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

# Report of Audit

## **Controls Over the Department of State's Language Incentive Pay Allowance Payments**

**Report Number AUD/PR-05-20, February 2005**

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PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, Section 209 of the Foreign Service Act of 1980, the Arms Control and Disarmament Amendments Act of 1987, and the Department of State and Related Agencies Appropriations Act, FY 1996. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its oversight responsibility with respect to the Department of State and the Broadcasting Board of Governors to identify and prevent fraud, waste, abuse, and mismanagement.

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 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 "C. R. Hume".

Cameron R. Hume  
Deputy Inspector General

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### Summary

The Office of Inspector General (OIG) conducted an audit of the Department of State's (Department) internal controls over its language incentive payment allowance for 2003. To foster the development and use of foreign language skills deemed crucial to its mission, the Department provides monetary allowances to its Foreign Service officers (FSO) for proficiency in 45 hard and five extremely hard languages. In the event that an FSO mistakenly receives an overpayment in the allowance, Department officials can waive the collection of the overpayment.

OIG found that the Department had adequate internal controls for language incentive payments. For the cases OIG sampled, all FSOs met eligibility requirements, and there was only one underpayment. There were no cases where the Department overpaid for the language allowance. Based on the sample, the Department has nearly a 99 percent payment accuracy rate. However, OIG found that the Department needs to update Foreign Affairs Handbook (FAH) volume 4, handbook 3, section H-497, which identifies the individuals responsible for adjudicating and waiving overpayments. In October 2003, the Department reassigned such authority but did not update the FAH to reflect the changes. To ensure that the proper office receives waiver requests, OIG is recommending that the Department revise the FAH.

The Department agreed with the finding contained in the draft report and will revise the FAH. (See Appendix A for the Department's comments.)

### Background

The Bureau of Resource Management (RM) is responsible for overseeing all of the financial management activities relating to the programs and operations of the Department. RM's Global Financial Services, Charleston Financial Services Center (CFSC) processes the Department's payroll. CFSC's Overseas Payroll Unit is specifically tasked with the responsibility for authenticating and processing the language incentive payments.

CFSC has several requirements that must be met before an employee receives language incentive pay. The process begins when the overseas post cables CFSC that an FSO has arrived to staff a language-designated position. The cable must identify the language, level of proficiency, and monetary payment to be applied.<sup>1</sup> The Department has designated Arabic, Chinese (Cantonese and Standard), Japanese, and Korean as extremely hard languages and lists 45 languages as hard.<sup>2</sup> Payment amounts are based on a number of factors, including language difficulty, proficiency, and repeat and extended

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<sup>1</sup> See 3 FAH-1 H-3174.4.

<sup>2</sup> Foreign Affairs Manual (FAM) volume 3, section 3172.

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tours. Amounts range from a low of 5 percent to a high of 22.5 percent computed on the base salary of an FS-01/Step1.<sup>3</sup> Finally, CFSC contacts the Foreign Service Institute to authenticate the language, level of proficiency, and date proficiency was obtained. After this process is complete, employees can receive their language incentive payments.

When an individual leaves a language-designated position, the post cables the CFSC's Overseas Payroll Unit with the individual's reassignment date, and CFSC terminates the language incentive payment.

OIG conducted this review because a prior audit involving language incentive pay<sup>4</sup> identified a number of overpayments to individuals. As previously stated, this audit found no overpayments.

### **Objective, Scope, and Methodology**

OIG's objective was to review the Department's internal controls to ensure that only eligible employees received the language incentive payments and that they received the correct amounts. During 2003, 744 individuals received language incentive payment benefits totaling \$5,446,080. From that universe, OIG selected a random sample of 85 individuals, with a 95-percent confidence level (plus or minus 10 percent). OIG added nine individuals to the sample for cases that appeared questionable on the basis of the data provided by RM. OIG's total sample consisted of 94 individuals, who received a total of \$466,323 in language incentive payments during 2003.

OIG conducted work on this audit from May through October 2004. The work included an examination of RM files in Charleston, South Carolina, interviews with RM officials, and an examination of financial management rules and regulations.

OIG performed this work according to government auditing standards and included such tests and auditing procedures as were considered necessary under the circumstances. OIG's Office of Audits, Program Reviews Division conducted this audit.

### **Findings**

OIG found that internal controls for language incentive pay allowance payments in 2003 were adequate based on the review of sample cases. All 94 individuals in the sample met eligibility requirements. OIG found that one individual had been underpaid approximately \$5,000. For the sample, this translates into an accuracy rate of 98.94 percent. The underpayment resulted from an input error made by a payroll technician. CFSC subsequently corrected the payment after OIG informed it of the error. OIG found

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<sup>3</sup> See 3 FAM 3174.

<sup>4</sup> *Language Incentive Pay* (Report No. 7-SP-005, Dec. 1996).

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that all CFSC files under the supervision of the Overseas Payroll Unit were maintained meticulously.

Although the controls over language incentive pay allowance payments were adequate, OIG found one issue requiring RM's attention. OIG examined a broad range of financial management rules and regulations, including the Department's FAH and FAM. The FAH elaborates on the material contained in the corresponding FAM volume. The FAM is the comprehensive and authoritative source for Department policies and regulations.

In the event that an FSO mistakenly received an overpayment in an allowance, the FSO could submit a request to waive the overpayment, as detailed in 4 FAH-3 H-497. However, the Department issued a new Delegation of Authority No. 266-10 on October 22, 2003, but did not update 4 FAH-3 H-497 to reflect the change in authority. Therefore, the wrong office could receive waiver requests. The RM official responsible for waiving overpayments agreed that the FAH should be revised to reflect the new delegation authority.

**Recommendation 1:** OIG recommends that the Bureau of Resource Management revise 4 FAH-3 H-497 to contain the information detailed in Delegation of Authority No. 266-10.

RM agreed with the recommendation, and the revised FAH should be published during summer 2005. In the meantime, according to RM, should someone send a waiver to the offices and positions cited in the FAH, which no longer exist, he or she would realize the mistake and ultimately contact the correct office. OIG considers this recommendation resolved and will close it when RM provides a copy of the revised FAH.

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