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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Report of Inspection

Review of Locally Employed Staff Compensation Issues

Report Number ISP-I-09-44, April 2009

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PURPOSE, SCOPE, AND METHODOLOGY OF THE INSPECTION

This review was conducted in accordance with the Quality Standards for Inspections, as issued by the President's Council on Integrity and Efficiency, and the Inspector's Handbook, as issued by the Office of Inspector General for the U.S. Department of State (Department) and the Broadcasting Board of Governors (BBG).

PURPOSE

The Office of Inspections provides the Secretary of State, the Chairman of the BBG, and Congress with systematic and independent evaluations of the operations of the Department and the BBG. Inspections cover three broad areas, consistent with Section 209 of the Foreign Service Act (FSA) of 1980:

- **Policy Implementation:** whether policy goals and objectives are being effectively achieved; whether U.S. interests are being accurately and effectively represented; and whether all elements of an office or mission are being adequately coordinated.
- **Resource Management:** whether resources are being used and managed with maximum efficiency, effectiveness, and economy and whether financial transactions and accounts are properly conducted, maintained, and reported.
- **Management Controls:** whether the administration of activities and operations meets the requirements of applicable laws and regulations; whether internal management controls have been instituted to ensure quality of performance and reduce the likelihood of mismanagement; whether instance of fraud, waste, or abuse exist; and whether adequate steps for detection, correction, and prevention have been taken.

METHODOLOGY

In conducting this review, the inspectors: examined pertinent records; as appropriate, circulated, reviewed, and compiled the results of survey instruments; conducted interviews; and reviewed the substance of the report and its findings and recommendations with offices, individuals, organizations, and activities affected by this review.



**United States Department of State
and the Broadcasting Board of Governors**

Office of Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. W. Geisel".

Harold W. Geisel
Acting Inspector General

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KEY JUDGMENTS

- U.S. embassies and consulates worldwide retain over 51,000 locally employed (LE) staff under local compensation plans (LCPs) in about 170 overseas missions. The U.S. is falling behind in providing a competitive compensation package for LE staff that is commensurate with their experience, technical skills, and responsibilities. Office of the Inspector General (OIG) survey data show that the U.S. Government is implementing average salary increases that are approximately 60 percent of what could be termed “prevailing practice.”
- The Compensation Management Division in the Office of Overseas Employment (HR/OE/CM) determines annual LE staff salary increases on the basis of labor market data, while the State Programs, Operations, and Budget Office of Bureau of Resource Management (RM/BP) determines the level of funding for salary increases using inflation data. HR/OE/CM salary determinations are not linked to RM/BP or other agency budget estimates, and the estimates from each office (HR and RM) are made at different points in the fiscal year. The regional bureaus concur with HR on the authorized increases to each post’s LCP and determine how funding provided by RM/BP will be allocated among posts.
- U.S. missions worldwide told the OIG team of their concerns about the current LE staff compensation review process, including discontent with off-the-shelf salary survey data, lack of transparency in the process, disparities between the salary and budget cycles, the use of outmoded and cumbersome communication technology, and the lack of interagency involvement and decision making.
- Survey respondents told the OIG team that HR/OE/CM was overworked and understaffed, and that the division provided inaccurate information and confusing and inadequate responses, required lengthy processing times for requests, and presented bureaucratic attitudes that appeared to be “obstructionist.”
- The extensive amounts of time and energy put into LE staff compensation reviews by HR/OE/CM to determine prevailing practice are largely annulled when the Department and other agencies cannot fund the suggested LE staff

salary increases.

- The Department does not have a central database to track and maintain data on the salary review process, and there is no Department-wide record to provide an overall picture of which salary increases are being implemented and when. There are no central records of the total LE staff compensation costs for each post, and whether the post is ahead of or behind prevailing practice.
- Although LE staff attrition has been a concern, the inability of overseas missions to recruit new, qualified staff may be a greater problem.
- The Department uses the same data to set pay scales for the complete range of locally hired employee positions, from unskilled blue collar workers to highly skilled and trained professional positions. There are a number of arguments that separate data and separate scales should be established for certain types of employees.

The review took place in Washington, DC, between September 1 and December 31, 2008. Anita Schroeder and Colleen Ayers conducted the review.

BACKGROUND

In the fall of 2008, U.S. embassies and consulates worldwide employed more than 51,000 LE staff in about 170 overseas missions. The total numbers of positions and staff for the Department and other Federal agencies are shown below:

	Department of State LE Staff Positions	Other Government Agency LE Staff Positions	Total
Occupied Positions	40,368	10,719	51,087
Vacant Positions	3,696	1,567	5,263
Total Positions	44,064	12,286	56,350

The LE staff is the backbone of diplomatic operations, providing management, programmatic, security, maintenance, custodial, and other services wherever the Department has established an overseas post. The Department's FY 2008 Management and Performance Challenges noted that, "the Department employs a workforce of almost 38,000 LE staff. At many posts, the adequacy and transparency of the local employee compensation and benefits packages are perennial and complex issues that affect LE staff morale and retention." The document further stated that the Department needed to strive to resolve these issues.

Respondents to an OIG survey agreed. They noted that while there is much talk about local empowerment and increased responsibility for LE staff, we often fall short in paying them a salary that is commensurate with their experience, technical skills, and responsibilities. As we push to empower, said some respondents, the Department must make a commitment to hire the best senior LE staff possible, which first requires a competitive compensation and benefits package. The respondents said it is also essential for the Department to recognize how much it depends on LE staff overseas — they are the Department's greatest and most important resource, and the backbone of its diplomatic efforts around the world. American officers who rotate in and out every 2 or 3 years are highly dependent on the local employees to bring them up to speed and make sure that the work of the mission does not falter just because a new manager has come in. Also, as the number of U.S. positions that are not filled continues to increase, LE staff are called upon to assume many of the responsibilities that U.S. staff have carried in the past. LE staff have the historical reference for a particular post, the contacts and know-how to operate within their country, and the specialized knowledge and expertise that make them invaluable to a mission. Other

respondents said that it is difficult to convince the LE staff that we understand and appreciate their importance to our worldwide operations when we often pay them less than they could get with other organizations, or in some cases less than a living wage.¹

¹ In the Retention and Recruitment of LE Staff section of this report, OIG lists the reasons why LE staff work for the U.S. Government. One of the reasons with a high level of importance is salary. In the report section entitled Inflation and Cost of Living, OIG provides examples of how salaries are falling short of minimal living standards.

REVIEW OF LOCALLY EMPLOYED STAFF COMPENSATION ISSUES

Inspection reports published by the Office of Inspections in the Office of Inspector General (OIG/ISP) throughout 2007 and 2008 noted numerous issues with LE staff salaries and benefits, including the inability of the U.S. Government to fund LE staff salary adjustments. The OIG teams also found situations in which embassies were losing staff to other employers, an occurrence often attributed to the inability of the Embassy to achieve pay parity with the local labor market. Some missions found that it was difficult to replace employees who left to take other jobs, particularly in countries with low unemployment rates.

In response to these matters, OIG undertook a special review of both the salary review process and the effects resulting from the lack of full LE staff salary adjustments. In interviews with Department and other agency officials, the OIG team found that representatives from a number of offices and agencies were concerned with the recruitment and retention of LE staff worldwide, and that the Department had initiated at least two activities to help resolve some of the issues.

FY 2009 LE STAFF SALARY FLOOR OF 2.9 PERCENT

In January 2009, the Department announced that effective with the FY 2009 continuing resolution financial plan for the Diplomatic and Consular Programs (D&CP) appropriation, Department officials had identified funds under the continuing resolution to support LCP increases. In determining the resources needed for this approach, RM/BP considered the HR/OE salary suggestions for posts, as requested by the regional bureaus. The FY 2009 funding availability was set at 3.9 percent at the Department level. Of this total, 2.9 percent was being provided for a minimum increase to those missions whose HR/OE-sanctioned salary surveys supported such an increase. The remaining funds up to the 3.9 percent level would be provided to the regional bureaus to assist those missions whose LCP gap was especially critical, resulting in recruitment and retention issues.

The announcement cable stated that closing the LE staff wage gap might require a combination of centrally provided funds and bureau funds. Functional bureaus funding LCP increases through non-D&CP resources would be expected to fol-

low regional bureau practice. Regional bureaus were designated to coordinate post actions in their respective areas and to provide a report on the proposed increases including any functional bureau concerns about any increase over 2.9 percent.

The OIG team encountered mixed reactions to the minimum 2.9 percent proposal when it was first presented in the fall of 2008. Some offices told the OIG team that, given the lack of adequate funding and the uncertain economic conditions throughout the world, they wanted more flexibility to spend the salary increase money where it was most needed, these offices preferred this method rather than distributing it more or less evenly across all missions, some of which are functioning smoothly even if salaries are falling behind local prevailing practice. A few markets in the world are deflationary, and salary increases may not be needed. Other offices expressed concern about the seeming contradiction between establishing a “floor” for LE staff salary increases on the one hand, and remaining true to the requirement that salaries be consistent with prevailing practice, on the other. However, the Under Secretary for Management noted that the approach was tied to prevailing practice in that it did not provide any adjustments that were not justified by the salary surveys.

LE STAFF COMPENSATION WORKING GROUP

In the fall of 2008, independently of this OIG review, the Department, in recognition of the disconnect in the manner in which LE staff salaries are determined and budgeted, instituted a working group whose primary goals are to strengthen the Department’s ability to recruit and retain qualified LE staff, and to synchronize annual compensation reviews with funding estimates and bureau decisions. The working group, a subgroup of the Regional Initiatives Council (RIC), is chaired by the administrative director of the Office of Management, Policy, Rightsizing and Innovation (M/PRI), and includes representatives of the regional executive directors, HR, other Department offices.

The working group has discussed possible ways in which the budgeting process for LE staff salary increases could be modified to coincide with the process by which salary increases are determined. The working group wants to develop a rational, consistent funding policy that will enable the Department to improve its ability to manage expectations. The group is also evaluating several approaches to LE staff salary adjustments, including:

- The potential for using target labor market position as a variable with which to reflect varying recruitment and retention factors at missions around the world by weighing both leading and lagging off-the-shelf quantifiable factors;

- The ability of the survey companies to vary their target labor market positions, and to inflate or project the previous year's data to predict future changes in salary levels;
- The calculation of the total cost of salary levels in Washington rather than at posts so that the Department can manage salary changes globally from year to year, identify trends, and project required funding based on survey recommendations;
- Whether the regional bureaus should be responsible for assigning dollar amounts for LE salary increases to their individual posts based on current circumstances and for ensuring that all bureau funds identified as being for LE staff salaries are actually spent on LE staff salaries.

While the LE staff compensation review process described throughout this report requires the final approval of all funding agencies, the Department has considered the processes of reviewing and determining LE staff compensation policies to be Department responsibilities, and has not involved other U.S. Government agencies in the planning process. This approach is consistent with the Foreign Service Act of 1980, discussed later in this report. The working group described above does not include representatives of other government agencies that employ LE staff overseas. Representatives of other agencies told OIG inspectors they did not believe their LE staff issues and interests were being fully considered by the Department, and that they wanted to be more involved in the entire process, not just in the final funding approval. OIG is informally recommending that the working group review the possibility of including members from other U.S. Government agencies that employ LE staff.

COMPENSATION PROCEDURES FOR LOCALLY EMPLOYED STAFF

THE OFFICE OF OVERSEAS EMPLOYMENT

HR/OE formulates policies, regulations, systems, and programs for the overseas employment of more than 52,000 LE staff and family members serving the Department and other U.S. Government agencies at some 170 U.S. missions abroad.² HR/OE develops policies and procedures for the full life cycle of employment including employee types and employment mechanisms, position classification, recruitment, compensation and benefits, performance management, and retirement and separation.

There are three divisions within HR/OE. These are policy and coordination, compensation management, and human resources management. The compensation management division (HR/OE/CM) is responsible for advising the foreign affairs community of the U.S. Government on the management of salaries, multiple benefits, and conditions of work specified in the LCPs for missions abroad. The division develops, authorizes, and monitors post administration of LCPs.

In its May 2007 report of the Inspection of the Bureau of Human Resources, OIG noted that HR/OE appeared to have too few employees. That report explained that with approximately 20 employees, HR/OE functioned like an Office of Personnel Management (OPM) for more than 38,000 LE staff from the Department and for thousands more LE staff from other Federal agencies. The report said that the excessive workload did not allow HR/OE's staff to complete all requests from posts in a timely manner. The May 2007 report recommended (Recommendation 29) that HR review the adequacy of staffing within HR/OE and adjust staffing based on the review.

Although the compliance responses from HR did not specifically address the recommendation's call for a review of the adequacy of staffing in HR/OE, the bureau did make efforts to fill existing vacancies and new positions in the office with staff

² The number of clientele for HR/OE shown above includes family members and other locally hired personnel not under the local compensation plan (LCP). This report covers only those LE staff under the LCP.

recruited from several sources. OIG determined that the bureau had undertaken intensive efforts to find personnel to meet the need with either permanent or temporary assignments, and concluded that the actions constituted compliance with the intent of the recommendation. OIG closed Recommendation 29 from the May 2007 inspection report.

In January 2009, the OIG team finds that of HR/OE/CM is not adequately staffed, both in numbers and training of staff, to meet its obligations. In a worldwide survey of overseas missions, the OIG team asked respondents to rate HR/OE/CM activities on a scale of 1 (low) to 5 (high) with respect to adequacy, accuracy, and timeliness of information pertaining to compensation and benefits services.³ Respondents rated the timeliness of HR/OE/CM responses as 3.03, with higher scores for adequacy (3.32) and accuracy (3.55) of information. The comments from management and human resource officers indicated that most believed the compensation analysts to be overworked and overburdened with unrealistic portfolios. According to the survey, although some analysts in HR/OE/CM did an admirable job of informing and updating their posts in a generally timely and accurate manner, a great many concerns remained, including:

- Instances of erroneous and inaccurate information sent by HR/OE/CM, including cables containing wage scales with numerous errors, leading to amendments and in other cases, wrongly authorized salary adjustments.
- Confusing, inadequate, and unhelpful responses from HR/OE/CM that missions characterized as mixed messages, out-of-touch with real-life conditions in the field, and incomprehensible.
- “Months and months” of time to process requests, requiring frequent post follow-up. Respondents noted that HR/OE/CM often did not respond, or offered “all kinds of excuses for delays,” from office reorganization to someone who had been on leave to having to deal with other urgent issues. U.S. missions noted that information was often old and out-of-date by the time it was received, and that at times it was not in line with precedence established by previous HR/OE/CM decisions. In other cases, HR/OE/CM did not respond to missions in time for them to implement an increase by the fixed effective date.⁴

³ OIG sent a written survey to overseas posts, and interviewed Department and other agency Washington offices. The results presented in this section are based primarily on the written survey responses from posts. Some Washington respondents believe that there is a lack of post expertise in LE staff matters, and that this lack of training and experience at post increases the demands placed on HR/OE/CM.

⁴ The fixed effective dates are scheduled dates throughout the year for the annual salary survey reviews for each post. The fixed effective dates are discussed later in this report.

- “Obstructionist” attitudes from some HR/OE/CM staff who are overly bureaucratic and inflexible, are rules oriented rather than results oriented, and who provide answers which tend to be legalistic and off target, simple recitations of the Foreign Affairs Manual (FAM), and generally not helpful. Others added that some HR/OE/CM analysts did not listen to valid disagreements, that their position on certain issues seemed to be illogical, and that there was a general level of distrust of HR/OE/CM.

The respondents to the OIG survey offered constructive comments on how HR/OE/CM might provide services that are of greater value to the field, including the need for HR/OE/CM to provide more specific guidance to the field regarding the LE staff compensation review process and to increase the amount of field training of post managers and LE staff. Some respondents noted that the HR/OE/CM staff generally lacked field experience and that providing such experience to current staff or hiring more staff with this experience would be of benefit. There were also suggestions that HR/OE/CM send the compensation analysts to the field to validate HR/OE/CM’s interpretation of the compensation survey data.

The OIG team believes that the four points given above (inaccurate information, confusing and inadequate responses, lengthy processing times, and bureaucratic attitudes that appear to be obstructionist), may be largely attributed to an insufficiency of HR/OE/CM staff, some of whom may lack relevant training and experience. There may also be management and organizational techniques that could improve HR/OE/CM’s ability to provide timely, accurate, and useful information. With this in mind, the OIG team believes that an organizational review of HR/OE/CM division, performed by an outside organization with international experience, would be useful. Such an analysis should include a review of the advisability of having compensation analysts handle both compensation and benefits issues, of what kinds of training and certifications the analysts should be required to obtain, and of how many analysts are required to handle HR/OE/CM’s compensation process in a timely and accurate manner. Due to conflict of interest issues, this outside contractor may not be one of the companies currently providing salary survey data to HR/OE/CM.

Recommendation 1: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, should hire an outside contractor with international experience to perform an organizational review of the Compensation Management Division of the Office of Overseas Employment to advise on the organization of the compensation management division and on how many analysts are required to handle the compensation management responsibilities, and to recommend training and certifications the analysts should obtain. (Action: HR, in coordination with M/PRI)

ANNUAL LE STAFF COMPENSATION REVIEW PROCESS AND IMPLEMENTATION OF RESULTS

The Foreign Service Act of 1980 states that “the Secretary shall establish compensation (including position classification) plans for foreign national employees of the Service and United States Citizens employed under section 311(c)(1). To the extent consistent with the public interest, each compensation plan shall be based upon prevailing wages and compensation practices . . .for corresponding types of positions in the locality of employment . . .” The Department has traditionally collected data from “comparator companies” in each country to determine prevailing practice. In recent years, most of the data on comparator practices has been purchased from two vendors, Watson Wyatt and Birches Group,⁵ although the Department continues to perform its own salary surveys in a few countries in which these commercial vendors are not active.

HR/OE/CM requests information from each post in the annual LE Staff compensation questionnaire. HR/OE/CM then compares this information to data from Birches Group and Watson Wyatt on salaries paid by comparator organizations and determines proposed ceilings for LE staff salaries in line with prevailing practice. If the comparator salaries are below what the mission is paying, no adjustment is suggested. However, when comparator salaries are greater than those paid by the U.S. Government at that post, increases may be proposed for each salary grade.

The comparison process performed by HR/OE/CM compensation analysts is complex, and involves such issues as whether comparator salaries are paid in dollars or local currency, whether the salary information provided is net or gross, whether the employer pays taxes for the employees, whether the information is annual or based on some other period of time, what the work week is, what cash allowances and benefits are provided and how these are distributed among the different grades, what bonuses are given by comparator employers, whether seniority bonuses are provided, what holidays are provided, etc. It also involves evaluating and classifying positions to create comparator grades.

The compensation management division employs six compensation analysts to handle compensation duties for 170 missions. Four of these are senior analysts, and the other two are trainees. According to HR/OE, a compensation analyst might be able to handle 15 to 20 different posts, but the ideal would be 10 posts per person if

⁵ Watson Wyatt and Birches Group are vendors of off-the-shelf data on salaries and economic conditions in various foreign countries.

the analyst is thorough and does the job well. It takes about 2 weeks to perform an annual salary review, and there are other duties, as well. Currently a senior compensation analyst may be assigned up to 50 posts at a time.

HR/OE/CM analysts make appropriate adjustments and send what is called the “FYI Cable” to post outlining the “ceilings” or maximum compensation rates post may pay as compared with prevailing practice. After review by all agencies employing LE staff, the mission determines the amount of increase to the LCP, if any, that management can authorize within the current budget. HR/OE/CM asks posts to consider the degree to which the current LCP measures against the comparators in the local labor market, the need for the post to give an increase to remain competitive in the local labor market, the post’s current year budget limitations, and the annualized cost of the wage increase. Although HR/OE receives information on the first two of these considerations in the annual LE Staff Compensation Questionnaire, at no time does HR/OE have previous knowledge of budget considerations that will affect implementation of proposed compensation rates.

The mission review of the proposed compensation adjustments can result in across-the-board increases of the same amount or percentage for each grade level, rather than the specific grade level increases suggested by HR/OE/CM. This approach to making the increase percentages “uniform” may result in overcompensation for some grade levels, and under compensation for others, when compared to the original amounts determined by HR/OE/CM.

The mission sends the proposed revisions of the LCP to the Department regional bureaus for approval, with confirmation that funding is available from post’s current budget allotments. All agencies at post and all portions of the Department with separate funding allotments must agree to any proposed revisions.

HR/OE/CM approves the post request and sends an authorization cable to mission management documenting the revised salary schedule and any changes to the separately paid allowances and benefits. The cable also provides the earliest possible implementation date. The regional bureaus, as well as the U.S. headquarters representatives for other U.S. agencies present at post, must clear the outgoing cable.

When the post receives the authorization cable, all agencies approve and sign the new LCP, which is sent to the post payroll facility and the new salary rates are implemented. Following implementation, the post updates the LCP, which is sent to HR/OE/CM. At that point, HR/OE/CM is informed of the date of implementation, as well as the actual salary adjustments implemented.

FUNDING AND BUDGETING PROCESS FOR LE STAFF SALARY INCREASES

RM/BP is responsible for budgeting and funding LE staff wage increases. While HR/OE provides 1-year projections of LE staff salary increase requirements, RM/BP must formulate resource needs on a 3-year basis. RM/BP uses econometric consumer price index projections from Global Insight, a commercial entity, for this purpose; these data are available for all posts globally on a same-day basis.

Regional bureaus and posts develop initial International Cooperative Administrative Support Services (ICASS) targets for the upcoming fiscal year beginning in late August of the current year. These initial targets must be approved by the interagency ICASS Budget Committee. RM/BP provides the regional bureaus and posts with a post-by-post breakout of projected LE staff salary increases in August so that posts have the projected LE staff salary increase for the initial ICASS target setting process. In recent years, RM/BP reports that the ICASS Budget Committee has been reluctant to approve changes to the initial targets once they have been approved. Thus it is difficult to adjust LE staff salary increase amounts once a fiscal year begins.

Within the resources available, RM/BP has generally given regional bureaus great discretion in determining how LE staff salary increases will be funded and implemented. In this process, RM/BP expects bureaus to adhere to the specific purpose for which financial plan adjustments and advices of allotment are provided, and not to divert funds to other priorities within the bureau. In order to ensure that resources to support LE staff salary increases provided in the FY 2009 Continuing Resolution Financial Plan go to the posts for this purpose, RM/BP, HR/OE, and M/PRI are requiring a detailed implementation plan from the regional bureaus that specifies the level of funding to be provided on a post-by-post basis. This level of funding must be commensurate with the actual financial plan adjustments provided to support LE staff salary increases.

RELATIONSHIP BETWEEN HR/OE/CM AND RM/BP

HR/OE/CM determines the range of possible LE staff salary increases according to a fixed annual schedule, using labor market data in its analysis. RM/BP uses an econometric forecasting service to determine the rates of inflation on a post-by-post basis. RM/BP formulates the level of resources for the Office of Management and Budget (OMB) budget submission and financial plan according to year-on-year per-

centage changes in the inflation rate forecasts. When drafting a financial plan for the fiscal year, RM/BP looks at the HR/OE/CM surveys as well as global inflation rate reports purchased from Global Insights.

A number of OIG contacts within the Department questioned the use of two different types of data—the inflation data and the cost of labor data—in this process. As explained by HR/OE/CM, the cost of labor is different from “inflation” and the rate of inflation does not necessarily track with the cost of labor. Other OIG contacts reflected that although the two offices used different data sources and different methods, the amount determined by RM/BP was usually a realistic and manageable figure, particularly given funding limitations that rarely meet the Department’s requests.

The OIG team obtained the projected 2008 inflation rates, based on rates from June 2007, used by RM/BP for financial planning and compared them to the data it received from 116 posts in the OIG survey that last received an increase in 2007 or 2008. (Zimbabwe was eliminated due to the uniquely high inflation rate.) Ideally, the proposed increase from HR/OE and the projected financing rate used by RM/BP would be fairly close to equal. However, when comparing the inflation rates used by RM/BP for financial planning, the proposed increase for a post was on average 6.7 percentage points higher than the inflation rate, meaning that the budgeted amount falls short of what has been identified as prevailing practice.⁶ While some posts had proposed increases less than the inflation rate, and therefore more funding budgeted than needed, this only accounted for about a quarter of the posts. The full results of the comparison are below:

Difference between LE Staff Proposed Increase and Inflation Rate⁷	Number of Posts	Percent of Posts
Proposed Increase is Less Than Inflation Rate	29	25%
Proposed Increase is Equal to or Greater Than Inflation Rate	87	75%
Proposed Increase is Within 1 Point of Inflation Rate	17	15%
Proposed Increase is More Than 5 Points Greater Than Inflation Rate	49	42%

⁶ RM/BP reports that recent annual appropriations for D&CP have been growing at less than U.S. inflation, especially when exchange rates are taken into account. Such circumstances greatly limit the ability to increase overall LE staff wages by six to eight percent annually.

⁷ These calculations do not account for further adjustments made by RM/BP, for instance to account for hyperinflation.

The HR/OE/CM salary determinations are not linked to the budgets of the funding bureaus and agencies. When the missions get the information from HR/OE/CM on possible salary adjustments, funding offices do not have advanced notice. Then when the post queries the funding office about availability of additional money, that entity must find the resources from its fixed allotment. Some offices suggested to the OIG team that this process was backwards, and that HR/OE/CM should provide salary adjustment estimates directly to RM/BP for input into the Department budget.

The timing issues for LE staff salary increases are also problematical. RM/BP determines the level of budget requests, and Congress and OMB determine when the Department will receive funding, on one schedule. HR/OE/CM requests salary survey data on another schedule that is ongoing throughout the fiscal year. The level of funding given to the Department and subsequently allocated to the bureaus and posts has generally been lower than that requested, and the posts are already behind in implementing the increase when they eventually receive funding.

Requests for funding to support LE staff salary increases have historically been included in the Department's budget year submission. During development of the Department's financial plan, the budget year projected LE staff wage increases are updated using the latest Global Insight inflation projections. RM/BP allocates funding for LE staff wage increases to the regional bureaus and provides a detailed post-by-post breakout of the calculated wage adjustments to the regional bureaus and to other bureaus within the department that must fund LE staff salary increases.

Regional bureaus and posts are expected to execute their budgets within the amounts provided. Slight variations from the initial forecasts are not reimbursed or withdrawn from posts' allotments later in the fiscal year. RM/BP centrally addresses only significant changes in inflation rates during periodic financial plan reviews conducted throughout the year.

FY 2008 was an anomaly year, and LE staff increases were not included in the Department's financial plan due to funding constraints and record exchange rate losses that the Department was required to fund. However, some bureaus were able to fund some FY 2008 LE staff salary increases in spite of these limitations.

A third aspect of the relationship between HR/OE/CM and RM/BP is the lack of ownership in either of the offices for what salary increase levels are eventually achieved and when they are implemented. Each office has partial information, but not the whole picture. HR/OE/CM is in contact with posts regarding decisions related to LE staff wage increases. RM/BP consults with the regional bureaus on anticipated and actual LE staff wage increases. Outside of the Executive Office,

Bureau of European Affairs (EUR-IO/EX), the OIG team did not find that the salary levels eventually determined and their implementation date were systematically tracked anywhere in the Department. The OIG team believes that the Department has an obligation to the LE staff and to the other U.S. Government agencies it serves, to establish responsibilities for this process.

The OIG team believes the working group described earlier is well suited to review current Department procedures with respect to LE staff compensation and to make recommendations and institute improved methodology. In order to provide the working group with a more solid basis, to ensure that the work of the group continues throughout the upcoming change in administrations, and to enable the group to make its findings known throughout the Department, the OIG team is making the following formal recommendation.

Recommendation 2: The Office of Management, Policy, Rightsizing and Innovation, in coordination with the Bureau of Human Resources and the Bureau of Resource Management, should ensure that the working group on locally employed staff compensation reviews the connectivity between the activities of the Office of Overseas Employment and the Office of State Programs, Operations and Budget in the Bureau of Resource Management, and makes and distributes written, documented determinations as to the data used by the two offices to make estimates of LE staff compensation adjustments, the timing of these activities, and the responsibility each office has for tracking implementation of locally employed staff compensation adjustments. (Action: M/PRI, in coordination with HR and RM)

Some of the OIG team contacts within the Department suggested that the activities of HR/OE/CM and RM/BP related to LE staff salary levels and their funding should be unified. Such a step might centralize decision making for LE staff salary increases, and take such decisions out of post control. The OIG team believes this is an idea that the Department might consider. The OIG team is informally recommending that the working group review this idea and, whether it is eventually implemented or not, make a determination as to its value, document the decision in writing, and distribute the decision widely in the Department.

OTHER ISSUES WITH THE LE STAFF COMPENSATION REVIEW PROCESS

The OIG team conducted a worldwide survey of overseas missions in November and December 2008. A total of 152 posts responded to the questionnaires, and the following sections refer to these responses. In general, about one-fifth of the responding posts gave HR/OE high marks for timely, helpful answers, as well as for being responsive and supportive. These respondents noted that they had good working relationships with HR/OE, and that the compensation analysts had been helpful, and had provided excellent guidance and valuable advice. The respondents generally appreciated the site visits that HR/OE/CM staff made. However, the overwhelming majority of post respondents were more critical, raising and describing in great detail the negative issues presented below.

This section presents a number of connected issues. In order to consider the problem in its entirety, the OIG team has not included individual recommendations for each subject in this section. Recommendations regarding these topics were consolidated and presented at the end of this section.

Accuracy and Usefulness of Data Purchased from Vendors

As noted previously, much of the information upon which salary determinations are made for LE staff worldwide is purchased from commercial vendors. The two major companies are Watson Wyatt, used mainly in Europe, East Asia, and parts of the Near East and South Asia; and Birches Group (formerly United Nations Development Program, used primarily in Africa, the Western Hemisphere, and parts of the Near East and South Asia.

Watson Wyatt describes its services as including “in-country” reports for Asia/Pacific and European and Middle Eastern countries, with market data for a varying number of positions. Most of the reports contain information for each position on salaries, bonuses, allowances, and total cash compensation. Watson Wyatt data are market position based, and the average desired market position can be specified for each post. In this regard, HR/OE/CM defines the 50th percentile as moderately competitive; the 75th percentile as highly competitive; and the 90th as aggressively competitive. HR/OE/CM asks missions to select their desired market position percentile. Watson Wyatt uses franchises in some countries, and the quality of the data can vary.

years' outcomes, is about 2 weeks of analyst time per post. The OIG team questions whether in trying to be exact and precise in reaching estimates of prevailing practice compensation levels, the system is not losing sight of other objectives, such as efficiency, credibility, and effectiveness in recruiting and retaining locally employed staff. For example, on occasion the data used by HR/OE/CM in its analysis are not current or the projected implementation date is so far removed from the date of the salary survey or analysis, that the data must be aged. This step might be eliminated if the analysis could be completed more quickly. The OIG team also believes that it is time to re-examine the definition of prevailing practice, and to re-determine if all of the steps the Department is currently taking to meet the definition are truly necessary.

Another area in which transparency is lacking is in the linkage between the proposed salary adjustments and the budget process. This issue is described in another section, but the point that is important here is the seeming inconsistency between soliciting post's input on desired market position and then basing the eventual salary adjustment decision on availability of funding.

A final area in which transparency is lacking is in the communication between HR/OE/CM and the missions with regard to other activities associated with the compensation review process. In the OIG survey, posts questioned why HR/OE/CM changed survey vendors without discussing the step with the posts. Other posts noted the general lack of explanations from HR/OE/CM, along with a disregard for post comments and questions.

Inflation and Cost of Living

The Foreign Service Act of 1980 (FSA) ties LE staff salaries to prevailing wages and compensation practices for corresponding types of positions in the locality of employment. The FSA does not require that wage adjustments be associated with inflation and cost of living changes, and the Department does not link LE staff compensation adjustments to variations in inflation or cost of living. However, a number of overseas posts are located in countries with high inflation rates, and other missions encounter the usual worldwide inflation of recent years.

Post management officials are constantly requested by LE staff to explain why the Department does not incorporate inflation and cost of living data into its calculations for LE staff compensation adjustments. The lack of HR/OE attention to inflation changes is confusing to LE staff, particularly since RM/BP bases its projected budget figures on inflation data. Management officers responding to the OIG survey frequently included this issue—explaining the basis for suggested compensation

adjustments to LE staff—as the biggest challenge in the compensation process. OIG inspectors believe that one of the factors in the perennial “lack of transparency” complaint is the Department’s apparent ongoing disregard for cost of living matters.

Over and over, respondents to the OIG survey raised the issue of the significance of inflation concerns to LE staff. When asked whether salaries cover basic living expenses, half of the respondents commented that inflation affected the ability of employees to cover these expenses.⁹ As one respondent put it, “Even though HR says our salaries are not based on inflation, our lives and economic situation are.”

Aside from inflation, 38 percent of the management officers and 64 percent of the LE staff representatives responded that the local compensation plan was not sufficient to meet basic living expenses for lower grade employees. Some of the comments for these responses only noted that the LCP did not provide various allowances, or that the allowances were far short of reality. However, 27 missions presented compelling arguments that their lower grade employees fall short of minimal living standards. These arguments included accounts of LE staff:

- removing children from school
- cutting back to one meal a day
- sending children to sell water or little cakes or toiletries on the streets
- foregoing prescription medication because they cannot afford the co-pay
- resigning to move back to their hometown because they cannot afford to live in the post city
- sending their families back to their home country because they cannot afford to live in the host country
- the cost of rice for an average family equating to half the monthly wages of over 60 percent of the staff
- employees depending on salary advances and defaulting on loans in order to cover basic expenses
- grades 1 to 3 earning less than \$1.00 per day
- employees paying at least \$250 a month for a single room apartment with a salary of \$250 to \$400 a month
- up to 50 percent of salary being spent on groceries, and 40 percent on utilities
- salaries falling short of official poverty levels

⁹ Later in this report, we discuss posts with high attrition rates among LE staff. Five of the seven posts with high attrition rates in FY 2008 reported concerns with the ability of their employees to meet basic living expenses.

In a later section of this report, OIG discusses the effects of less-than-adequate compensation. About 25 percent of missions noted reduced productivity and lower efficiency as a result of inadequate compensation. Also, 32 percent of missions reported LE staff taking second jobs to cover their expenses. The challenges faced by all LE staff in meeting basic living expenses, but particularly by lower grade LE staff, provide insight into why these results are being reported.

Many respondents pointed out that the American employees at post have cost of living and inflation factored into their pay on an annual basis. The differences in how salary increases are initiated and implemented for American and LE staff are a point of tension, and make it difficult for post management to explain the compensation process to the LE staff. Respondents to the OIG survey made the following comments:

- It is hard to explain to LE staff why Americans receive raises and within grade increases every year, while the LE staff are at the whim of the annual survey and what other comparators are doing.
- Since local employees at Foreign Service missions do not receive across-the-board increases available to American Foreign Service and other Federal employees annually, there is a growing resentment of the fact that the American officers (already receiving housing and education subsidies and not paying local taxes) receive regular raises not tied to retention and recruitment figures as the local employee increases have been.
- Justifying to our LE staff the current unfair practice in which Americans get an automatic salary increase and LE staff do not (is the biggest challenge).
- Federal employees usually receive an annual pay raise; we should allow LE staff to have an annual pay raise, too.
- The LE staff should be guaranteed at least the raise that Federal employees get each year.
- Post human resources office believes that the establishment of an annual salary review process that, at a minimum, would guarantee the LE staff a cost-of-living adjustment equivalent to that of their counterparts in private industry (the post's comparators) would go a long way to addressing this challenge. Any further salary adjustments (i.e., over and above those required to keep track of the evolution of the cost-of-living, and to keep post's market position at the desired level) could then possibly be made subject to the availability of funds.

- It is entirely unfair for LE staff to see their American colleagues receive a January increase year after year and they receive nothing for 5 years and counting. Who wouldn't be demoralized watching this year in and year out? There should be some mechanism to give at least a token increase, if not yearly, then every second or third year so that you never have the situation this post has of no increase for 5 years.
- We firmly support the recent efforts in the Department to ensure that LE staff are treated equitably when it comes to annual salary adjustments. It is extremely difficult to explain why all Americans automatically receive an annual cost of living adjustment while the LE staff do not.
- The U.S. Government should have a compensation system in place that is fair and equitable to our own, and that recognizes LE staff contributions to our overall diplomatic goals and objectives.
- Due to the cumulative effect of different factors, purchasing power of the LE staff salary has decreased by at least 60 percent. On the other hand, all of those factors are taken into account when adjustments are made to American employees' salaries, a situation that causes justified discontent and frustration of the LE staff.

In recent years, the Department has implemented what might be termed "inflation increases" when higher increases based on prevailing compensation practices have not been affordable. One post respondent noted to the OIG team that if RM and the bureaus were going to do this anyway, then that should be incorporated into the process.

A Process That is Reactive Instead of Proactive

The respondents to the OIG survey characterized the LE staff compensation process as reactive rather than proactive. The respondents noted that "while the law says that we must not exceed the prevailing practice compensation levels,"¹⁰ it does not say that we have to wait until our well-trained employees decide to leave us in order to find fair wage. For example, posts reported that they could only get ERRs after a trained employee had left the position and the post was unable to hire a new employee at the same pay rate. In other words, the post could not increase the pay to keep the trained employee. Other agencies noted that the ERR process required positions to be recruited multiple times unsuccessfully before a salary review could be considered. Other respondents said that posts had been reluctant to request ERRs from HR/OE/CM, which was overly conservative in approving them. The result is a time consuming process that is deleterious to global program operations.

¹⁰ The law says that compensation shall be based upon prevailing wages and compensation practices.

Posts with fixed effective dates late in the fiscal year find that they must ask busy financial analysts in the employing agencies to calculate costs of possible increases when they do not yet have budget targets for the next fiscal year, while at the same time they are closing current fiscal year accounts. Posts that receive authorization cables in the fall noted that if they did not have firm budget figures for the next fiscal year before the response cable was due, they had to ask for an extension. Those posts with fixed effective dates early in a fiscal year are often faced with operations under a continuing resolution, and cannot obtain firm commitments from Washington offices for the funding of the recommended adjustments. However, it may be even worse if the fixed effective date is later in the fiscal year—some posts have been allotted central money to fund LE staff salary increases early in the fiscal year, but as a fiscal year progresses and money becomes tighter, posts with later effective dates found there were no longer funds from the central system to use for salary adjustments.

Respondents to the OIG survey presented arguments for making all salary adjustments on the same timeline. They suggested doing the salary surveys during the same 2-month period, and providing the information to the posts as early as possible in the fiscal year.

A Tale of Three Cables

As noted earlier in this report, correspondence between HR/OE/CM and the missions regarding proposed salary increases is conducted through cables. The three prescribed cables are:

1. The “FYI Cable” to post from HR/OE/CM outlining the ceilings or maximum compensation increases possible.
2. The post response, approved by the ICASS committee, containing revisions and confirming that funding is available for all agencies.
3. The authorization cable from HR/OE/CM to post management documenting the revised salary schedule.

It is important to note that this list does not include a cable confirming the final implemented salary adjustment and the date of implementation, although posts may send such a cable back to Washington.

Respondents in Washington and in overseas missions told the OIG team that the number of cables to and from posts scattered throughout the year made the salary review process cumbersome. Other respondents questioned the need for three separate cables, and the possibility of consolidating the communication.

There were two additional areas in which most respondents concurred. The first was the discrepancy between the numbers presented in the FYI cable showing maximum compensation rates and the numbers developed by RM/BP for budgeting purposes. The other was the air of secrecy that surrounds the proposed salary ceilings, and the impossibility of keeping the contents of an unclassified cable from rapidly becoming known around the mission. Since there is rarely sufficient funding to implement the original salary increase proposals, the LE staff expectations are frequently disappointed.

Although several posts noted that having the FYI cable slugged only for the chief of mission sometimes led to slowness in getting it to the management officer, or in its being overlooked and not being sent to the management office at all, this did not appear to be a general problem. However, the OIG team is informally recommending that HR/OE send the cable to the attention of both the chief of mission and the management officer.

Local Labor Law and Mandated Cost of Living Increases

The U.S. Government must deal with the disparities among local labor laws in the host countries in which it has facilities and local employees. The country-to-country differences lead to time-consuming analyses and interpretations. In a number of countries, the host government mandates annual salary increases to be effective on specific dates of the year. These dates do not always coincide with the fixed effective dates scheduled by HR/OE, and these distinctions sometimes lead to delays in implementing the mandated salary increases, another source of discontent among locally employed staff, as salary increases are not retroactive.

The Department is obliged to comply with prevailing wage and compensation practices, and to adhere as closely as possible to local labor law. Since not all comparator companies follow local labor law, there may be disparities between the pronouncements of the salary survey on “prevailing practice” and the provisions of host country laws.

Funding to Meet Prevailing Practice

The salary review process described in this report creates an annual¹¹ tension between what the salary survey says a post might pay its employees and what an employing agency can fund. In recent years, the U.S. Government has commonly given less than the maximum salary increase.

Although there is sporadic information on the inability in recent years of the U.S. Government to meet the salary levels listed as “ceilings,” the OIG team was unable to find within the Department any record of how far below the levels of prevailing practice the U.S. Government may have dropped due to funding shortages. However, the OIG team calculated the following results for the most recent LE salary increases for missions responding to our survey¹²:

- the average authorized LE salary increase amount was 63 percent of the proposed amount
- the average actual LE salary increase amount was 90 percent of the authorized amount
- the average actual LE salary increase amount was 57 percent of the proposed amount

Thus, it appears that the U.S. Government is implementing average salary increases that are approximately 60 percent of what could be termed “prevailing practice.”

Theoretically, the difference between prevailing practice and current salaries is remeasured each year in the new salary survey. However, there is a level of disbelief within the Department and from the field that the salary surveys are accurate enough to register this information.

Integration with Other Agencies and Funding Sources

The LE staff compensation review process involves all agencies and all Department funding sources that employ LE staff at a given post. Some agencies reported to the OIG team that they are not involved in the salary review process from the beginning, and that the results are sometimes presented to them as a “done deal” with which they are asked to comply. They noted that they would prefer to be better

¹¹ Some posts told OIG that their salary reviews occurred less often than annually. The Appendix to this report contains information on the frequency of LE staff salary increases

¹² These numbers use base salary rates. Basic salary rates and total compensation rates are discussed in the Appendix

integrated into the process earlier rather than later.

As discussed previously in this report, all funding entities represented at an overseas mission, and all Washington agencies and offices must agree on an LE staff compensation increase before it is implemented. Thus one agency or office with budget limitations can veto or downgrade salary increases for all LE staff at post. The OIG team believes that early involvement of all offices, bureaus and agencies that provide funding for LE staff salaries, would result in better budgeting and would resolve some of the delays in getting ICASS approvals for salary increases.

Several respondents from other agencies advised the OIG team of their interest in being more involved in salary surveys, particularly for higher grade LE staff. OIG contacts from other agencies also noted that management of the LE staff program should be considered a multi-agency responsibility, no longer under the sole purview and control of HR/OE. These contacts suggested that the Department, which already has instituted a successful interagency system with ICASS, extend the concept further and establish a senior level interagency LE staff board of governors to set overall LE staff policy. The OIG team is including these suggestions as an informal recommendation.

Summary of Issues

In light of the issues presented above—the discontent with off-the-shelf data, the inability to identify comparators acceptable to the posts, the lack of transparency in the process, the arguments for consideration of cost of living increases, the quality of being reactive rather than proactive, the inability to respond quickly to changing economic conditions, the disparities between the salary and budget cycles, the use of outdated and cumbersome communication technology, the difficulties of complying with mandated host country salary increases, and the ongoing inability to fund laboriously determined salary increases—the OIG team believes that the Department must look critically at revising the entire system, rather than trying to fix its individual parts.

The 2.9 percent salary increase “floor” initiated for FY 2009 will send a powerful message to LE staff worldwide that the Department and other agencies want to link the LE staff salary adjustments to the annual U.S. direct hire salary adjustments, which for FY 2009 will be 3.9 percent. However, there is no guarantee that this one-time initiative will continue in future years. The OIG team believes that the Department can and should develop a system of LE staff salary review that is consistent, efficient, and that resolves many of the issues that missions and bureaus have identified as problems with the current system.

The Department should institute some type of annual compensation increase within budgetary constraints that is consistent with the FSA, while eliminating or reducing the concerns with the salary review process outlined above. With this in mind, the OIG team proposes that the Department create a hybrid compensation review process, which we have termed the Bucharest Model,¹³ whereby every 5 years HR/OE/CM would review and adjust each post's salary schedule based on a recent salary survey. During the intervening years, the Department should authorize cost-of-living (or inflation) adjustments, to the extent funding is available, based on reliable inflation data. Each post should be given a minimum annual adjustment that fits within the Department financial plan, perhaps in the range of the 2.9 percent identified for FY 2009. The inflation increases should be announced in advance, in time for budget projections, and with suitable notice given to other funding agencies and offices. The Department may want to augment the inflation adjustments with additional funding for salary increases, to be distributed in a manner determined by the regional bureaus. Posts could request off-cycle salary surveys should conditions change rapidly and immediate increases be needed.

The benefits of such an approach are as follows:

- Performing salary surveys for each overseas mission every 5 years instead of annually would reduce the cost of the salary surveys. The money saved could be used to help defray the costs of LE staff wage increases, or to increase funding levels for HR/OE activities and staffing.
- Performing salary surveys every 5 years on a rolling schedule instead of every year lessens the workload of HR/OE/CM compensation analysts and allows them to spend more time on each post, schedule travel to their posts, and answer questions from the posts. Such a lessening of the pressure on HR/OE/CM will provide opportunity for the analysts to provide information that is accurate and responses that are helpful, and to process requests in a timely and courteous manner.
- The OIG team believes that one reason that HR/OE/CM has been criticized for lack of transparency and for being overly secretive is the great pressure on HR/OE/CM staff to deliver products they do not have time to develop, or for which they need additional training. Setting greater time intervals between the salary surveys would give the analysts more time to develop their responses, to take training (including customer service), and to provide detailed explanations to their customers.

¹³ Embassy Bucharest outlined this model. Other posts described similar ideas, but Embassy Bucharest's was the most complete.

- The 5-year cycle meets the terms of the FSA with respect to “prevailing practice.” The FSA does not specify annual verifications of conformance with prevailing practice, and even if it did, the Department is not now meeting such a requirement. The FSA states that “to the extent consistent with the public interest” each compensation plan shall be based upon prevailing wages and compensation practices. It is consistent with the public interest to discontinue a system that is costly and that requires extensive personnel time to administer, but in the end is disregarded when funding is not available, and to replace it with one that can reasonably be implemented within existing funding.
- The data currently collected by the off-the-shelf vendors have been described as inaccurate and inconsistent. Changing to a 5-year cycle will allow HR/OE/CM analysts more time to review the purchased data, to give post personnel a chance to examine the data, or to perform in-house salary surveys. Other complaints with the salary survey data have been the lack of suitable comparator companies and of comparable positions within those companies. Moving to a 5-year cycle would allow HR/OE/CM to look into the types of companies used as comparators, and to make changes.
- Another concern with the existing system has been the inability of HR/OE/CM to obtain salary data for high-level professional positions. Changing to a 5-year cycle would allow HR/OE/CM more time to obtain data regarding these positions through specific, individualized outside contracts or in-house surveys.
- The OIG team is recommending elsewhere in this report that the Department investigate the possibility of using different pay setting data and pay scales for blue-collar positions and for professional level positions. The change from one pay scale that combines the complete range of locally hired employee positions, to several different pay scales is a complicated step. It might more easily be undertaken with less pressure on the compensation division of HR/OE/CM to perform annual salary reviews.
- Respondents to the OIG survey criticized the U.S. Government for being reactive rather than proactive in adjusting LE staff salary levels. Performing 5-year reviews with annual updates would allow more attention to each salary review with quicker responses.
- Providing annual inflation adjustments would resolve a number of criticisms, including those having to do with providing U.S. direct hire staff, but not LE staff, with cost of living increases. Annual inflation adjustments would provide an opportunity for the Department and other agencies to demonstrate to the LE staff the level of appreciation for their commitment to the U.S. Government, and to do so within budget limitations.

- By providing annual inflation adjustments and periodic 5-year salary survey adjustments, the U.S. Government would be in a better position to respond in a timely fashion to changing economic conditions. The annual inflation adjustments could be combined with off-cycle salary surveys should additional salary increases be needed.
- Host country mandates for annual salary increases could be accommodated on the due dates, either as a substitute for, or in addition to, annual inflation increases.
- The 5-year cycle would eliminate the need for the fixed effective date system. The salary adjustment cycle could be brought in line with the budget cycle, so that both annual inflation increases and 5-year salary increases could be scheduled and implemented in a manner consistent with the budget process.
- The practice of first announcing the salary survey results and afterwards determining what the employing agencies might be able to fund would be eliminated. In addition, other agencies and funding offices would be able to budget for salary increase funding needs more efficiently and to respond to salary increase funding requests in a speedier manner.
- Should some countries enter into a deflationary environment, rather than the usual inflationary one, the annual inflation adjustments for missions in those countries could, with sufficient explanation, be withheld.

The Bucharest Model is not a cure-all that will resolve all the difficulties of the current LE staff compensation review system. In addition to implementing the OIG-recommended changes in the timing of the review process, a number of supplementary adjustments and accommodations will be required, and not all of them can be foreseen. The OIG team has also included several further recommendations in this report. Good faith efforts will be a necessity, as will establishing and adhering to a specific implementation schedule. However, the current system is inappropriate and inefficient, does not meet the requirements of the FSA, cannot be justified or explained, and cannot be regarded as professional treatment of an irreplaceable, valued group of employees.

Recommendation 3: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, should implement a locally employed staff compensation review process whereby the Office of Overseas Employment in the Bureau of Human Resources reviews and adjusts each post's salary schedule every 5 years based on a recent salary survey. During the intervening years, the Department should authorize cost-of-living (or inflation) adjustments based on reliable inflation data. (Action: HR, in coordination with M/PRI)

Recommendation 4: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, should implement a systematic process of providing comprehensive information to overseas missions, Department offices, and agency headquarters on periodic salary survey reviews, including but not limited to, comprehensible salary survey analyses, explanations of salary survey changes, and, if appropriate, copies of the off-the-shelf surveys for the host country. This approach should be documented and made a part of the periodic process. (Action: HR, in coordination with M/PRI)

NEED FOR A CENTRAL DATABASE

The OIG team found that none of the offices involved in the salary review process within the Department knew of or kept track of all steps in the process. HR/OE/CM does not know the funding levels of the missions or bureaus, and does not know the implementation date for a salary increase until the new LCP is entered into the HR/OE/CM database. The data kept by HR/OE/CM are not in a format to provide a broad picture, but must be called up one post at a time. The regional bureaus do not track and maintain data on the salary review process for their posts, and generally do not have information on which salary increases have been implemented.¹⁴ RM/BP does not know how the funding allotted by its bureau is used by the posts. Thus, there is no Department-wide record of which salary increases are being implemented and when. There are also no central records of the total LE staff compensation costs for each post, and whether the post is ahead of or behind prevailing practice. The OIG team believes that the Department should establish a database that tracks this information so that all bureaus and agencies involved—HR, the regional bureaus, RM, M, funding agencies, and others—can track the compensation review process and can determine whether the U.S. Government is fulfilling the intention of the FSA with regard to prevailing practice. This information could also be used in budget support documents sent to OMB and Congress.

Another function of such a database could be the centralization of information. As described earlier, there are three primary cables that travel between the Department and the post during the salary review process. The establishment of a database that could be accessed by HR/OE/CM, RM/BP, the regional bureaus, funding agen-

¹⁴ EUR-IO/EX, which maintains centralized control of the LE staff compensation adjustment process, does keep this information.

cies, and the missions, would be invaluable, particularly if budget estimates are available when posts, bureaus, and funding agencies review HR/OE/CM's salary increase proposals. The OIG team envisions a database that could replace the current system of communicating by cables.

Recommendation 5: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, the regional bureaus and the Bureau of Resource Management, should establish, maintain and monitor a database that tracks information related to locally employed staff compensation and adjustments, including budgetary resources, salary level ceilings calculated by the Office of Overseas Employment, salary levels requested by post, salary levels implemented, dates for these activities, and calculations of whether the Department is meeting prevailing practice. This database should replace the current practice of communicating salary review information by cable. (Action: HR, in coordination with M/PRI, the regional bureaus and RM/BP)

RETENTION AND RECRUITMENT OF LE STAFF

Each year, HR/OE/CM sends the LE staff compensation questionnaire for the next calendar year to missions around the world. The HR/OE/CM questionnaire solicits post management feedback on country specific local compensation needs and issues for LE staff paid under LCPs. The OIG team used the results of the LE staff compensation questionnaires for calendar year (CY) 2009,¹⁵ which were submitted by posts in May and June 2008, to examine attrition data. The OIG team supplemented this information with data from the OIG survey of missions conducted in November and December 2008.¹⁶

COMPARISON OF ATTRITION RESULTS FROM OE ANNUAL SURVEY AND OIG SURVEY

The results of the two surveys (one for CY 2007 and the other for FY 2008) showed that Foreign Service missions are not experiencing high attrition rates worldwide, and that, if they do have high attrition one year, this occurrence is not always followed by high attrition the next year. Only two posts, Embassies Reykjavik and Tallinn, had attrition greater than 10 percent 2 years in a row. Looking at attrition rates greater than 5 percent, nine posts had attrition rates that high 2 years in a row (Embassies Reykjavik, Tallinn, Manama, Bucharest, Riga, Tajikistan, Oslo, Kazakhstan, and Moscow). More information on these attrition rates is located in the Appendix.

The average attrition rates for the five geographic areas were as follows:

Bureau	Average Attrition Rate from LE Staff Compensation Questionnaire CY 2007	Average Attrition Rate from OIG Survey FY 2008
AF	2.14 %	2.45 %
EAP	1.67 %	1.74 %
EUR	3.85 %	4.45 %
NEA/SCA	2.54 %	2.88 %
WHA	1.40 %	1.37 %

¹⁵ The CY 2009 survey requested information from CY 2007 to use in making salary determinations for CY 2009.

¹⁶ The OIG survey requested information from FY 2008.

The numbers in the above table show that attrition is affecting some geographic areas more than others. Attrition rates remained highest in EUR for the time period covered, and lowest in WHA and EAP.

The OIG survey of missions included questions for management and human resources officers, as well as for LE staff, on the possible effects, other than attrition, of less-than-adequate compensation. Another question for LE staff asked what they and their coworkers regarded as the most important reasons they worked for the U.S. Government. The responses to these questions have a bearing on the attrition results discussed above, and are presented in the next section of this report.

REASONS WHY LE STAFF WORK FOR THE U.S. GOVERNMENT

The OIG team asked LE staff worldwide to rate the importance of the reasons they worked for the U.S. Government on a scale of one to five, with one indicating low importance, and five indicating high importance. The average rankings, in order of importance are as follows:

- Job Security 3.95
- Salary 3.76
- Job Responsibilities 3.60
- Schedule 3.31
- Benefits 3.34
- Post Community 3.07
- Promotion Opportunity 2.75
- Pension Plan 2.72

LE staff were also asked to list any other reasons for working for the U.S. Government, and to indicate their importance. These other reasons, which were ranked at 3.24, included eligibility for special immigrant visas; working in an international or cross-cultural environment; working for an equal opportunity employer with transparency and without discrimination in terms of religion, caste, and status; prestige and pride in working for the U.S. Government; regularity of salary payments, sometimes in a hard currency; the opportunity to learn English; the extra holidays (both local and U.S.); the opportunity to support American goals, values and priorities; the inability to find other employment, especially for those who have worked for the United States for some years and are middle-age or older; the opportunity to help citizens of their own country; and a good and clean work environment. Some LE staff noted that it was traditional practice in their countries to stay with one employer, and that “job hopping” was not culturally or socially well-regarded.

train new employees who are entering with higher salaries. In addition, the newly-hired employees who are at a higher step in grade will “max out” their salary increase potential earlier, leading to requests to reclassify the position in order to retain an employee who wants an annual raise.

Many of the responses to the OIG survey indicated that overseas missions are having difficulty recruiting for specialized and high level positions. As the posts are increasingly likely to hire less qualified candidates who will accept lower salaries, the staff quality deteriorates. LE staff, more than U.S. officers, indicated to the OIG team that both the lower professional standards as well as the time it is taking to fill vacant positions are hampering their daily work and leading to increased tension and pressure.

Other agencies have particular concerns about the lack of adequate salary increases. The U.S. and Foreign Commercial Service (USFCS) told the OIG team that inflation is taking a serious toll on the competitiveness of their salaries, and that they are losing senior level staff who are difficult to replace. The Centers for Disease Control and Prevention(CDC) noted that senior global health and technical staff salaries were not keeping pace with global compensation practices.

USE OF SAME-PAY DATA FOR BOTH BLUE- AND WHITE-COLLAR JOBS

The LE staff compensation system uses the same-pay data and combines into one pay scale the complete range of locally hired employee positions, from unskilled blue collar workers to highly skilled and educated professional positions. There are a number of arguments that this approach should be reviewed and revised, and that separate scales should be established for certain types of employees.

The Federal Government divides its pay systems into several broad categories, including the General Schedule, which consists of 15 grades of primarily white collar employees; the Federal Wage System (FWS), which covers trade, craft and labor occupations; and the Senior Executive Service for managerial, supervisory, and policy positions classified above the GS-15 level.

In the United States, blue-collar workers have been paid according to local prevailing private sector rates since the Civil War. In 1965, Federal agencies were ordered by Presidential memo to coordinate their wage-setting activities, and now the Department of Defense (DOD) conducts FWS wage surveys and establishes FWS pay rates. DOD conducts a “full-scale” wage survey at least every two years, and a “wage-change” survey each year that a full-scale survey is not conducted. In the years when the wage-change surveys are conducted, DOD updates the findings from the previous full-scale wage survey (usually by telephone).

The history of the Federal approach to pay emphasizes the distinctions among salary considerations for the various types of employees, including blue-collar, white-collar, and managerial/policy positions. To some extent, these distinctions are consistent with those of the LE staff. The OIG team believes that the category established for managerial/policy positions in the Federal system would, in the LE staff system, also include professional level positions such as medical officers, laboratory management and public health information technology positions, as well as other highly-skilled positions, primarily in use by such agencies as the CDC and the U.S. Agency for International Development (USAID).

The off-the-shelf data purchased by the Department does not appear to account well for either the blue-collar jobs or the professional, sector-specific ones. Consequently, HR/OE/CM must extrapolate salaries for these employees from existing data, or the employees may be lumped into a general grade level. Posts sometimes request ERRs, involving either upward or downward adjustments, for these employees.

In today's highly competitive labor market, particularly for the highly skilled professional employees, but also, in some cases, for blue-collar employees, LE staff salaries are not keeping pace with global compensation practices. The result is difficulty in hiring certain types of employees, as discussed earlier in this report.

The OIG team is recommending that the Department investigate the possibility of establishing different pay setting data and pay scales for some types of LE staff, with the goal of remaining competitive in both local and global employment market areas.

Recommendation 6: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, should evaluate the possibility of using different pay setting data and establishing different pay scales for blue-collar positions and for professional level positions, and should issue and distribute a written report on the findings and the possibility of implementing the findings. (Action: HR, in coordination with M/PRI)

LIST OF RECOMMENDATIONS

Recommendation 1: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, should hire an outside contractor with international experience to perform an organizational review of the Compensation Management Division of the Office of Overseas Employment to advise on the organization of the compensation management division and on how many analysts are required to handle the compensation management responsibilities, and to recommend training and certifications the analysts should obtain. (Action: HR, in coordination with M/PRI)

Recommendation 2: The Office of Management, Policy, Rightsizing and Innovation, in coordination with the Bureau of Human Resources and the Bureau of Resource Management, should ensure that the working group on locally employed staff compensation reviews the connectivity between the activities of the Office of Overseas Employment and the Office of State Programs, Operations and Budget in the Bureau of Resource Management, and makes and distributes written, documented determinations as to the data used by the two offices to make estimates of LE staff compensation adjustments, the timing of these activities, and the responsibility each office has for tracking implementation of locally employed staff compensation adjustments. (Action: M/PRI, in coordination with HR and RM)

Recommendation 3: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, should implement a locally employed staff compensation review process whereby the Office of Overseas Employment in the Bureau of Human Resources reviews and adjusts each post's salary schedule every 5 years based on a recent salary survey. During the intervening years, the Department should authorize cost-of-living (or inflation) adjustments based on reliable inflation data. (Action: HR, in coordination with M/PRI)

Recommendation 4: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, should implement a systematic process of providing comprehensive information to overseas missions, Department offices, and agency headquarters on periodic salary survey reviews, including but not limited to, comprehensible salary survey analyses, explanations of salary survey changes, and, if appropriate, copies of the off-the-shelf surveys for the host country. This approach should be documented and made a part of the periodic process. (Action: HR, in coordination with M/PRI)

Recommendation 5: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, the regional bureaus and the Bureau of Resource Management, should establish, maintain and monitor a database that tracks information related to locally employed staff compensation and adjustments, including budgetary resources, salary level ceilings calculated by the Office of Overseas Employment, salary levels requested by post, salary levels implemented, dates for these activities, and calculations of whether the Department is meeting prevailing practice. This database should replace the current practice of communicating salary review information by cable. (Action: HR, in coordination with M/PRI, the regional bureaus and RM/BP)

Recommendation 6: The Bureau of Human Resources, in coordination with the Office of Management, Policy, Rightsizing and Innovation, should evaluate the possibility of using different pay setting data and establishing different pay scales for blue-collar positions and for professional level positions, and should issue and distribute a written report on the findings and the possibility of implementing the findings. (Action: HR, in coordination with M/PRI)

INFORMAL RECOMMENDATIONS

Informal recommendations cover operational matters not requiring action by organizations outside the inspected unit and/or the parent regional bureau. Informal recommendations will not be subject to the OIG compliance process. However, any subsequent OIG inspection or on-site compliance review will assess the mission's progress in implementing the informal recommendations.

While the LE staff compensation review process described throughout this report requires the final approval of all funding agencies, the Department has considered the processes of reviewing and determining LE staff compensation policies to be Department responsibilities, and has not involved other U.S. Government agencies in the planning process. This approach is consistent with the Foreign Service Act of 1980, discussed later in this report. The working group described above does not include representatives of other government agencies that employ LE staff overseas. Representatives of other agencies told OIG inspectors that they did not believe that their LE staff issues and interests were being fully considered by the Department, and that they wanted to be more involved in the entire process, not just in the final funding approval.

Informal Recommendation 1: The Office of Management, Policy, Rightsizing and Innovation should ensure that the working group on locally employed staff compensation considers the possibility of including members from other U.S. Government agencies that employ LE staff. Whether this recommendation is implemented or not, M/PRI should document the decision in writing, and distribute the decision widely in the Department and to other agencies that employ LE staff.

OIG contacts within the Department suggested that the activities of HR/OE/CM and RM/BP related to LE staff salary levels and their funding should be unified. Such a step might centralize decision making for LE staff salary increases, and take such decisions out of post control.

Informal Recommendation 2: The Office of Management, Policy, Rightsizing and Innovation, should ensure that the working group on locally employed staff compensation considers the possibility of centralizing decision making for LE staff salary increases, and, whether it is eventually implemented or not, make a determination as to its value, document the decision in writing, and distribute the decision widely in the Department. (Action: M/PRI)

Several respondents from other agencies advised the OIG team of their interest in being more involved in salary surveys, particularly for higher grade LE staff. OIG contacts from other agencies also noted that management of the LE staff program should be considered a multi-agency responsibility, no longer under the sole purview and control of HR/OE. These contacts suggested that the Department, which already has instituted a successful interagency system with ICASS, extend the concept further and establish a senior level interagency LE staff board of governors to set overall LE staff policy.

Informal Recommendation 3: The Bureau of Human Resources, in cooperation with RM/ICASS, should establish a senior level interagency LE staff board of governors to set overall LE staff policy. (Action: HR, in cooperation with RM/ICASS)

Although several posts noted that having the FYI cable slugged only for the chief of mission sometimes led to slowness in getting it to the management officer, or in its being overlooked and not being sent to the management office at all, this did not appear to be a general problem. However, the OIG team is informally recommending that HR/OE send the cable to the attention of both the chief of mission and the management officer.

Informal Recommendation 4: The Bureau of Human Resources should send the cable announcing the proposed salary increases for locally employed staff to the attention of both the chief of mission and the management officer. (Action: HR)

The use of ERRs can be viewed as an indication that the LCP is not meeting post needs, either in not meeting salary requirements for potential hires and ongoing employees, or in being higher than required for certain types of positions.. The OIG team believes that tracking the requests for and use of ERRs would be helpful in monitoring LCP adequacy.

Informal Recommendation 5: The Bureau of Human Resources should request a list of position titles and grades for all positions with exception rate ranges and details on the ERR adjustment in the 2010 Locally Employed Staff Compensation Questionnaire. (Action: HR)

ABBREVIATIONS

AF	Bureau of African Affairs
CAJE	Computer Aided Job Evaluation
CDC	Centers for Disease Control and Prevention
CY	calendar year
D&CP	Diplomatic and Consular Programs
DOD	Department of Defense
EAP	Bureau of East Asia and Pacific Affairs
ERR	exception rate range
EUR	Bureau of European Affairs
EUR-IO/EX	Executive Office, Bureau of European Affairs
FAH	Foreign Affairs Handbook
FAM	Foreign Affairs Manual
FSA	Foreign Service Act of 1980
FWS	Federal Wage System
FY	Fiscal year
HR	Bureau of Human Resources
HR/OE	Office of Overseas Employment
HR/OE/CM	Compensation Management Division, Office of Overseas Employment
ICASS	International Cooperative Administrative Support Services
LCP	local compensation plan
LE	locally employed
M	Under Secretary for Management
M/PRI	Office of Management, Policy, Rightsizing and Innovation

NEA/SCA	Bureau of Near Eastern Affairs
OIG	Office of Inspector General
OIG/ISP	Office of Inspections
OMB	Office of Management and Budget
OPM	Office of Personnel Management
RIC	Regional Initiatives Council
RM/BP	Office of State Programs, Operations, and Budget Bureau of Resource Management
USAID	U.S. Agency for International Development
USFCS	U.S. and Foreign Commercial Service
WHA	Bureau of Western Hemisphere Affairs

APPENDIX

AVAILABLE DATA AND OIG SURVEY DATA

The OIG team requested and received data from HR/OE/CM on LE staff compensation adjustments for recent years. The data tables showed the range of salary increases for each post, both the possible and authorized amounts, along with the average of the ranges. However, the OIG team found that the data were not complete, as the results for a number of posts were pending or not updated. The data also included at least 30 instances in which the average increases were not within the ranges of the low to high increases. For example, the range of possible salary increases for one post was shown as varying from 5 percent to 10 percent, depending on the grade, but the average increase was listed as 15 percent. When the OIG team questioned the validity of the data, HR/OE explained that “the average percentage is calculated by the software program and consequently will not match any manual effort, as the increase can vary by grade, with some grades receiving more (or less) than others. Obviously, if some grades do not qualify for any increase, it would lower the average, possibly to a figure less than that of the range.” The OIG team did not accept this explanation and did not use the data provided.

As a part of this review, OIG/ISP requested that the management officers and LE staff representatives from each overseas mission participate in a worldwide survey of LE staff compensation issues. The OIG team received responses from 152 management officers and from 138 LE staff representatives. The results presented in this report would not have been possible without the efforts of the U.S. officers and LE staff who provided thoughtful information on a number of compensation issues, along with a wealth and variety of examples. The OIG team extends its thanks and appreciation to those who participated in this survey.

The OIG survey asked posts to indicate, using basic salary rates, the date of their last LE staff salary increase, along with the actual, proposed and implemented salary increase percentages. The OIG team requested this information using basic rates, as the HR/OE salary review cables use basic rate data. The data tables provided to the OIG team by HR/OE used total compensation, which includes assorted benefits. Consequently, the data from the OIG survey and the data from the HR/OE tables

are based on different rates. The data from the OIG survey requested the most recent implemented increase, which can be earlier than that shown on the HR/OE tables for FY 2007 and FY 2008.

ATTRITION INFORMATION FROM LE STAFF COMPENSATION QUESTIONNAIRE

Attrition, retention and recruitment information can be important indicators of whether an employer is paying at rates commensurate with prevailing practice, as employees and prospective employees are expected to go elsewhere for jobs if other employers are offering better salaries. In Question 20 of the LE Staff Compensation Questionnaire, HR/OE asked how many employees had separated from post employment in CY 2007 for each of the following reasons: (a) reduction in force, (b) separation for age/mandatory retirement, (c) separation for cause, (d) disability, (e) death in service, (f) poor performance, (g) resignation to obtain better employment (more senior position, better advancement possibilities, better training, better working conditions, better location, etc.), (h) resignation to obtain better salary or better benefits (in a position with roughly the same responsibilities), (i) voluntary retirement, (j) personal reasons (family, relocation, change career), and (k) other. Using only the separation from employment data for responses (g) and (h), the OIG team reviewed percentages of attrition. The total number of employees, the base of the percentage values, was taken from Question 21 of the same questionnaire.

Eight of the 118 missions that submitted information on this question had attrition rates of greater than 10 percent (Reykjavik, Oslo, Wellington, Bratislava, Tallinn, Riga, Copenhagen, and Astana). Overall, some 14 embassies had attrition rates between 5 and 10 percent; 28 between 2 and 5 percent; 37 between 1 and 2 percent; 19 between 0 and 1 percent; and 13 with 0 attrition in CY 2007. The posts in the category with zero attrition were Embassies Baghdad, Rabat, Bridgetown, La Paz, Georgetown, Bujumbura, Yaoundé, Djibouti, Asmara, Tokyo, and Madrid; the American Institute in Taiwan; and Consulate General Curacao.

ATTRITION INFORMATION FROM OIG SURVEY

The OIG team also looked at attrition information from the in-house survey of Foreign Service missions around the world. One question of this survey concerned the number of LE staff who left post employment in FY 2008 to take jobs with

other employers. Overall, the average attrition rate from the OIG survey was 2.82 percent, a number generally in line with the results from the LE staff compensation questionnaire.

There were seven posts in the OIG survey with attrition rates 10 percent or higher (Reykjavik, Tallinn, Tbilisi, Manama, Bucharest, Gaborone, and Tripoli). Four posts (Libreville, Malabo, Nicosia, and Rabat) reported zero attrition rates. Overall, some 10 posts had attrition rates between 5 and 10 percent; 22 between 2 and 5 percent; 33 between 1 and 2 percent; 28 between 0 and 1 percent; and 4 with zero attrition in FY 2008. The remaining posts did not supply sufficient information to calculate attrition. The results of the comparison of the attrition results are as follows:

Attrition Rate	LE Staff Compensation Questionnaire (CY 2007) – Number of Posts	OIG Survey of Posts (FY 2008) – Number of Posts
Greater than 10 %	8	7
From 5 to 10 %	14	10
From 2 to 5 %	28	22
From 1 to 2 %	37	33
Below 1 %	19	28
Zero	13	4
Total	118	104

ATTRITION COMPARED TO FREQUENCY OF LE STAFF SALARY INCREASES

When this study was originally planned, the OIG team envisioned relating compensation adjustments to attrition in order to analyze the effect of the salary adjustment process on a post's ability to retain its employees. However, as noted earlier, throughout this study our attempts to identify accurate data on salary adjustments have been only partially successful.

The OIG team used data from the OIG survey to calculate the dates in the following table. However, these dates could not be verified using information from HR/OE. Also, with frequent turnover of U.S. personnel at each post, vacancies in human resource and management positions, and a lack of good records, posts may not have complete information on the past history of salary increases. With those caveats, the OIG team found that 43 of the 150 missions responding to the survey had not had an LE staff salary increase in 2008.

Year	Number of Posts Indicating that Most Recent LE Staff Salary Increase Occurred in each Year (OIG Survey for FY 2008)
1995	2
1999	1
2003	4
2004	3
2005	1
2006	7
2007	25
2008	107
Total	150

RELATIONSHIP OF UNEMPLOYMENT AND INFLATION TO RETENTION OF STAFF

When reviewing the attrition information from the LE Staff Compensation Questionnaire, the OIG team also considered the possible predictive quality of unemployment rates and inflation on attrition.

Unemployment rates in the host country may be a contributing factor to the retention of staff. Of the seven posts with high attrition rates, five had very low host country unemployment (4 percent or less), one had low unemployment (4.1 to 6 percent), and one had moderate (6.1 to 10 percent). Of the 13 posts with zero attrition rates, two had very low unemployment rates, five had moderate unemployment, two had high rates (10.1 to 20 percent), and three had very high rates (greater than 20 percent). The final post had no data on host country unemployment. If one assumes that workers can more easily find other jobs in countries with low unemployment rates, then one can expect that in those countries, attrition rates might be higher. The data bear out this theory. However, the trend is less clear for those posts with zero attrition rates. Although for the most part, the unemployment rates for the bulk of these countries ranged from moderate to very high, two of these countries (Burundi and Djibouti) had very low unemployment rates.

Another factor we considered was the annual inflation rate for the country. Those missions with high attrition rates had an average host country inflation rate in 2007 of 4.9 percent, with a rate of 4.44 percent in 2008. Those posts with zero attrition rates had an average host country inflation rate in 2007 of 8.82 percent, with a rate of 6.39 percent in 2008. However, these latter figures are heavily weighted by the inclusion of Iraq, with its 2007 annual inflation rate of 64.8 percent, followed by

a rate of 20 percent in 2008. If we exclude Iraq from the calculations for the posts with zero attrition rates, the host country inflation rates are 4.16 percent and 5.26 percent. These rates are not greatly different from those for posts with high attrition rates. Thus, we concluded that although host country inflation rates might affect retention and attrition, the nature of the effect was not necessarily predictable.

The OIG team did not analyze the information from the OIG survey in comparison to unemployment and inflation rates, as these analyses for the LE staff compensation questionnaire data were generally unproductive.

EXCEPTION RATE RANGES

An ERR is an exception to the LCP's regular salary schedule for a job series and grade level in which the pay rates are either greater than or less than the rates on the regular salary schedule for the same grade level. An upward ERR is used when rates on the regular salary schedule are inadequate for post to recruit and retain qualified employees. A downward ERR is used when rates on the regular salary schedule are excessive to post's needs for a specific set of skills.

The OIG team examined the use of ERRs throughout the five regional bureaus, based on responses to the CY 2009 LE staff compensation questionnaire that were sent to HR/OE/CM. ERRs are most common in the Bureau of African Affairs (AF), where 71 percent of the missions responding had at least one ERR, often for medical personnel either providing medical care to patients or working in an assistance program. The use of ERRs is less in other areas, ranging from 58 percent in EAP, to 48 percent in WHA, to 43 percent in NEA, and 36 percent in EUR. There was no information on the questionnaire as to whether the ERRs were upward or downward exceptions.

The use of ERRs can be viewed as an indication that the LCP is not meeting post needs, either in not meeting salary requirements for potential hires and ongoing employees, or in offering higher than required salaries for certain types of positions. The OIG team believes that tracking the requests for and use of ERRs would be helpful in monitoring LCP adequacy. With this in mind, the OIG team issued an informal recommendation to HR/OE that the 2010 LE staff compensation questionnaire request a list of position titles and grades for all ERRs currently being used at each post.

HYPERINFLATION

RM/BP generally bases its budget projections for LE staff compensation increases on the inflation rates at post. The exception is for “hyperinflationary” posts. RM/BP designates any post with an inflation rate higher than 10 percent as hyperinflationary. Under 6 FAH-5 H 451, this designation allows a post to retain any exchange rate gains it may generate. RM/BP has, for the last several years, used a working policy that reduces the post’s budget figure to 1.5 percent for LE staff compensation increases. The justification is that such posts can use their exchange rate gains to supplement the funded increase.

While this process may work at some posts, there have been cases of posts with hyperinflation that do not realize any exchange rate gains because the host government uses a fixed currency exchange rate. These posts are then left with increasing expenses without the budget funds to cover them, particularly in the case of compensation increases.

RM/BP issued a memo allowing exceptions to this policy in FY 2009. First, if a hyperinflationary post’s most recent HR/OE survey justifies the 2.9 percent wage increase, at least that amount will be included in the LE staff wage increase financial plan adjustment. Second, RM/BP has reviewed hyperinflationary posts with fixed currency exchange rates and considered the impact of funding these posts at a flat rate of 10 percent. The regional bureaus must submit detailed documentation and request this exception for it to be implemented. The post will then be removed from the hyperinflationary list, and granted a 10 percent rate. Any exchange rate gains the post may earn must be released to RM as usual. This is an exception only for FY 2009, and is not guaranteed for the future.

GAIN SHARING

OIG contacts raised another concern about the effect of rightsizing on missions’ LE staff compensation budgets. Rightsizing reports regularly include a general recommendation for the post to identify U.S. direct-hire positions for replacement by LE staff positions. While this might result in a net savings for the Department, the post faces a net loss because the position is no longer paid for from the central fund, and must be funded directly by the post.

M/PRI proposed an initiative called “gain sharing” as a way to solve this problem. Under gain sharing, a portion of the money saved by the Department when converting a direct-hire position to an LE staff position would be given to posts from the bureau (or from a larger savings pool of all bureaus). This funding would enable the post to hire a new employee to replace the old position, and to keep the remainder of the savings.

EUR-IO/EX included this concept in a general cost saving initiative, allowing missions that eliminate direct-hire positions to get back 70 percent of the savings while the bureau keeps 30 percent. The policy has seen mixed results. Some posts see the bureau savings as too little a gain for eliminating positions, and are waiting for possibly higher gains from a joint bureau savings pool. Several other posts have eliminated the positions and taken the 70 percent savings from the bureau; however, they did not use the funds to fill a replacement LE staff position. Instead, the money was used elsewhere in the posts’ budgets, and the LE staff positions have not been formed, or have remained vacant.

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