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

Office of Audits

Embassy Baghdad Internal Controls for Overtime Pay

Report Number AUD/CG-10-25, June 2010

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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
Deputy Inspector General

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EXECUTIVE SUMMARY

A July 2009 Office of Inspector General (OIG) inspection report, *Embassy Baghdad, Iraq* (ISP-I-09-30A), found that internal controls for overtime at Embassy Baghdad were weak, which left Embassy Baghdad vulnerable to waste, fraud, and mismanagement. Specifically, the Embassy had not been enforcing a January 2008 mission policy on overtime, resulting in inordinate amounts of overtime claimed and the possible abuse of overtime. In response to the internal control weaknesses identified in the inspection report, the Office of Audits conducted a follow-up audit of overtime expenditures at Embassy Baghdad.

The primary objective of this audit was to determine whether Embassy Baghdad had adequate internal controls over the authorization and approval of overtime and complied with time and attendance (T&A) policies and procedures. This audit covers T&A for American personnel stationed or on temporary duty in Iraq. A subsequent audit will report on locally employed staff working in Iraq.

OIG reviewed overtime for 2008 and 2009 and found that American employees in Embassy Baghdad submitted 777,888 hours of overtime, totaling about \$36 million, for those 2 years. During 2008, an average of 287 (50 percent) of 570 Americans claimed overtime during each pay period, with a total cost for that year of \$18,207,654. In 2009, an average of 352 (51 percent) of 695 Americans claimed overtime during each pay period, with a total cost for that year of \$17,745,039. Although OIG found that the average number of claimants increased for 2009, the number of overtime hours actually decreased, from 400,875 to 377,013 hours. Since the time of OIG's audit, Embassy Baghdad has initiated a program to monitor the number of overtime hours worked and to send quarterly reports to supervisors for an explanation of excessive amounts. While the Embassy's program assesses indications of potential abuse of overtime hours, it does not address compliance with supervisory authorization for overtime, supervisory approval of timesheets, or the provision of complete and accurate information to Charleston (SC) Global Financial Services Center for payment.

Embassy Baghdad did not have adequate internal controls to support the overtime payments because supervisors did not authorize overtime in advance of overtime performed; did not certify timesheets after the work was performed; did not certify overtime for payment in the proper period; and did not require T&A documentation to support overtime payments, such as leave and approved absences. For

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example, employees and supervisors did not always sign timesheets, and employees used different types of timesheets that often lacked key information, such as lines for supervisor or employee signatures and dates of certification. In some cases, employees used one timesheet for regular time and one for overtime.

OIG recognizes the efforts made by Charleston staff to process Embassy Baghdad payrolls in a timely manner. However, Charleston needs to improve its quality controls for processing overtime pay and insist that American employees submit complete and accurate T&A data. Currently, each American employee at Embassy Baghdad provides his or her own timesheet and supporting documentation directly to Charleston for payroll processing and manual entry into the Department of State's payroll system. Charleston processed payments from T&A data that were incomplete, lacked supervisory and employee signatures, and did not have the required overtime authorization form.

OIG is recommending that Embassy Baghdad improve supervisory controls for compliance with Departmental regulations and post policies and procedures for authorizing and approving T&A and overtime. As part of the Embassy's quarterly monitoring of overtime hours worked, post management needs to include a review of supervisors' oversight with Department regulations and post policies and procedures for authorizing and approving T&A and overtime. Also, the Embassy should discontinue the practice that allows employees to submit T&A information directly to Charleston. In addition, Charleston needs to improve its quality assurance regarding information received from the Embassy. Finally, the manual T&A system between Embassy Baghdad and Charleston is not efficient and should be reviewed for automation.

In response to the draft report, Embassy Baghdad indicated that the May 2009 Mission Policy 050, "Procedures for Reporting Time and Attendance, Leave, and Overtime," strengthened existing processes and controls for reporting overtime. In addition, the Embassy stated that the policy will be enforced by post and payroll processing staff at the Charleston Global Financial Services Center to reduce improperly prepared T&A reports and overtime approvals. The Embassy agreed with most of the report's recommendations and also "agree[d] that more could be done to educate employees and particularly supervisors who may still not be properly meeting their responsibilities under existing policy." The Embassy also stated that it will review the "costs and benefits of automating the manual payroll system."

The Bureau of Resource Management (RM) also addressed improvements in quality control issues associated with processing overtime pay. Responses from the Embassy and RM were considered and incorporated into the report as appropriate. The responses are presented in their entirety in Appendices C and D, respectively.

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Based on the responses, OIG considers four recommendations resolved, pending further action, and one recommendation unresolved. OIG believes that an automated payroll system can mitigate many of the internal control weaknesses and payroll processing inefficiencies described in this report.

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BACKGROUND

Payroll transactions for Embassy Baghdad are processed by the Charleston Global Financial Services Center using the Consolidated American Payroll Processing System (CAPPS). Payroll processing for American employees in Iraq is complex and is subject to pay caps, Federal and Department regulations, and the provisions of the Department's Iraq Service Recognition Package.¹ Embassy Baghdad's payroll is large compared with that at other overseas locations. In addition to base pay, Embassy employees earn a 70 percent combined danger and hardship differential, and heavy usage of overtime is often anticipated.

Overtime for American personnel is defined as those hours in excess of the 40-hour work week. American personnel eligible for overtime include uncommissioned Foreign Service Officers, Foreign Service specialists, and General Schedule personnel. Senior Executive Service, Senior Foreign Service, and commissioned Foreign Service Officers are not eligible for overtime. Three general categories of American personnel are eligible for overtime:

1. Temporary Duty (TDY) employees. These employees are short-term, less than 6 months, and long-term, more than 6 months but less than 1 year.
2. Permanent Change of Station (PSC) employees. These permanent post employees have assignment orders for a 1- or 2-year tour.
3. Section 3161 hires. These are employees who are hired under a special authority (5 U.S.C. 3161). The employees are assigned to the Iraq Technical Advisory Office in Washington, but most are sent TDY to Iraq. The employees' U.S. Government appointments terminate when their Section 3161 appointments end.

Employees eligible for overtime are required to prepare biweekly individual paper timesheets. Supervisors are required to verify the accuracy of T&A data reported on the employee timesheets, certify that the work was actually done, and return the signed timesheets to the employees for them to forward to Charleston. Embassy Baghdad does not have an official timekeeper, an administrative function often

¹ Since 2003, and updated annually, the Iraq Service Recognition Package identifies fair and just compensation for service in Iraq and provides for periodic relief from the stressful conditions of life and work in Iraq.

found at other posts. Instead, Charleston functions as the timekeeper and provides T&A support for all American employees and locally employed staff from selected countries working in Embassy Baghdad.² Charleston also provides Embassy Baghdad new employees with payroll information and instructions, cites references to regulations, identifies required payroll forms, and notifies employees when T&A data is due. Charleston receives personnel information from the Embassy Baghdad Human Resource Office to set up its payroll database. Upon receipt of employee T&A and supporting documentation, Charleston manually enters the timesheet hours into the Windows Time and Attendance Application and makes adjustments when necessary to the T&A data. According to Charleston's October 2009 time keeping procedures to support Americans serving in Iraq, one of Charleston's responsibilities is "to ensure timely and correct payment of salaries and allowances while maintaining *required* internal controls to prevent fraud, waste, and abuse."

Prior OIG Reports on Embassy Baghdad Payroll and Overtime Issues

The Office of Inspections June 2006 report *Inspection of Global Financial Services Charleston* (ISP-I-06-33) reviewed the Embassy Baghdad payroll process and found that overtime appeared excessive and internal controls on processing T&A reports needed to be strengthened. In addition, Charleston approved payments without having properly prepared timesheets and authorizations. The report recommended that an audit be conducted of payroll procedures for Department employees in Baghdad and that compliance with T&A requirements be improved. In response to the June 2006 report, Charleston enhanced its monitoring of Embassy Baghdad overtime, and RM issued Department Notice 2007 04 064, "Reporting Time and Attendance," dated April 13, 2007. This notice reminded timekeepers of their critical responsibilities to alleviate overpayment situations, but it also provided guidance on some of the more common errors made in T&A reporting.

OIG performed its first inspection at the new embassy in Baghdad from February 5 through March 4, 2009. The July 2009 report³ followed up on payroll issues identified in the June 2006 report⁴ and found that the Embassy was not enforcing a January 2008 mission policy on overtime. As a result, there was possible abuse of overtime claimed for American and locally employed staff personnel in Iraq. Also, supervision of overtime of American contract employees (Section 3161 employees) appeared weak, and Charleston did not adequately verify supervisory approval of

² For short-term American TDY employees, payroll and T&A support functions are performed by the home office of the employee and not by Embassy Baghdad or Charleston.

³ ISP-I-09-30A, July 2009.

⁴ ISP-I-06-33, June 2006.

overtime worked. The report recommended that the Embassy review procedures for managing and controlling overtime and review a sample of T&A reports from the fourth quarter of 2008 and the first quarter of 2009. The report further recommended that the review focus on individuals who reported more than 40 hours of overtime per pay period and determine whether the payments were made appropriately. The report also recommended that the Embassy report to the Department on whether the results of the sample study would merit an audit of all overtime payments. Embassy Baghdad officials disagreed with the report's recommendation and requested that the "post look forward, not backward" in strengthening internal controls for overtime approval.

Embassy Actions To Strengthen Procedures for Reporting Time and Attendance, Leave, and Overtime

Subsequent to OIG's spring 2009 inspection, both Embassy Baghdad and Charleston disseminated additional overtime policies and procedures, which were based primarily on existing Department regulations for overtime pay and internal controls.

In May 2009, Embassy Baghdad issued Mission Policy 050, "Procedures for Reporting Time and Attendance, Leave, and Overtime," whose stated purpose was to overhaul the existing process for reporting T&A and overtime. Specifically, certain payroll changes were implemented to address deficiencies in Embassy Baghdad's existing reporting processes, as noted in the OIG inspection report. Mission Policy 050 noted management's commitment to funding mission-critical overtime pay as long as it is valid and the enhanced payroll internal controls are followed. The changes were expected to bring the post's T&A reporting process back into compliance with requirements stated in the Foreign Affairs Handbook (FAH), 4 FAH, which are processes that all Diplomatic and Consular posts follow.

The May 2009 Embassy Baghdad mission policy required the following enhancements in payroll internal controls:

- All supervisors must be actively engaged in the T&A process and exercise due diligence in approving timesheets, leave, and overtime hour requests for their employees.
- All employees, regardless of rank, are required to complete a timesheet.
- All requests for overtime must be approved by the employee's immediate supervisor in advance.

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- In the current pay period, employees will not be allowed to claim overtime hours worked in this period. Employees will be eligible to claim the actual overtime hours worked in the prior pay period.
- An overtime pay cap of 60 hours per pay period has been established per employee. Employees may claim amounts above this threshold if substantiated by their supervisor. This does not mean an “entitlement” to 60 hours, nor is it a minimum.
- All forms associated with the T&A and overtime pay reporting process have been standardized and are included in this policy.
- Post management will continue to monitor the number of overtime hours worked. Quarterly reports will be sent to supervisors, and they will be asked to explain excessive amounts of overtime pay in accordance with this new policy.

In June 2009, Charleston revised the Section 3161 Employee Time and Attendance Reporting User Handbook. In September and October 2009, Charleston issued comprehensive policies, procedures, and instructions for supervisors governing T&A support for American TDY and Section 3161 employees and for PCS personnel in Iraq. In January 2010, Embassy Baghdad post management began monitoring quarterly reports for excessive overtime.

OBJECTIVE

The primary objective of this audit was to determine whether Embassy Baghdad had adequate internal controls over the authorization and approval of overtime and complied with T&A policies and procedures. (The audit scope and methodology are detailed in Appendix A.)

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AUDIT RESULTS

Embassy Baghdad's internal controls for authorizing and approving overtime were weak, and Charleston needed to improve its quality controls for processing overtime payments. Based on its review of overtime payroll records, OIG found noncompliance with policies and regulations for authorizing, reconciling, and documenting T&A reports. Specifically, Embassy Baghdad officials

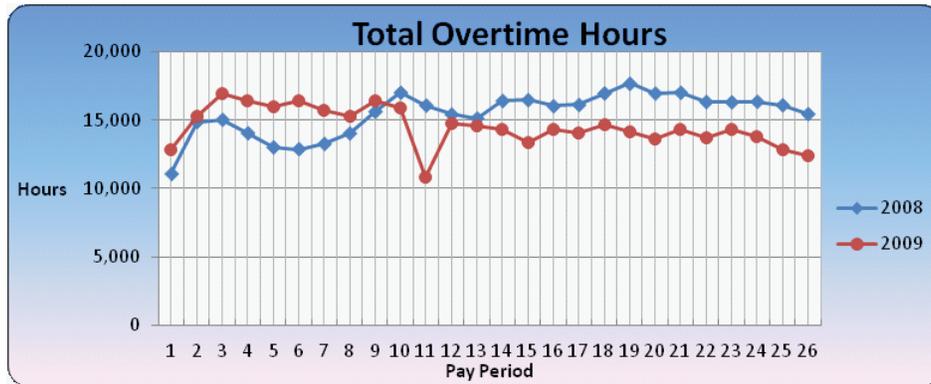
- Did not enforce regulations requiring supervisors to approve T&A reports based on actual hours worked and authorize overtime hours in advance of work.
- Did not require employees to attest to the accuracy of the hours and leave charges shown on their T&A reports.
- Allowed employees, not their supervisors, to transmit their timesheets directly to Charleston.

Until these deficiencies are addressed, Embassy Baghdad will have no assurance that payroll expenses for overtime and related T&A information is reliable, increasing the risk for fraud and abuse. OIG notes that disciplinary penalties exist at the post for noncompliance with such T&A requirements as signatures and overtime justifications, although OIG was unable to determine whether the post initiated any disciplinary actions. (Time and attendance requirements for American personnel at Embassy Baghdad are summarized in Appendix B.)

Costs of Embassy Baghdad Overtime

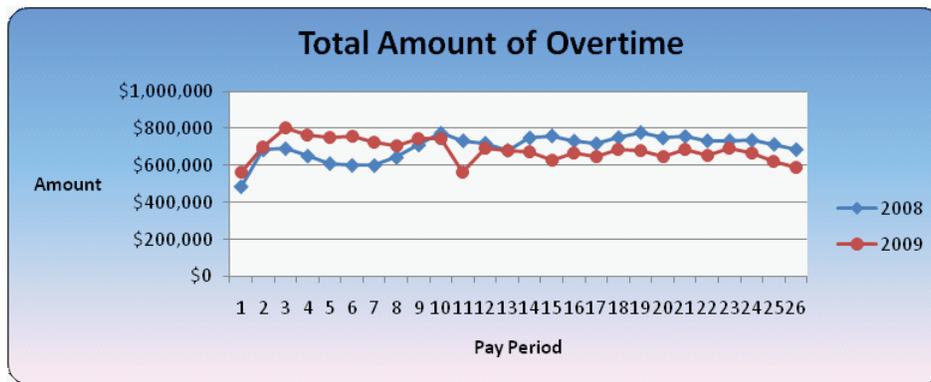
OIG reviewed Charleston payroll records of Americans at Embassy Baghdad for 2008 and 2009 and identified 777,888 overtime hours, totaling about \$36 million. During this period, overtime hours and overtime payments decreased marginally. Specifically, overtime hours decreased from 400,875 hours in 2008 to 377,013 hours in 2009, or a decrease of about 6 percent, and overtime payments decreased from \$18,207,654 in 2008 to \$17,745,039 in 2009, or a decrease of only about 3 percent. (The hours and payments are detailed in Figures 1 and 2, respectively.)

Figure 1. Total Overtime Hours – January 2008 to December 2009



Source: Charleston overtime payroll records for 2008 and 2009.

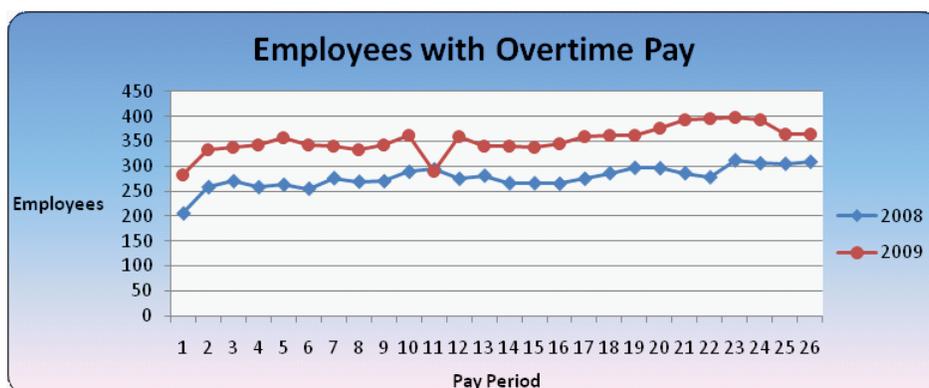
Figure 2. Total Amount of Overtime – January 2008 to December 2009



Source: Charleston overtime payroll records for 2008 and 2009.

During 2008, Embassy Baghdad had, per pay period, an average of 570 American employees on staff, of which an average of 287 (50 percent) claimed overtime hours. During 2009, the Embassy had, per pay period, an average of 695 American employees on staff, of which an average of 352 (51 percent) claimed overtime hours, which was a slight increase over the previous year. (The number of employees and overtime pay are detailed in Figure 3.)

Figure 3. Number of Employees With Overtime Pay – January 2008 to December 2009



Source: Charleston overtime payroll records for 2008 and 2009.

OIG found that the amount of overtime, the number of overtime hours, and the average number of employees with overtime decreased appreciably during pay period 11 in 2009, which was from May 24–June 6, 2009. This decrease may have been attributable to the Embassy’s issuance of Mission Policy 050, which drew attention to the requirements to justify and pre-approve overtime. However, overtime increased significantly again in pay period 12 and continued at a similar rate through December 31, 2009.

OIG’s July 2009 inspection report on Embassy Baghdad indicated that supervision over overtime claimed by Section 3161 contract employees was inadequate. To determine whether Section 3161 employees had a predominant amount of overtime, OIG analyzed overtime by the three general categories of American personnel eligible for overtime. OIG found that during 2008 and 2009, 44 percent of the personnel were Section 3161 hires, 37 percent were Permanent Change of Station employees, and 19 percent were Temporary Duty employees. While Section 3161 employees received the greatest share of overtime, OIG determined that the amount of overtime was not excessive when compared with that of other types of employees.

Embassy Baghdad initiated a program to monitor the number of overtime hours worked and to send quarterly reports to supervisors for an explanation of excessive amounts of overtime pay. This program resulted from Embassy Baghdad’s Mission Policy 050. Embassy officials reportedly reviewed overtime data for the fourth quarter of 2009 and focused their review on American employees who (1) reported overtime in any one pay period that was substantially higher than the maximum 60 hours allowed without specific supervisory justification, (2) consistently reported overtime above the 60 hours in most pay periods, and (3) reported exactly 60 hours of overtime each and every pay period. An Embassy official said that the review found that

only 13 (6 percent) of 231 Section 3161 employees reporting overtime in the fourth quarter were flagged for additional review and follow-up with supervisors and that only one employee's requests appeared to be "particularly egregious" because the reported overtime hours were substantially higher than the maximum 60 hours allowed and did not have specific supervisory justification. The supervisor later confirmed that the overtime for the employee, who was a member of a Provincial Reconstruction Team, was valid.

The other cases resulted from a potential misunderstanding of the 60-hour policy. In February 2010, Embassy Baghdad officials reportedly took corrective action during a Provincial Reconstruction Team–Team Leader conference "to reiterate the policy to team leaders and make extremely clear their responsibility related to time and attendance reporting." The Embassy review also flagged for review an additional 52 Foreign Service staff reporting overtime in the fourth quarter. All overtime reported was determined to be within the expected norms for officers involved with security operations and general services duties.

OIG determined that the Embassy Baghdad program management review complied with requirements of its mission policies and procedures and covered potential abuse of overtime hours. The review did not, however, address compliance with supervisory authorization for overtime in advance of the work by use of Form DS-3060, Authorization of Premium Compensation;⁵ supervisory approval of timesheets; or the completeness and accuracy of information provided to Charleston for payment. More information on internal control deficiencies OIG identified, including those in the fourth quarter of 2009, are as described.

Supervisory Authorization for Overtime

Embassy Baghdad supervisors did not authorize overtime in advance for the work performed in 2008, and the deficiencies regarding the authorization and justification of overtime have not significantly improved with the post's strengthening of overtime policies and procedures in May 2009. Embassy Baghdad Mission Policy 050 states that requests for overtime must be approved **in advance** (emphasis added) of being worked by completing Form DS-3060. The form should be signed by both the employee and the supervisor. Form DS-3060 is a standard form to authorize, in advance, hours to be worked that are covered by overtime compensation but that are not otherwise included in the employee's permanent administrative workweek. Form DS-3060 should be submitted with the timesheets and cover the prior pay period's overtime hours. In addition, Mission Policy 050 established an overtime pay

⁵ Premium compensation includes overtime, compensatory time, and holiday pay. Compensatory time and holiday pay were not included in this audit.

cap of 60 hours per pay period per employee. Compliance with this limit is properly annotated on the T&A forms. If the 60-hour limit is exceeded, the supervisor must provide written justification on Form DS-3060.

Form DS-3060 is required to be used worldwide throughout the Department, and it has been used in its current edition since November 2005. Prior to June 2009, Embassy Baghdad used separate memorandums to identify the purpose for overtime work for each employee and the maximum number of overtime hours that could be worked in any pay period. The memorandums, sent to Charleston, covered employee tenure at post as long as the maximum number of estimated overtime hours was not exceeded in any pay period. However, a Charleston official said that not all American personnel in Iraq had such authorization memorandums on file and that all T&As with overtime were not regularly matched against the employee authorization memorandum.

Embassy Baghdad Mission Policy 050 has not been adequately disseminated, and the policy's requirement to complete Form DS-3060 to authorize overtime in advance has not been adequately enforced at post. OIG reviewed 20 payroll records submitted to Charleston after Embassy Baghdad implemented the mission policy in May 2009 and found that five DS-3060s (20 percent) were not included with timesheets to support overtime. For 15 DS-3060s that were attached to timesheets as supporting documentation, one was from a pay period different from that of the pay period recorded on the timesheet, one DS-3060 was signed after the overtime was worked, and two DS-3060s were incomplete and lacked justification for the overtime.

Supervisory Approval of Time and Attendance Reports

Embassy Baghdad supervisors did not always follow Department regulations requiring supervisory approval of all T&A reports and certified timesheets before the work was performed. OIG found that for the 2009 sample, 51 (91 percent) of 56 timesheets had supervisory approvals that were dated 1 to 30 days before the work was performed. The FAH (4 FAH-3 H-526.1-4, "Approval of Time and Attendance Reports") states, "T&A documents must be approved as close to the end of the pay period as possible." However, the Charleston Permanent Change of Station and Temporary Duty Employee Handbook, which is provided to all new employees, states, "Timesheets are required to be submitted two weeks in advance for the current reporting period but overtime hours cannot be reported before they are worked." Therefore, Embassy Baghdad supervisors followed the handbook rather than the FAH, and Charleston personnel processed these T&As without supervisory certification that the employee had actually performed the work. According to

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4 FAH-3 H-523.3, "Proper Documentation," documentation of T&A data, leave, and overtime pay for all employees "should be complete, accurate, and proper." OIG noted that despite Mission Policy 050, which emphasizes due diligence in approving timesheets, leave, and overtime, 18 of the 20 timesheets submitted to Charleston after policy implementation were signed before the work was performed.

OIG also identified additional instances in which supervisors were not adequately approving T&As in 2009. For example, 14 (25 percent) of 56 timesheets were signed by a supervisor but were not dated. Also, Office of Personnel Management Form-71, Request for Leave or Approved Absence, was not included for seven timesheets (13 percent). Further, 21 (38 percent) of 56 timesheets showed that the employee had reported overtime hours worked in the current pay period. However, these claims are in violation of Mission Policy 050, which states: "In the current pay period, employees will not be allowed to claim overtime hours worked in that pay period. Employees will be eligible to claim overtime hours worked in the prior pay period based on the actual hours worked."

American employees used different types of timesheets that often lacked key information, such as lines for supervisor or employee signatures and dates of certification. In some cases, employees used one timesheet for regular time and one for overtime. OIG also noted that in some cases, employees prepared and submitted four timesheets for a single pay period, one for each of the two weeks for regular time and one for each of the two weeks for overtime. Embassy Baghdad, pursuant to Mission Policy 050, has attempted to standardize all forms associated with the T&A and overtime pay reporting process.

OIG also determined that about 44 (80 percent) of 55 payroll records contained timesheets that had supervisor signatures that were not sufficiently legible to allow Charleston to identify and contact the supervisor to resolve a discrepancy. Since the Charleston staff serves as the timekeeper for Embassy Baghdad employees, a legible signature is necessary to establish the legitimacy of the supervisor. Charleston staff told OIG that they keep a list of American employees and their supervisors and that Charleston staff attempt to keep this list as up to date as possible. However, because of the frequent change in supervisors, the list is not always checked. Because the supervisory signatures are not always legible but the employee's name is typed, Charleston must rely on the employee to resolve discrepancies in the T&A data. Maintaining an accurate accounting of supervisors is an essential internal control, especially to follow up on payroll problems and adjustments. In that regard, 4 FAH-3 H-525.2-3, "Reviewing and Approving Time and Attendance Reports," states, "Supervisors must review and approve T&A[s]." Further, 4 FAH-3 H-525.2-2, "Ensuring Accuracy of Time and Attendance Reports," states, "Supervisors are accountable for the

accuracy of T&A reports.” The FAH further states that supervisors “must have a reasonable basis for verifying accuracy and compliance with . . . controls.”

Since Charleston does not receive original documentation, employees should not control documentation that is a basis for payroll compensation. The case of signing T&As in advance of a pay period is a serious internal control deficiency that can lead to fraud and abuse. Department guidelines, such as 4 FAH-3 H-525.2-2, and Embassy Baghdad mission policies and procedures consistently assert that supervisory approval is a key part of ensuring the propriety of T&A reports. Such approval indicates that T&A is, to the best of the approving official’s knowledge, properly recorded and in compliance with applicable legal requirements. Officials in Embassy Baghdad and Charleston need to establish greater accountability by having authorized supervisor signatures that can be traced to the individual providing the approval.

Employee Attestation of Time and Attendance

American employees were not complying with the requirements of 4 FAH-3 H-525.4-1, “Affirming Accuracy and Completeness,” which states that “[e]mployees share responsibility with the timekeeper . . . in affirming the accuracy and completeness” of hours reported on their timesheets. In addition to attesting to hours worked, the employees should attest to all leave taken and affirm that “overtime, holiday, and compensatory time reported was authorized and worked.”

Embassy Baghdad supervisors did not adequately ensure that proper employee attestations were made before approving timesheets and returning them to the employee for submission to Charleston. In turn, Charleston processed timesheets without employee attestations for payment. The proper attestations make employees accountable for the accuracy of hours reported on their time and attendance reports, thereby increasing assurance that the hours reported reflect the actual work performed. However, in both 2008 and 2009, nonstandard timesheets were used, and these timesheets had no place for signatures of either the employee or the supervisor.

According to 4 FAH-3 H-525.4-1, American employees have three primary responsibilities to certify the accuracy and completeness of their T&A information:

1. Employees are required to submit a leave application form to the supervisor for approval before taking leave.
2. For other than regularly scheduled work, employees are required to sign their

timesheets to verify the accuracy of the entries on that document. This verification does not constitute supervisory approval, which is still required.

3. Each employee must review his or her Earnings and Leave Statement and promptly disclose any discrepancies to supervisors.

Quality Controls for Overtime Need Improvement

Charleston officials did not enforce Department T&A requirements and follow their own policies and procedures for processing overtime pay. Charleston staff processed T&As that were inaccurate or incomplete and did not have the proper authorization for overtime or the proper certification for hours worked. In addition, Charleston staff inappropriately contacted employees rather than their supervisors to resolve problems or discrepancies and made adjustments to the T&A records without the supervisor's written certification. Charleston staff also provided employee instructions that allowed supervisors to sign and submit timesheets 2 weeks before the employee performed the work, which is contrary to 4 FAH-3 H-526.1-4. In addition, nonstandard timesheets that had no place for supervisor and employee signatures were sometimes used.

OIG found that T&A adjustments or corrections for overtime were not always approved by an authorizing official in Iraq. Charleston staff members said that discrepancies occurred during payroll processing but that time constraints often made it difficult to find the appropriate supervisor to make corrections in a timely manner for the employee to be paid. Therefore, as discussed in the section "Employee Attestation of Time and Attendance" in this report, the employee is contacted directly. The FAH, 4 FAH-3 H-526.1-3, "Adjustments," requires changes made to T&As to be approved by an authorizing supervisor. In addition, documentation is not always maintained regarding the adjustments or corrections, which is contrary to 4 FAH-3 H-524, "Maintaining Time and Attendance (T&A) and Leave Records," which requires documentation of supervisory review and approval for all T&A adjustments.

Benefits of Automated Timekeeping System for Americans in Iraq

The current payroll system for Iraq is not efficient and does not adhere to Department and mission control objectives. In addition, the manual reentry of data in Charleston increases the risk for error. A January 2003 Government Accountability Office report⁶ stated that "[t]he most significant influence on changes to T&A

⁶ *Maintaining Effective Control Over Employee Time and Attendance Reporting* (GAO-03-352G, Jan. 2003).

reporting . . . is advancing technology and the accelerated adoption of automation driven largely by the need for increased efficiency as promoted by the Government Paperwork Reduction Act.” In the report, the Government Accountability Office emphasizes that in applying available technology to achieve an effective and efficient T&A system, there should first be strong internal controls in accordance with applicable legal and other requirements. OIG notes that a current Department system, Web-enabled Electronic Time and Attendance Application (Web.TATEL), is available to perform such a function. This browser-based application enables remote timekeepers to record their data in the Web.TATEL database in Washington, DC, through the Department’s OpenNet. The system also provides two-way communication with the Consolidated American Payroll Processing System in the Charleston and Bangkok Global Financial Services Centers. One system benefit is that the application has been designed to protect against T&A delays caused by equipment failure.

Conclusion

Officials at both Embassy Baghdad and Charleston must make significant efforts to improve the reliability of T&A information and reduce the potential for fraud and abuse. The substantial number of overtime hours in Iraq for American personnel warrants full compliance with Department regulations and post policies and procedures. Supervisors in Iraq perform a vital control function. They are responsible for complete and accurate T&A reporting, and the scope of their responsibility should extend to the prevention and detection of improper payroll transactions resulting from fraud and abuse. These supervisors have more direct knowledge of the substantial amount of overtime worked and the individuals involved in the payroll process. Similarly, Charleston officials need to improve their quality control duties, as outlined in 4 FAH-3 H-500, “Payroll, Time and Attendance, and Leave Accounting,” ensuring that T&A data is authorized, approved, and accurate and that all supporting documentation is attached. To resolve discrepancies, Charleston personnel should obtain the supervisor’s certification in writing. Charleston officials need to improve their quality controls to meet this responsibility. In addition, OIG notes that some internal control weaknesses and payroll processing inefficiencies could potentially be resolved with an automated post payroll system.

Recommendation 1. OIG recommends that Embassy Baghdad, Management Section, improve supervisory controls for compliance with the Foreign Affairs Handbook (4 FAH-3 H-500, “Payroll, Time and Attendance, and Leave Accounting”) and with the Embassy’s policies and procedures, including authorizing and approving overtime, to ensure the reliability of time and attendance information for American employees.

Management Response: The Embassy stated that it “believes Mission Policy 50 addressed many of the supervisory control issues noted” in OIG’s report and agreed that “more can be done to educate employees and particularly supervisors who may still not be properly meeting their responsibilities under the existing policy.” The Embassy stated that it will “take steps” to comply with the recommendation.

OIG Reply: Although Mission Policy 50 does address many of the supervisory control issues noted in this report, OIG continued to find inadequate supervisory procedures and controls for the 6-month period after Mission Policy 50 was enacted in May 2009. For example, after Mission Policy 50 was sent to all mission elements, 20 percent of timesheets sampled by OIG still did not have the required Forms DS-3060 to support the advance authorization of overtime. However, OIG considers Recommendation 1 resolved, pending identification of the steps the Embassy plans to take to strengthen the controls outlined in Mission Policy 50.

Recommendation 2. OIG recommends that Embassy Baghdad, Management Section, as part of its quarterly monitoring of overtime hours worked for American employees, include a review of supervisory oversight concerning authorizing and approving overtime.

Management Response: The Embassy stated that it “will incorporate a supervisory oversight component into its quarterly review of overtime.”

OIG Reply: Recommendation 2 is considered resolved, pending the Embassy’s description of its supervisory oversight component as integrated into its quarterly review of overtime. The results of the next quarterly review that includes an evaluation of supervisory oversight should be provided to OIG.

Recommendation 3. OIG recommends that Embassy Baghdad, Management Section, discontinue the practice of allowing employees to submit their time and attendance information directly to the Charleston Global Financial Services Center.

Management Response: The Embassy “disagree[s] with this recommendation at this time,” stating that if someone other than the employees submitted documentation to Charleston, that “would require either additional administrative staff or would place an unnecessary administrative burden on supervisors” to submit the documentation. The Embassy further stated that “proper enforcement” of Mission Policy 50 and “continued strict enforcement” by Charleston’s Post Support Unit (as OIG recommended in Recommendation 4) “should allow submission of properly

completed, approved and attested [T&A] and overtime reporting documents directly by the employee.”

OIG Reply: OIG agrees that proper enforcement of Mission Policy 50 will improve supervisory controls for compliance with the FAH (4 FAH-3 H-500) and increase the reliability of T&A information for American employees. However, the Government Accountability Office guide “Maintaining Effective Control Over Employee Time and Attendance Reporting” states that “the system used to transmit the information should protect T&A information from unauthorized change or alteration.”

Recommendation 3 is considered unresolved. The Embassy needs to enact an additional internal control to ensure that T&A information is free from potential unauthorized changes or alterations. OIG notes that this control weakness could potentially be solved if the post adopts an automated payroll system, as discussed in the section “Benefits of Automated Timekeeping System for Americans in Iraq” in this report.

Recommendation 4. OIG recommends that the Charleston Global Financial Services Center, Post Support Unit, improve its quality assurance of time and attendance information received from Embassy Baghdad. The Unit should also revise payroll instructions in the Charleston Permanent Change of Station and Temporary Duty Employee Handbook that permit employees to turn in timesheets 2 weeks before the work is performed, contact only supervisors concerning payroll corrections and adjustments, and document payroll adjustments.

Management Response: RM stated that during the audit it worked with Embassy staff and “implemented new procedures” that addressed “quality control issues associated with processing overtime pay, including insisting the American employees submit complete and accurate [T&A] data.”

OIG Reply: During our audit, Charleston did reaffirm to Embassy Baghdad the penalties for noncompliance with existing payroll procedures. On the basis of RM’s response and recent actions by Charleston to strengthen its quality assurance program, OIG considers Recommendation 4 resolved, pending revision of the payroll instructions in the Charleston Permanent Change of Station and Temporary Duty Employee Handbook as they relate to the timing of timesheet submissions, the contacting of supervisors concerning payroll corrections and adjustments, and the documentation of payroll adjustments.

Recommendation 5. OIG recommends that Embassy Baghdad, Management Section, review the costs and benefits of automating Embassy Baghdad's manual payroll system requirements so that timesheets and supporting documentation can be more economically and efficiently received and processed through Department of State payroll systems.

Management Response: The Embassy agreed with the recommendation, stating that "automation may offer efficiencies" and that it will "conduct a review of the costs and benefits of automating the manual payroll system in preparation for the Summer 2011 transition from Provincial Reconstruction Teams to Enduring Presence Posts, which will have OpenNet access." The Embassy further stated that "[c]onnectivity to OpenNet remains problematic" at most of the Provincial Reconstruction Teams, where a quarter of Department staff in Iraq currently serves.

OIG Reply: Recommendation 5 is considered resolved, pending the results of the Embassy's review of the costs and benefits of automating the manual payroll system. OIG believes that an automated payroll system can mitigate many of the internal control weaknesses and payroll processing inefficiencies described in this report.

LIST OF RECOMMENDATIONS

Recommendation 1. OIG recommends that Embassy Baghdad, Management Section, improve supervisory controls for compliance with the Foreign Affairs Handbook (4 FAH-3 H-500, “Payroll, Time and Attendance, and Leave Accounting”) and with the Embassy’s policies and procedures, including authorizing and approving overtime, to ensure the reliability of time and attendance information for American employees.

Recommendation 2. OIG recommends that Embassy Baghdad, Management Section, as part of its quarterly monitoring of overtime hours worked for American employees, include a review of supervisory oversight concerning authorizing and approving overtime.

Recommendation 3. OIG recommends that Embassy Baghdad, Management Section, discontinue the practice of allowing employees to submit their time and attendance information directly to the Charleston Global Financial Services Center.

Recommendation 4. OIG recommends that the Charleston Global Financial Services Center, Post Support Unit, improve its quality assurance of time and attendance information received from Embassy Baghdad. The Unit should also revise payroll instructions in the Charleston Permanent Change of Station and Temporary Duty Employee Handbook that permit employees to turn in timesheets 2 weeks before the work is performed, contact only supervisors concerning payroll corrections and adjustments, and document payroll adjustments.

Recommendation 5. OIG recommends that Embassy Baghdad, Management Section, review the costs and benefits of automating Embassy Baghdad’s manual payroll system requirements so that timesheets and supporting documentation can be more economically and efficiently received and processed through Department of State payroll systems.

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APPENDIX A

SCOPE AND METHODOLOGY

As a follow-up to issues identified in the July 2009 Office of Inspector General (OIG), Office of Inspections, report *Embassy Baghdad, Iraq* (ISP-I-09-30A), OIG conducted an audit of Embassy Baghdad internal controls for overtime for 2008 and 2009. To determine the adequacy of internal controls and to verify compliance with the requirements of the Foreign Affairs Handbook (FAH), 4 FAH-3 H-500, "Payroll, Time and Attendance, and Leave Accounting," OIG obtained the Charleston Global Financial Services Center Post Support Unit overtime payroll and time and attendance data for January 1, 2008, through December 31, 2009.

OIG selected a sample of 108 American payroll records that had the highest amounts of overtime within a pay period (greater than 100 hours). For 2008, OIG chose for review 52 overtime records, for 15 staff members, involving 5,837 overtime hours, at a cost of \$267,054. For 2009, OIG chose for review 56 overtime records, for 17 staff members, involving 5,851 overtime hours, at a cost of \$262,765. In evaluating internal controls, OIG concentrated on the authorization and payment of overtime and the controls over the payroll process. OIG reviewed time and attendance records for compliance with established internal controls, but it did not attempt to validate the justification for employee overtime or the completion of requirements for overtime pay.

OIG compared the sample selection with records in the Consolidated American Payroll Processing System of hours worked and paid. In the review of time and attendance records, OIG tested internal controls over timesheets and supporting documentation, including compliance with Form DS-3060, Authorization of Premium Compensation, which addressed overtime and was required to be used by Embassy Baghdad staff after Mission Policy 050, "Procedures for Reporting Time and Attendance, Leave, and Overtime," became effective on May 15, 2009. OIG considered overtime pay limitations that capped aggregate basic pay and overtime pay.

OIG analyzed Department of State policies and procedures for time and attendance, including overtime pay; Baghdad mission policies and procedures; Charleston policies and procedures; and other relevant federal laws, regulations, and standards.

OIG conducted fieldwork in Washington, DC, in the Bureau of Resource Management (RM), Near Eastern Affairs, and Human Resources. OIG's primary source of information was obtained from RM's Charleston Global Financial Services Center Post Support Unit. OIG visited the Center in October 2009 and interviewed officials responsible for preparing, verifying, and processing overtime pay and maintaining the documentation to support overtime hours reported and paid by the Department. Also at the Center, OIG met with officials from the Office of American Payroll and Pension Operations, Customer Support Training and Global Disbursing Directorate, and the Post Support Unit, of which the Post Support Unit was most directly responsible for processing payrolls for Embassy Baghdad personnel. OIG also contacted Embassy Baghdad officials for background and other information relevant to the audit.

OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG obtained sufficient evidence that provides a reasonable basis for the findings and conclusions based on the audit objectives. The work was limited to a review of Embassy Baghdad American staff receiving overtime pay. If additional procedures had been performed concerning other pay, benefits, and allowances, other matters may have come to OIG's attention and would have been reported. The audit was performed by OIG's Office of Audits, Contracts and Grants Division, between September 2009 and March 2010.

The Embassy and RM responded to OIG's draft report (Appendices C and D, respectively), and agreed with four of the report's five recommendations. Based on the responses, OIG considers four recommendations resolved, pending further action, and one recommendation unresolved. OIG's replies to managements' comments are presented after each recommendation.

Review of Internal Controls and Automated Systems

OIG determined that internal control weaknesses existed because of noncompliance with existing Department and Embassy Baghdad policies and procedures. Time and attendance transactions were not properly authorized, approved, and documented as part of the official pay system. Therefore, controls were not effective for detecting excessive and improper overtime pay charges. Statistical sampling techniques were not used; therefore, OIG was unable to project the results of its analysis to the time and attendance reports for all Embassy Baghdad employees. However,

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the numbers and types of discrepancies that OIG identified indicated that significant internal control weaknesses existed in time and attendance reporting.

OIG believes that implementing the recommendations contained in the report will improve controls over the accuracy and integrity of time and attendance reporting. The goal of correcting deficiencies is to provide post management with assurance that its payroll expenses and related time and attendance information is reliable and reasonably free of the potential for fraud and abuse.

The audit used computer-generated data found in the Consolidated American Payroll Processing System. OIG compared the information reported on time and attendance forms for Embassy Baghdad regular and overtime payroll data with output from the Consolidated American Payroll Processing System. Based on this comparison, OIG identified five minor discrepancies between the hours reported on the timesheets and the hours recorded in the payroll processing system.

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APPENDIX B

SUMMARY OF TIME AND ATTENDANCE REQUIREMENTS FOR AMERICANS AT EMBASSY BAGHDAD

Employee Type	PCS/TDY/Section 3161	Specialists, Untenured Generalists, and Civil Service Excursions
Time Sheets	Required to be signed every pay period by employee and supervisor.	Required to be signed every pay period by employee and supervisor.
Requesting Approval for Overtime Pay	Form DS 3060, Overtime Pay Authorization, is signed by supervisor at the beginning of pay period.	Form DS 3060, Overtime Pay Authorization, is signed by supervisor at the beginning of pay period.
Overtime Pay Reporting	After the employee has worked, the actual overtime pay hours from the prior pay period will be claimed on the current timesheet.	After the employee has worked, the actual overtime pay hours from the prior pay period will be claimed on the current timesheet.
Overtime Pay Cap per Pay Period (PP)	The pay cap is 60 hours. Any hours above this number require the employee to prepare a special justification for the supervisor.	The pay cap is 60 hours. Any hours above this number require the employee to prepare a special justification for the supervisor.
Leave Slips for Rest and Relaxation or Sick Leave	These slips are required to be submitted in or before the pay period in which they apply.	These slips are required to be submitted in or before the pay period in which they apply.
Time Sheet Not Received or Does Not Contain Correct Signature/Justification	The employee is placed on Leave Without Pay until the issue is resolved.	The employee will not receive Danger Pay, Sunday Pay, or Overtime Pay hours until outstanding issues are resolved.

Source: Based on input from Embassy Baghdad Mission Policy 050, dated May 2009.

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APPENDIX C



Embassy of the United States of America
Baghdad, Iraq

June 1, 2010

INFORMATION MEMORANDUM

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TO: OIG/DIG – Harold W. Geisel
FROM: Charge d'Affaires – Cameron P. Munter *CM*
SUBJECT: Response to OIG Draft Report on Audit of Embassy
Baghdad Internal Controls for Overtime Pay

Embassy Baghdad thanks you for the opportunity to comment on the draft report on the *Audit of Embassy Baghdad Internal Controls for Overtime Pay*. We appreciate the time and effort your staff put into this audit and the preparation of the draft report.

The Ambassador and Embassy management take very seriously the need to exercise proper internal controls over the reporting and payment of premium pay. Upon review of the draft report, we note that the majority of the records reviewed appear to predate our May 2009 Mission Policy 50 which established stronger controls on overtime reporting; and that all records were selected for having the highest amounts of overtime within a pay period. We believe that we have already made substantial progress in addressing the issues raised in the audit, and as efforts continue to more firmly enforce Mission Policy 50, both here at post and by the Post Support Unit (PSU) of the Charleston Global Financial Services Center, we will see significantly fewer examples of improperly prepared time and attendance reports and overtime pay approvals.

The Embassy offers the following responses to the draft report's specific recommendations for the Embassy:

Recommendation 1: That Embassy Baghdad, Management Section, improve supervisory controls for compliance with the Foreign Affairs Handbook (4-FAH-3, H-500 "Payroll, Time and Attendance, and Leave Accounting) and with the Embassy's policies and procedures, including authorizing and approving overtime, to ensure the reliability of time and attendance information for American employees.

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Embassy response: The Embassy believes Mission Policy 50 addressed many of the supervisory control issues noted in the report. We agree that more can be done to educate employees and particularly supervisors who may still not be properly meeting their responsibilities under the existing policy. The Embassy will take steps to do so.

Recommendation 2: That Embassy Baghdad, Management Section, as part of its quarterly monitoring of overtime hours worked for American employees, include a review of supervisory oversight concerning authorizing and approving overtime.

Embassy response: The Embassy agrees and will incorporate a supervisory oversight component into its quarterly review of overtime.

Recommendation 3: That Embassy Baghdad, Management Section, discontinue the practice of allowing employees to submit their time and attendance reports directly to the Charleston Global Financial Services Center.

Embassy response: The Embassy disagrees with this recommendation at this time. To require submission by someone other than the employee would require either additional administrative staff or would place an unnecessary administrative burden on supervisors to submit their employees' documentation. We believe proper enforcement of Mission Policy 50 here at post and continued strict quality assurance by PSU (per OIG Recommendation 4) should allow submission of properly completed, approved and attested time and attendance and overtime reporting documents directly by the employee.

Recommendation 5: That Embassy Baghdad, Management Section, review the costs and benefits of automating Embassy Baghdad's manual payroll system requirements so that timesheets and supporting documentation can be more economically and efficiently received and processed through Department of State payroll systems.

Embassy response: Connectivity to OpenNet remains problematic at most of the Provincial Reconstruction Teams (PRT), where a quarter of our staff serves. However, the Embassy agrees that automation may offer efficiencies. We will conduct a review of the costs and benefits of automating the manual payroll system in preparation for the Summer 2011

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transition from PRTs to Enduring Presence Posts, which will have OpenNet access.

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APPENDIX D



United States Department of State
Global Financial Services
P.O. Box 150008
Charleston, SC 29415-5008
PH: 843-308-5576

JUN 01 2010

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MEMORANDUM

TO: OIG – Harold W. Geisel (Acting)

FROM: RM/GFS – James L. Millette 

SUBJECT: Draft Report on Audit of the Embassy Baghdad Internal Controls for Overtime Pay

Thank you for the opportunity to comment on the Draft Report on Audit of the Embassy Baghdad Internal Controls for Overtime Pay. The responses for this report's recommendations are provided below.

In May 2009, our staff, working with Embassy Baghdad, implemented new procedures addressing, among other areas, quality control issues associated with processing overtime pay, including insisting that American employees submit complete and accurate Time and Attendance data. We understand that a majority of the scope of the overtime reviewed during the audit occurred during 2008 and the first half of 2009, but the draft report does not indicate the impact the process improvements had on the T&A process during the audit. These improvements have addressed recommendation number 4, which states "OIG recommends that the Charleston Global Financial Services Center, Post Support Unit, improve its quality assurance of time and attendance information received from Embassy Baghdad. The Unit should also revise payroll instructions in the Charleston Permanent Change of Station and Temporary Duty Handbook that permits employees to turn in timesheets two weeks before the work is performed, contact only supervisors concerning payroll corrections and adjustments, and document payroll adjustments."

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We also note this draft report was sent to Mr. Keith Kohler, RM/GFS/C/APPO. Reports from the OIG, draft or final, in the future should be addressed to the Deputy Assistant Secretary, Global Financial Services James L. Millette.

GFS appreciates the opportunity to comment on the OIG Audit Draft Report. The operational point of contact is Paul McVicker. He may be reached by email at mcvickerpj@state.gov or by phone at (843) 202-3858.

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ABBREVIATIONS

CAPPS	Consolidated American Payroll Processing System
FAH	Foreign Affairs Handbook
GFSC	Global Financial Services Center
OIG	Office of Inspector General
PCS	permanent change of station
TDY	temporary duty
T&A	time and attendance
Web.TATEL	Web-enabled Electronic Time and Attendance Application

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