# Office of Inspector General

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

AUD-FM-17-06 | Office of Audits | November 2016

# Management Assistance Report: Incorrect Post Allowance Rate for Embassy Berlin, Germany

## MANAGEMENT ASSISTANCE REPORT

## Summary of Finding

A post allowance is granted to Federal employees officially stationed at an overseas post where the cost of living, excluding housing costs, is substantially higher than the cost in Washington, DC. During an audit of select cost-of-living allowances, the Office of Inspector General (OIG) found that the post allowance rate effective April 3, 2016, for Berlin, Germany, was calculated incorrectly. Specifically, the post allowance rate for Berlin increased from 25 percent in March 2016 to 42 percent in April 2016, after the Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (A/OPR/ALS), had completed its analysis of updated data from post. OIG compared the 2016 data submitted by post with prior data and found that reported prices provided in 2016 actually decreased overall, which should have led to a decrease—not an increase—in the post allowance rate. After discussions with A/OPR/ALS and the contractor who operates the system used to analyze price data, the contractor reanalyzed the 2016 data and informed OIG that the post allowance rate should have decreased from 25 percent to 20 percent (rather than increasing to 42 percent).

This error occurred because data on the value added tax (VAT) and sales tax were inconsistently and improperly applied during analysis. For allowance rates to accurately reflect the prices of items purchased by employees, A/OPR/ALS must consider VAT and sales tax information. The A/OPR/ALS analyst subtracted VAT percentages from certain item prices. However, additional sales tax (which was not applicable for Germany) equal to the VAT amount, was incorrectly added back into the cost analysis. As to other items, the analyst did not remove the VAT and moreover applied sales tax, at a rate of 19 percent. These errors caused Berlin's 2016 data to be overstated because the analyst, in effect, did not consistently subtract the VAT as intended and further increased the cost of other items.

If A/OPR/ALS corrects the inaccurate post allowance rate for Berlin, OIG estimates that the Department of State (Department) would save approximately $1.1 million over a 2-year period. In addition, OIG estimates the Department would save approximately $44,000 over a 2-year period for Consulate General Dusseldorf because Dusseldorf's post allowance rate is dependent on Berlin's post allowance rate determination. Further, because A/OPR/ALS determines the post allowance rate for all Federal employees stationed overseas, including employees from other Federal agencies, other agencies could also put funds to better use when the post allowance rate is corrected.

OIG is continuing to conduct audit fieldwork related to the objectives of the audit of select cost-of-living allowances and is reviewing additional post data and A/OPR/ALS analyses. However, the purpose of this Management Assistance Report is to report the erroneously calculated post allowance rate to Department officials so that it may be corrected in a timely manner.

In its response to a draft of this report (Appendix A), A/OPR/ALS stated that it would take steps to address the two recommendations offered. Accordingly, OIG considers both recommendations resolved, pending further action consistent with the language and intent of

those recommendations. OIG notes that it modified Recommendation 2 to ensure collaboration with the Bureau of the Comptroller and Global Financial Services, as requested by A/OPR/ALS. A/OPR/ALS's response and OIG's reply are presented after each recommendation in the Conclusion section of this report.

# BACKGROUND

Federal law[1] authorizes Federal employees to receive cost-of-living allowances to cover certain costs incurred while stationed in foreign areas. One such allowance is a post allowance.[2] A post allowance is granted to Federal employees officially stationed at an overseas post where the cost of living, excluding housing costs, is substantially higher than that in Washington, DC.[3] A post allowance is designed to permit employees to spend the same portion of their salaries for their standard living expenses as they would if they were residing in Washington, DC.[4] The post allowance amount paid to each employee is calculated by multiplying the post allowance rate by the employee's spendable income, which is determined on the basis of the employee's annual salary and family size.[5]

## Post Allowance Rate Determination Process

The Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Allowances (A/OPR/ALS), is responsible for developing and coordinating policies, regulations, standards, and procedures to administer Government-wide allowances, including post allowance. A/OPR/ALS is responsible for calculating and publishing post allowance rates for U.S. Government civilians assigned to foreign areas. It determines post allowance rates based on information provided by the posts. The Department of State Standardized Regulations (DSSR) detail the procedures overseas posts should follow to prepare and provide data[6] that A/OPR/ALS officials use.[7]

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

[2] Other cost-of-living allowances include education allowance, separate maintenance allowance, foreign transfer allowance, home service transfer allowance, and educational travel allowance.

[3] Department of State Standardized Regulations (DSSR), Section 220, "Post Allowance." The DSSR governs allowances and benefits available to U.S. Government civilians assigned to foreign areas.

[4] Foreign Affairs Manual, 3 FAM Exhibit 3210, "Allowance References Table."

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

[6] DSSR, Section 070, "Reporting Requirements."

[7] DSSR, Section 074, "Reporting Data for Post Allowances and Per Diem Allowances."

Every 2 years, each post prepares a retail price schedule (RPS) to provide data related to the cost of various items at the post,[8] as well as information regarding tax applicability and tax procedures specific to the post. Post personnel submit the RPS electronically using eAllowances, a web-based software.[9] A/OPR/ALS analysts use eAllowances to calculate a post allowance rate based on information reported in the RPS. To determine the comparative cost of living in Washington, DC, eAllowances also uses data obtained from the Department of Labor, Bureau of Labor Statistics.

Once an A/OPR/ALS analyst determines a rate using eAllowances, a supervisor reviews the analysis and resulting rate; the office director then certifies the rate for publication in the DSSR.[10] Following the director's certification, A/OPR/ALS communicates the post allowance rate to the affected posts and to the Bureau of the Comptroller and Global Financial Services (CGFS) so that the information can be entered into the payroll processing system. Employees receive the post allowance as part of their bi-weekly pay.

After A/OPR/ALS publishes a post allowance rate in the DSSR, A/OPR/ALS is also responsible for bi-weekly evaluations of the exchange rate at posts, which may affect the post allowance rate. A/OPR/ALS publishes updated post allowance rate changes as a result of its evaluation of exchange rates in the DSSR.[11]

## Embassy Berlin and Consulate General Dusseldorf

U.S. Mission Germany includes Embassy Berlin and five consulates: Dusseldorf, Frankfurt, Hamburg, Leipzig, and Munich. Each post submits a separate RPS to A/OPR/ALS except for Consulate General Dusseldorf, whose post allowance rate is dependent on Embassy Berlin's RPS and post allowance rate determination. Embassy Berlin paid approximately $2.9 million in post allowance to 129 employees from FY 2013 to FY 2015, and Consulate General Dusseldorf paid $97,991 to 4 employees during the same period.

## Purposes of the Management Assistance Report and Ongoing Audit

This Management Assistance Report is intended to provide early communication of deficiencies the Office of Inspector General (OIG) identified during its audit of select cost-of-living allowances,[12] which is currently underway. The primary objective of the audit is to determine whether the Department of State (Department) established appropriate cost-of-living rates for employees living overseas. OIG is reporting these deficiencies in accordance with generally

[8] Items are included in several categories such as groceries, clothing, and recreation.

[9] Geneva Software, Inc., developed the eAllowances system, under a contract with the Bureau of Administration and is responsible for its operations and maintenance.

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

[11] Ibid.

[12] The audit was announced on March 16, 2016.

accepted government auditing standards. In performing the work related to these deficiencies, OIG interviewed A/OPR/ALS and eAllowances contractor officials, tested item prices in the 2013 and 2016 Berlin RPS and data contained within the eAllowances system, and reviewed applicable criteria and supporting documentation. OIG believes that the evidence obtained provides a reasonable basis for the deficiencies identified in this report.

# RESULTS

During its audit of select cost-of-living allowances, OIG identified a discrepancy with the post allowance rate effective April 3, 2016, for Berlin, Germany. The rate increased from 25 percent in March 2016 to 42 percent in April 2016, after A/OPR/ALS completed its analysis of an RPS from post. After discussions about this issue with A/OPR/ALS officials responsible for the analysis and the eAllowances contractor, the contractor re-analyzed the data and informed OIG that the rate should have decreased from 25 percent to 20 percent (rather than increasing to 42 percent). OIG found that the error occurred because data on the value added tax (VAT)[13] and sales tax were inconsistently and improperly applied during analysis. If A/OPR/ALS changes the incorrect rate, the Department could put an estimated $1.1 million to better use over 2 years. In addition, OIG estimates that the Department would save approximately $44,000 over a 2-year period for Consulate General Dusseldorf.

## Embassy Berlin Post Allowance

The post allowance rate in effect for Berlin in March 2016 was 25 percent.[14] On January 22, 2016, Embassy Berlin submitted a new RPS[15] as required. As a result of its analysis of the data provided by post, A/OPR/ALS published Berlin's new post allowance rate—42 percent—effective April 3, 2016. OIG compared the 2013 and 2016 RPS data submitted by post and found that the reported item prices provided in 2016 decreased overall when compared with the reported item prices in 2013. This should have led to a decrease in the post allowance rate. Further, the exchange rate between the U.S. dollar and the euro had also improved during this time period, meaning that items were relatively less expensive. OIG discussed the inconsistencies with A/OPR/ALS officials responsible for the analysis as well as with the eAllowances contractor. Following the discussion, the eAllowances contractor investigated the situation and determined that the system was operating correctly. In addition, the contractor recomputed Berlin's post

[13] The European Commission defines VAT as a consumption tax paid by the consumer that is assessed on the value added to goods and services. European Commission, "Taxation and Customs Union," <http://ec.europa.eu/taxation_customs/business/vat/what-is-vat_en>, accessed on September 8, 2016.

[14] A/OPR/ALS set Berlin's post allowance rate at 50 percent in November 2013 after the prior RPS had been submitted by post. However, the rate had changed 12 times between November 2013 and March 2016 because of changes in exchange rates.

[15] Embassy Berlin's RPS was due in November 2015; however, Embassy Berlin did not submit the RPS until January 2016.

allowance rate on the basis of discussion and concluded that Berlin's 2016 post allowance rate should have decreased from 25 percent to 20 percent, rather than increasing to 42 percent.

The error occurred because A/OPR/ALS did not consistently and correctly apply VAT and sales tax data during its analysis. For allowance rates to accurately reflect the prices of items purchased by employees, A/OPR/ALS must consider VAT and sales tax information. Specifically, A/OPR/ALS officials stated that when calculating a post allowance, VAT should not be included in the overall retail price of a given item if post employees are eligible for reimbursement of this amount. In that situation, the VAT is not an actual expense to the employee that could increase the cost of living overseas.[16] Further, the officials stated that when sales taxes are applicable and are not included in the reported prices, the analyst must add sales taxes to the item prices to account for employees' additional expenses.

In March 2016, the A/OPR/ALS analyst who reviewed the 2016 Berlin RPS requested clarification of how the VAT is applied in Berlin. Post personnel responded that Germany imposes a standard VAT of either 19 percent or 7 percent on items and that this amount is included in item prices submitted to A/OPR/ALS. However, post personnel also explained that all embassy employees could obtain refunds for any VAT paid, provided that individual invoices showed a total amount greater than 100 euros, including VAT.[17] The A/OPR/ALS analyst did not request clarification on sales tax because it is not applicable in Germany.

The A/OPR/ALS analyst stated in the post allowance rate recommendation memorandum[18] that the analyst subtracted VAT from certain items when calculating the post allowance rate. However, OIG found that, although the eAllowances system showed that the VAT rate was subtracted from certain item prices, additional sales tax, equal to the VAT amount, was applied to the same item prices. Further, the analyst also applied sales tax, at a rate of 19 percent, to items that did not have VAT removed. These errors caused Berlin's 2016 reported item prices to be overstated because the analyst, in effect, did not consistently subtract the VAT from the item prices as intended and further increased the cost of some other items. These errors were not identified by the A/OPR/ALS supervisor or office director who approved the analyst's work before publishing Berlin's new post allowance rate of 42 percent.

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[16] In 2011, OIG issued two reports finding that A/OPR/ALS did not consistently consider VAT refunds during post allowance rate determinations: *Inspection of Warsaw, Poland* (ISP-I-11-64A, September 2011) and *Inspection of Embassy Helsinki, Finland* (ISP-I-11-67A, September 2011). OIG recommended in both reports that A/OPR/ALS develop and implement procedures to factor VAT reimbursements into the post allowance rate determinations. OIG closed the recommendations because A/OPR/ALS stated that it would do so.

[17] Receipts from the same store on the same day can be combined to claim a total of 100 euros.

[18] The post allowance rate recommendation memorandum is a document prepared by an A/OPR/ALS analyst that summarizes significant changes from the prior RPS and proposes the new post allowance rate. The analyst's supervisor and office director review the memorandum and approve the rate prior to publishing the new post allowance rate.

OIG is continuing to conduct audit fieldwork related to the objectives of the audit of select cost-of-living allowances and is reviewing additional post data and A/OPR/ALS analyses performed in eAllowances to determine the root causes related to errors in the post allowance rate determination process. However, the purpose of this Management Assistance Report is to report the erroneously calculated post allowance rate for Berlin to Department officials so that it may be corrected in a timely manner.

# CONCLUSION

Embassy Berlin incurred $314,782 in post allowance expenses for Department employees from April 3 to July 23, 2016, (pay periods 7 to 14), after the effective date of the increased post allowance rate. If A/OPR/ALS had published the 20-percent post allowance rate, post allowance expenses for the same period would have been approximately $149,896. Because of variations in staffing levels at Embassy Berlin and unknown future exchange rates, OIG was not able to determine the exact amount of funds to be put to better use. However, OIG estimates that the Department would save $1.1 million over a 2-year period[19] if the 20-percent post allowance rate for Berlin were to be applied. In addition, OIG estimates that the Department would save approximately $44,000 over a 2-year period for Consulate General Dusseldorf. [20]

In addition, because A/OPR/ALS determines the post allowance rate for all Federal employees stationed overseas, including employees from other Federal agencies, other agencies could also put funds to better use.

**Recommendation 1:** OIG recommends that the Bureau of Administration a) recalculate the post allowance rate for Berlin to correctly apply data related to the value added tax and sales tax and b) update the post allowance rate for Berlin and other applicable posts within Germany accordingly.

**Management Response:** A/OPR/ALS agreed to recalculate the post allowance for Berlin "since the current rate has been called into question. To ensure the rate is as accurate as possible, we will ask post to update the survey data as it is approximately a year old."

[19] OIG used a 2-year period because of RPS submission requirements. See the Background section of this report for additional information about the RPS process.

[20] OIG based its estimate on the per pay period average "spendable income" for Embassy Berlin using 2016 pay periods 7 to 14. Spendable income was determined for each of these pay periods by dividing the post allowance expense by the post allowance rate of 42 percent, which averaged $93,685 of spendable income. OIG then applied the post allowance rate at 20 percent and subtracted this amount from the incorrect rate (42 percent) to obtain the additional post allowance expense of $20,611 per pay period. OIG then multiplied the difference over 52 pay periods (2 years) to determine the $1.1 million funds to be put to better use estimate. For Consulate General Dusseldorf, OIG calculated the additional post allowance expense to be $848 per pay period and multiplied that amount over 52 pay periods to determine the approximate $44,000 in funds to be put to better use estimate.

**OIG Reply:** On the basis of A/OPR/ALS's agreement to recalculate the post allowance rate, OIG considers this recommendation resolved, pending further action. OIG notes that it construes this response to mean that A/OPR/ALS agrees to recalculate the post allowance to address the incorrect information regarding VAT and sales tax as identified in this report. Postponing this process to incorporate RPS (survey) data would be contrary to the language and intent of this recommendation, which is to address the incorrect application of VAT and sales tax in the calculation of Berlin's post allowance rate and for the rate to be corrected in a timely manner. Moreover, OIG disagrees that the Berlin RPS (survey) data needs to be updated at this point. Embassy Berlin's RPS was submitted to A/OPR/ALS in January 2016. Updating the rate using Berlin's January 2016 data is within the 2-year cycle that A/OPR/ALS has established for posts to submit new RPS data. Berlin's next RPS is not due until April 2018. Requiring post to submit updated survey data would result in unnecessary waste of Embassy Berlin's time and resources. There is no need for Embassy Berlin to go through the burdensome process of submitting a new RPS when the data provided did not cause the issue. On the basis of the recomputed post allowance rate of 20 percent included in this report, OIG estimates that for each day A/OPR/ALS does not update the post allowance rate for Berlin, the cost to U.S. taxpayers is $1,533.

This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/OPR/ALS recalculated the post allowance rate and updated the post allowance rate for Berlin and other applicable posts within Germany.

**Recommendation 2:** OIG recommends that the Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, determine the amount saved (for at least the first pay period after application of the recalculated allowance), which over a 2-year period OIG estimated to be $1.1 million for Embassy Berlin and $44,000 for Consulate General Dusseldorf.

**Management Response:** A/OPR/ALS stated that it "will provide OIG with the difference between the old and the new rate once it is in place," but stated it cannot determine "how much will be saved or possibly how much it will cost" because they do not have access to the payroll system. A/OPR/ALS requested that OIG redirect Recommendation 2 to CGFS.

**OIG Reply:** Because A/OPR/ALS's response indicated that, if it had access to the appropriate data, it could determine the amount saved from implementing this recommendation and that it would provide OIG the difference in the rates, OIG considers this recommendation resolved. In addition, OIG agrees that CGFS should be involved in the savings determination and OIG has revised the recommendation. However, because the post allowance rate calculation is the responsibility of A/OPR/ALS, OIG did not "redirect" the recommendation. This recommendation will be closed once OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with CGFS, has made a determination regarding the actual amount saved.

# RECOMMENDATIONS

**Recommendation 1:** OIG recommends that the Bureau of Administration a) recalculate the post allowance rate for Berlin to correctly apply data related to the value added tax and sales tax and b) update the post allowance rate for Berlin and other applicable posts within Germany accordingly.

**Recommendation 2:** OIG recommends that the Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, determine the amount saved (for at least the first pay period after application of the recalculated allowance), which over a 2-year period OIG estimated to be $1.1 million for Embassy Berlin and $44,000 for Consulate General Dusseldorf.

# APPENDIX A: BUREAU OF ADMINISTRATION RESPONSE

United States Department of State

*Washington, D.C. 20520*

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October 18, 2016

**MEMORANDUM**

TO: OIG/AUD – Norman P. Brown

FROM: A/OPR – Harry Mahar

SUBJECT: Draft Management Assistance Report (MAR) – Bureau of Administration - Office of Allowances (AUD-FM-17-XX October 2016)

The Office of Allowances (A/OPR/ALS) has reviewed the subject draft and appreciates being provided an opportunity to offer comments. If you have questions or need additional information please contact the Office of Allowances Management Officer, Geoffrey Bishop, at (202) 261-8043.

**Recommendation 1**: OIG recommends that the Bureau of Administration a) recalculate the post allowance rate for Berlin to correctly apply data related to the value added tax (VAT) and sales tax and b) update the post allowance rate for Berlin and other applicable posts within Germany accordingly.

> **A/OPR/ALS Comment –** A/OPR/ALS agrees to recalculate the COLA for Berlin since the current rate has been called into question. To ensure the rate is as accurate as possible, we will ask post to update the survey data as it is approximately a year old.

**Recommendation 2**: OIG recommends that the Bureau of Administration determine the amount saved (for at least the first pay period after application of the recalculated allowance), which over a 2-year period OIG estimated at $1.1 million for Embassy Berlin and $44,000 for Consulate General Dusseldorf.

> **A/OPR/ALS Comment –** A/OPR/ALS will provide OIG with the difference between the old and the new rate once it is in place, but we cannot state how much will be saved or possibly how much it will cost because we do not have access to the payroll system. We request OIG redirect Recommendation 2 to the Bureau of the Comptroller and Global Financial Services.

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Drafted by: A/OPR/ALS – Cheryl N. Johnson
10/11/2016, (202) 261-8714

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