak seasons if the higher rate is more than \$20 above the standard rate and it persists for more than 30 days.

Source: OIG generated based on its analysis of data obtained from eAllowances and ALS foreign per diem rate files.

APPENDIX C: BUREAU OF ADMINISTRATION RESPONSE



United States Department of State

Washington, D.C. 20520

June 07, 2021

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MEMORANDUM

TO: OIG – Norman P. Brown
FROM: A/OPR – Keith D. Hanigan *160*
SUBJECT: OIG Draft Report: Audit of Foreign Per Diem Rates established by the Department of State

The Bureau of Administration was tasked with action on recommendations 1-14. Alexandra Aitken of A/OPR/ALS is the point of contact and can be reached at 678-362-2824. Per your memorandum of May 20, 2021, the following recommendation and response is as follows:

Recommendation 1: OIG recommends that the Bureau of Administration review its “Per Diem for Foreign Locations Standard Operating Procedures” for sufficiency and update the guidance as needed. As part of this effort, the Bureau of Administration should require the consistent application of the established methodology and should eliminate the contradictory guidance related to the calculation of the breakfast portion of the foreign per diem rate.

Management Response to Draft Report: The Bureau of Administration concurs with the recommendation. As pointed out in the exit conference, the Standard Operating Procedures were updated in 2019, reviewed in 2020, and will be formally updated upon issuance of this final report.

Recommendation 2: OIG recommends that the Bureau of Administration formalize key requirements related to the foreign per diem rate-setting process in the Foreign Affairs Manual or the Foreign Affairs Handbook, including information to be submitted by posts and how posts should collect the required data.

Management Response to Draft Report: The Bureau of Administration concurs that the instructions be formalized, but as the Department of State Standardized Regulations (DSSR) are for all US Government Agencies and the FAM/FAH is only for the Department of State, the instructions for this process will be added to the DSSR.

Recommendation 3: OIG recommends that the Bureau of Administration develop and implement (a) formal guidance related to which locations to designate to have automatic updates to their foreign per diem rates based on fluctuations in exchange rates and (b) a methodology for conducting periodic assessments of exchange rate adjusted locations, adding or deleting designations in accordance with the guidance.

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Management Response to Draft Report: The Bureau of Administration concurs with the recommendation. The e-allowance application will be updated in October 2021 to automatically update foreign per diem rates based on exchange rate fluctuations. The methodology for conducting periodic assessments of exchange rate adjusted locations already exists and occurs biannually with a review of exchange rates in order to determine hyper-inflation locations.

Recommendation 4: OIG recommends that the Bureau of Administration review and update all foreign per diem locations designated in eAllowances as exchange rate adjusted in accordance with the guidance developed in response to Recommendation 3.

Management Response to Draft Report: The Bureau of Administration concurs with the recommendation. The Bureau of Administration requests that recommendation 3 and 4 be combined as this recommendation was addressed in the previous response.

Recommendation 5: Until Recommendations 11 and 12 are implemented, OIG recommends that the Bureau of Administration require posts to submit hotel and restaurant data for foreign per diem rate calculations on a biennial basis, as required by Department of State Standardized Regulations § 074.2.

Management Response to Draft Report: The Bureau of Administration concurs with the recommendation. The Bureau of Administration already requires posts to submit foreign per diem rate data on a biennial basis as required by the DSSR.

Recommendation 6: Once Recommendations 11 and 12 are implemented, for locations where independent economic data are unavailable, OIG recommends that the Bureau of Administration require posts to submit hotel and restaurant data for foreign per diem rate calculations on a biennial basis, as required by Department of State Standardized Regulations § 074.2.

Management Response to Draft Report: The Bureau of Administration concurs with the recommendation. The Bureau of Administration already requires posts to submit foreign per diem rate data on a biennial basis as required by the DSSR.

Recommendation 7: OIG recommends that the Bureau of Administration develop and implement internal controls to verify that managers validate the procedures and justifications used to support the recommended foreign per diem rate changes prior to final approval.

Management Response to Draft Report: The Bureau of Administration concurs with the recommendation. As we pointed out in the exit conference, these internal controls were implemented in 2015 in the e-allowances application where each level must validate the procedures and justifications prior to moving forward to final approval.

Recommendation 8: OIG recommends that the Bureau of Administration incorporate in the Foreign Affairs Manual or the Foreign Affairs Handbook record retention requirements for foreign per diem rate-setting supporting documentation.

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Management Response to Draft Report: The Bureau of Administration does not concur with recommendation 8. The Department of State's record retention requirements for all records are outlined in 5FAM 430.

Recommendation 9: OIG recommends that the Bureau of Administration develop and implement (a) a policy requiring periodic assessments of the need for foreign per diem rates for multiple locations within one country and (b) a methodology for conducting the periodic assessments. The assessment policy and methodology should take other U.S. Government agency needs and interests into consideration.

Management Response to Draft Report: The Bureau of Administration concurs with the recommendation. The practice is in place and will be followed with a formal policy.

Recommendation 10: OIG recommends that the Bureau of Administration develop and implement a process to consolidate the number of foreign per diem rate locations in a country based on the assessments and methodology developed in response to Recommendation 9.

Management Response to Draft Report: The Bureau of Administration does not concur with recommendation 10. Taking the needs and interests of other USG agencies into consideration, any location that is not covered under "other" is listed because it met the criteria for a separate per diem rate. By executive order, the Department of State was instructed to support all USG agencies with civilians working in foreign locations. The Authorities are listed in DSSR 010 http://aoprals.a.state.gov/content.asp?content_id=138&menu_id=75

Recommendation 11: OIG recommends that the Bureau of Administration review its methodology for determining foreign per diem rates to identify opportunities to streamline the process. At a minimum, the Bureau of Administration should consider whether the use of independent economic data would be more efficient and cost-effective for establishing foreign per diem rates.

Management Response to Draft Report: The Bureau of Administration concurs with recommendation to review its methodology but does not concur with the recommendation to use independent data. As we discussed in the exit conference, the existing process is objective because the data collectors do not benefit from the rate established and hotel/restaurant information is generally available on the internet.

Recommendation 12: OIG recommends that the Bureau of Administration develop and implement a plan to revise the methodology for determining foreign per diem rates based on the results of Recommendation 11.

Management Response to Draft Report: The Bureau of Administration concurs with recommendation to review its methodology but does not concur with the recommendation to use independent data. As we discussed in the exit conference, the existing process is objective because the data collectors do not benefit from the rate established and hotel/restaurant information is generally available on the internet.

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Recommendation 13: After implementing Recommendation 12, OIG recommends that the Bureau of Administration recalculate the foreign per diem rates for the locations based on the revised methodology.

Management Response to Draft Report: The Bureau of Administration concurs with recommendation to review its methodology.

Recommendation 14: OIG recommends that the Bureau of Administration complete its efforts to upgrade and update its eAllowances application. As part of this effort, the Bureau of Administration should ensure that posts are able to upload supporting documentation, such as reservation logs, into the application.

Management Response to Draft Report: The Bureau of Administration concurs with recommendation.

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APPENDIX D: CONSULATE GENERAL FRANKFURT, GERMANY, RESPONSE



*Consulate General of the United States of America
Frankfurt am Main, Germany*

June 8, 2021

Deputy Assistant Inspector General for Audits
Gayle Voshell
Gayle.l.voshell@stateoig.gov

Dear Ms. Voshell,

Consulate General Frankfurt has reviewed the OIG Draft Report on Audit of Foreign Per Diem Rates Established by the Department of State and has the following comments:

- **The report states (page 15): “Furthermore, OIG found that none of the five selected posts tested (Consulate Generals Frankfurt, Germany; and Istanbul, Turkey; and Embassies Kyiv, Ukraine; Mexico City, Mexico; and Salvador, El Salvador) had maintained hotel reservation logs of all Federal travelers, as required by the DSSR46 and DS-2026. Post officials stated that they contacted hotels directly to obtain Federal traveler reservation numbers because posts’ travel offices did not have visibility on reservations made by Federal travelers that did not use the travel offices.”**

Consulate Frankfurt concurs with the finding. The Travel Unit maintains a log of all travelers who book travel through the Travel Unit, including the traveler’s names, requestor, dates of stay, and name of hotel. Upon request, the Travel Unit is able to provide this continuously maintained log. *However*, the Travel Unit is unable to confirm how many rooms *all* USG travelers in Germany occupy because some travelers book rooms without the assistance of the Travel Unit in Frankfurt or other posts in Germany. To mitigate this shortcoming, the Travel Unit does contact hotel general managers to query how many “U.S. Consulate Frankfurt” guests stayed at their hotels during a given time period. Though we take this step, we nevertheless expect that these additional tallies still understate the total number of all travelers.

- **The report states (page 19): “For the 37 rates established for Germany, 23 (62 percent) were unused or underutilized, as shown in Table 6. OIG notes that while rates may not have been used by Department personnel, they may have been used by other government agency personnel.”**

Prima facie, 37 separate per diem areas for Germany is operationally excessive; however, the Consulate recognizes that travelers of other agencies may find the range of local rates relevant for particular travel needs. Generally, the area of operations for Consulate Frankfurt includes only four of sixteen federal states (Hessen, Saarland, Rheinland-Pfalz, and Baden-Württemberg). The Frankfurt Travel Unit has no reasonably efficient and effective method to

check how the thousands of travelers to Germany used each of the 37 different rates for Germany nor does the Unit have substantive influence in which areas of Germany travelers stay.

- **Table A.2. (page 32) understates – possibly substantially – the number of Frankfurt travelers at 5,360 visitors.**

For comparison, visitor access requests to the Consulate number closer to 12,000 visitors per year. The 5,360 number reports FY2018 and FY2019, as drawn from E2 Solutions. Consulate Frankfurt notes that not all travelers use E2 to book travel (for example, travelers from other agencies). The Consulate further tracks the number of travelers based on the Electronic Country Clearances (eCCs) and Visitor Access Requests handled through the Regional Security Office (RSO). Most travelers do not enter hotel information in eCCs; moreover, the eCC platform does not have robust fields to collect per diem or hotel information. Thus, the actual number of visits and associated lodging and M&IE costs are proportionally higher because other agencies do not report through E2. Again, the exact numbers cannot be reported because, as mentioned above, not all travelers book through the Frankfurt Travel Unit or use eCCs. Reconstructing room reservations for 12,000 annual visitors by combining partial electronic logs with manual cuff records is neither effective nor efficient.

Consulate General Frankfurt appreciates the opportunity to comment on the OIG draft report.

Sincerely,

Patricia Lacina
Consul General
U.S. Consulate General Frankfurt

APPENDIX E: EMBASSY MEXICO CITY, MEXICO, RESPONSE



Embassy of the United States of America

Mexico City, June 3, 2021

Mr. Norman P. Brown
Assistant Inspector General for Audits
Office of the Inspector General, Department of State

Dear Mr. Brown:

Thank you for sharing the draft report Audit of Foreign Per Diem Rates Established by the Department of State. Embassy Mexico City agrees with the findings of the report and does not have any questions or comments. Post will endeavor to submit hotel and restaurant data for foreign per diem calculations later this year and review with the Mission Mexico interagency the number of foreign per diem locations in country.

Sincerely,

A handwritten signature in black ink, appearing to read "John S. Creamer".

John S. Creamer
Chargé d'Affaires, a.i.

CC: Gayle Voshell

ABBREVIATIONS

ALS	Office of Allowances
CONUS	continental United States
DoD	Department of Defense
DSSR	Department of State Standardized Regulations
FAM	Foreign Affairs Manual
GAO	Government Accountability Office
GSA	General Services Administration
M&IE	meals and incidental expenses
OIG	Office of Inspector General
TDY	temporary duty

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