

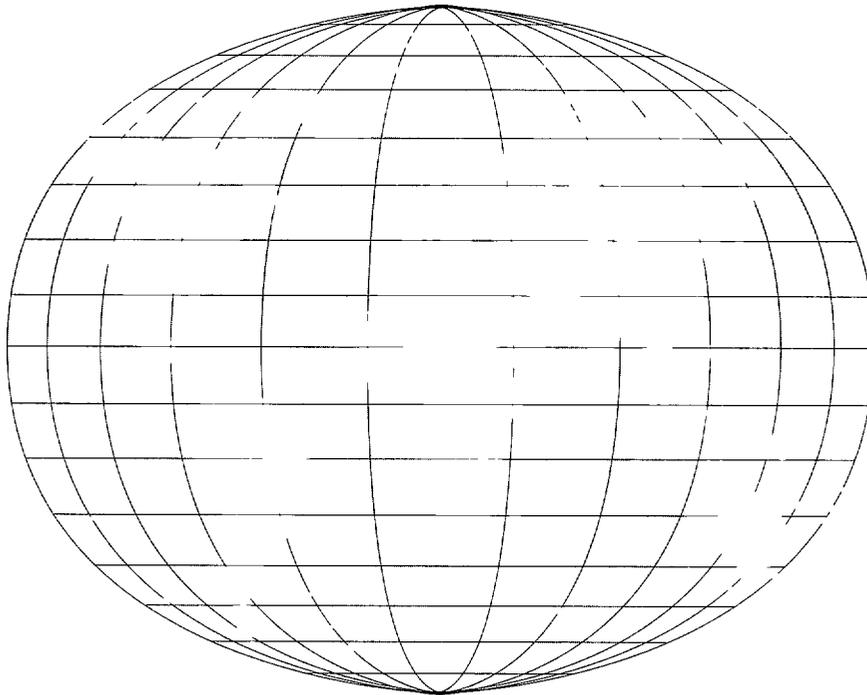
# Report of Audit

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## Audit of USAID/Jamaica Foreign Service National Severance Payments

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Report No 1-532-99-009-P  
September 27, 1999



Regional Inspector General  
San Salvador

**OFFICE OF INSPECTOR GENERAL  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

# Audit of USAID/Jamaica Foreign Service National Severance Payments

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U S AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

*RIG/San Salvador*

September 27, 1999

## MEMORANDUM

**FOR** USAID/Jamaica Director, Mosina H Jordan  
**FROM** RIG/A/San Salvador, Timothy E Cox *Steven H. Butler for*  
**SUBJECT** Audit of USAID/Jamaica Foreign Service National Severance  
Payments (Report No 1-532-99-009-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments on the draft report are included in Appendix II.

This report contains one recommendation for your action. Based on the information provided by the Mission, a management decision has been reached on this recommendation. A determination of final action for this recommendation will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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## Background

Although it is generally acknowledged that USAID world-wide expends large sums for foreign service national separation and severance pay (both voluntary separation and involuntary severance), the Agency does not compile explicit data to tabulate the total amounts. USAID does compile data for one component, voluntary separation pay, for which missions are required to fund their liabilities through a trust fund. In fiscal year 1998, USAID expended \$1.6 million for voluntary separation pay in 24 countries.

In Jamaica, there is no legal requirement or Embassy/Mission requirement for voluntary separation pay. However, USAID/Jamaica, in accordance with local legal

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requirements as well as the Embassy pay plan, does provide severance pay for involuntary separation. Currently, this is an important issue because USAID/Jamaica is undergoing a reorganization and realignment of its entire foreign service national staff (45 positions). Therefore, all of its positions will be reclassified and opened for competitive selection. The total contingent liability for involuntary severance payments, as well as payments in lieu of advance notice of separation and accumulated bonus payments, amounts to about \$900,000, although the Mission expects to spend less than this amount.

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**Audit Objective** The purpose of this audit is to review the accuracy of past severance payments to determine if USAID/Jamaica has a vulnerability in the severance payment process. Specifically, this audit is intended to answer the following audit objective:

Are USAID/Jamaica foreign service national severance payment calculations accurate?

Appendix I describes the audit's scope and methodology.

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**Audit Findings** **Are USAID/Jamaica foreign service national severance payment calculations accurate?**

Yes, for fiscal years 1997 and 1998, USAID/Jamaica did calculate its foreign service national severance payments accurately. Nevertheless, we did identify a lack of written procedures that the mission needs to address. This item is discussed below along with our recommendation.

**Severance Payment Calculations Were Accurate**

USAID/Jamaica paid severance payments to five individuals during fiscal years 1997 and 1998. In addition to the actual severance payments, we also reviewed the Mission's payments in lieu of notice and accumulated bonus payments to these five individuals. The \$56,033 in actual severance payments was correctly computed. In addition, the \$6,754 in accumulated bonus payments was correctly computed. However, one of the five payments in lieu of notice had a small error. The Mission made \$3,779 in such payments, but it should have paid an additional \$2,368 to one individual who was incorrectly determined to be ineligible for a payment in lieu of notice.

**Mission Procedures Are Lacking**

The Mission does not have its own set of written procedures for severance payments. Instead, it relies on Embassy guidance for determining severance payments as well as

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payments in lieu of notice Although helpful, the guidance lacks specificity in several aspects such as exact calculation methodologies are not specified in determining weekly salary levels or, in the case of payment in lieu of notice, the use of base versus gross salary In addition, verification procedures are not specified In none of the five files reviewed, was there a documented verification by Mission officials such as a calculation worksheet with signatures by a preparer and a verifier

**Recommendation No 1 We recommend that USAID/Jamaica develop written procedures for severance payments that specify calculation methodologies and the verification process**

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## **Management Comments and Our Evaluation**

USAID/Jamaica agreed with the audit recommendation to develop written procedures for severance payments and has already implemented a spreadsheet to be used for all future severance calculations that documents the calculation methodology Based on USAID/Jamaica's response, a management decision has been reached for the one audit recommendation

USAID/Jamaica also made additional comments on various aspects of the report First, the Mission noted that the answer to the audit objective should be unequivocally positive We disagree As part of the audit, we reviewed the Mission's management controls to ensure that calculations were accurate We determined that the Mission had a weakness in its controls because it did not have written procedures

Second, the Mission noted that our identification of one minor error in determining eligibility for payments in lieu of notice be reflected as an item separate and apart from severance calculations We agree We deleted the reference to the minor error in the answer to the audit objective The other sections of the audit report already clearly distinguishes that, in addition to the actual severance payments, we also reviewed the Mission's payments in lieu of notice and accumulated bonus payments

Third, the Mission noted that the spreadsheet (with inaccurate formula assumptions) cited in our report was used by the Mission for estimating contingent foreign service national severance liability for budgeting purposes only We agree and consequently dropped this item from the audit report

Fourth, the Mission noted that the Controller's signature on the Personal Services Contracting Action Form (JF-62) should serve as adequate evidence of documented verification We disagree Although we presume that the Controller's signature was based on an examination of the supporting documentation and detail calculations, as the Mission stated, such documentation was in none of the five files reviewed, as our report stated Our recommendation, as well as the example spreadsheet provided by the Mission, clearly address the need to document the calculation methodology and the verification procedures for each future severance payment

**Scope and  
Methodology****Scope**

The Office of the Regional Inspector General/San Salvador conducted an audit of the accuracy of USAID/Jamaica's severance payments for fiscal years 1997 and 1998 in accordance with generally accepted government auditing standards. For these two fiscal years, the Mission provided severance payments to five individuals. The audit reviewed \$66,566 encompassing three types of payments to these five individuals: (1) \$56,033 of actual severance payments, which was the largest component, (2) \$6,147 of notice pay for those individuals who received payment in lieu of notice, and (3) \$3,779 of accumulated, but pro-rated bonus pay. The audit was conducted at USAID/Jamaica from June 22, 1999 through June 25, 1999.

**Methodology**

The purpose of this audit was to determine if the Mission had a vulnerability in computing accurate foreign service national severance payments, especially in light of its large potential liability as it reorganizes its entire foreign service staffing. The audit entailed the review of the calculation methodology, verification procedures, and actual severance payments made in fiscal years 1997 and 1998. With regard to materiality, in order for the audit objective to be answered affirmatively, the Mission would have to have both (1) accurately calculated the severance payment in at least 80 percent of the cases and (2) accurately calculated the total dollar severance payments within 5 percent of the total.

In answering the audit objective, we interviewed officials as well as reviewed and tested documentation at USAID/Jamaica. Such documentation included organization chart, staffing pattern, severance plan, local labor laws, Embassy/Mission regulations and compensation plans, actual severance payment documents from fiscal years 1997 and 1998, and preliminary estimates of future severance payments. In regard to local labor laws and Embassy/Mission regulations, we reviewed those that could have a direct and material effect on severance payment calculations if not observed. We also reviewed applicable internal controls to obtain a sufficient understanding of the design of relevant internal control policies and procedures. The audit did not include an assessment of the risk exposure or the effectiveness of the internal control systems because the audit tested all foreign service national severance payments during fiscal years 1997 and 1998.

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Management  
Comments

## Memorandum

To: RIG/A/San Salvador, ~~Timothy E. Cox~~  
 From: Alexander Dickie, Acting Mission Director, USAID/Jamaica  
 Date: 09/23/99  
 Re: Audit of USAID/Jamaica FSN Severance Payments (Report No 1-532-99-xxx-P)

USAID/Jamaica appreciates the work of your staff in reviewing Mission procedures on payment of FSN severance. We have reviewed the draft audit report and would like to bring the following to your attention

- 1) According to the Scope and Methodology for this audit, USAID/Jamaica completely satisfied the audit objective and the audit answer should be unequivocally positive. The report should make this clear
- 2) The minor error for one employee noted in your report is not an error related to the subject of the audit, FSN severance payments. It was an error in determining eligibility for notice pay, which is separate and apart from all severance calculations. We recommend that, for the sake of accuracy, the report be amended to reflect this fact.
- 3) Your report discusses the spreadsheet used by the Mission for estimating contingent FSN severance liability. Since the spreadsheet was used for budgeting purposes and not calculation of payments, the minor differences in the calculation formulas were not considered material when compared to the other more significant variables. The Mission maintains the spreadsheet served its intended purpose and should not be discussed as a weakness in the report.
- 4) As pointed out during the auditor's visit, severance payments are processed like all other FSN salary and benefit payments and are critically reviewed by the Mission Controller at the time of payment request. Part of the Controller's review is an examination of the supporting documentation and detail calculations. As verified by the auditor, for the five payments made by USAID/Jamaica in the past two years, there was no mistake in the calculations. The Controller's signature on the Personal Services Contracting Action Form (JB-62) and the cable to Charleston FSC requesting payment should serve as adequate evidence of documented verification. Mission believes the report should be amended to reflect this fact.

Deleted -- Relates to Matter Not Included in Final Report

**USAID/Jamaica has taken a management decision to develop written procedures for severance payments and has implemented a spreadsheet that documents the calculation methodology. This spreadsheet will be used for all future severance calculations. An example spreadsheet report is attached.<sup>1/</sup> Mission will request a determination of final action from the Office of Management Planning and Innovation (M/MP/MI) under separate memo by no later than 9/30/99**

**Mission eagerly awaits your final report.**

1/ Due to privacy concerns, the example spreadsheet was not included