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August 2017

OFFICE OF AUDITS

Financial Management Division

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

What OIG Found

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

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

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

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

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OIG HIGHLIGHTS

AUD-FM-17-51

What OIG Audited

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

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

What OIG Recommends

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