



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S PAYROLL PAYMENTS TO FOREIGN SERVICE NATIONALS, THIRD-COUNTRY NATIONALS, AND U.S. PERSONAL SERVICES CONTRACTORS

AUDIT REPORT NO. E-267-11-001-P
NOVEMBER 22, 2010

BAGHDAD, IRAQ



Office of Inspector General

November 22, 2010

MEMORANDUM

TO: Acting USAID/Iraq Mission Director, Alex Deprez

FROM: Office of Inspector General/Iraq, Director, Lloyd Miller /s/

SUBJECT: Audit of USAID/Iraq's Payroll Payments to Foreign Service Nationals, Third-Country Nationals, and U.S. Personal Services Contractors (Report No. E-267-11-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments and included your response, without attachments, in Appendix II.

The report contains eight recommendations to help the mission improve its payroll processing and to pay or collect amounts due to or from employees. On the basis of the information provided by the mission in its response to the draft report, we consider that management decisions and final actions have been taken on Recommendations 1, 2, 4, 5, 6, and 8. In addition, management decisions have been reached on Recommendations 3 and 7. Determinations of final action will be made by the Audit Performance and Compliance Division on completion of the planned corrective actions for Recommendations 3 and 7.

I want to thank you and your staff for the cooperation and courtesies extended to us during this audit.

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SUMMARY OF RESULTS

In calendar year 2009, USAID/Iraq paid about \$8.2 million in payroll, benefits, and allowances to its non-U.S. direct-hire employees. This amount included approximately:

- \$6.5 million in payroll to 57 third-country nationals and 34 U.S. personal services contractors.
- \$564,000 in involuntary separate maintenance allowances to 53 of its third-country nationals and U.S. personal services contractors.
- \$1 million in payroll to 43 Foreign Service Nationals (locally hired Iraqi staff).
- \$100,000 in severance and retirement payments to nine Foreign Service Nationals who had either voluntarily or involuntarily terminated employment.

Third-country nationals who work in Iraq are entitled to the same benefits and allowances as the U.S. personal services contractors, and both are paid under the Federal Government's General Service salary schedule. Their benefits include (1) danger pay,¹ (2) post differential,² (3) Sunday differential,³ and (4) involuntary separate maintenance allowances.⁴ Local Iraqis employed by the U.S. Government are compensated in compliance with the Local Compensation Plan prepared by the Department of State.

We performed this audit in response to a USAID/Iraq request. The mission's request arose from concerns about the frequent rotation of staff and the resulting risk of inaccurate salary payments. The objective of the audit was to determine whether USAID/Iraq had properly calculated and disbursed payroll payments to its Foreign Service Nationals, third-country nationals, and U.S. personal services contractors in accordance with established regulations, policies, and procedures. To answer the audit objective, we selected statistically projectable samples (from the 90 percent to the 100 percent confidence level) from the universes of payments, and we verified whether individual payroll transactions had been properly computed. Appendix IV includes the universe and sample of payments, number and dollar amount of errors for each sample, and the range of projected errors for each payment category.

The audit found that payments to third-country nationals and U.S. personal services contractors (\$6.5 million of the total \$8.2 million)—the largest payroll category—were

¹ Danger pay is an allowance that provides additional compensation for working in a foreign area where terrorism or wartime conditions threaten physical harm or imminent danger to the employee.

² Post differential is an additional compensation for service in foreign areas where conditions differ substantially from those in the continental United States.

³ Sunday differential is an additional compensation for the hours worked on Sundays in countries where Sunday is a workday.

⁴ Involuntary separate maintenance allowance is granted to an employee whenever the head of agency determines that the employee is compelled to maintain any or all members of family elsewhere than at the foreign post of assignment.

generally accurate. In addition, payments for involuntary separate maintenance allowances (\$564,000) were also generally accurate.

Regarding payroll (\$1 million) and severance or retirement payments (\$100,000) for local Iraqi staff, the audit found more inaccurate payments and systemic errors. Issues included:

- Severance and retirement payments for Foreign Service Nationals were not accurately computed (page 3).
- Overtime payments for Foreign Service Nationals were not accurately computed (page 4).

The audit also found other errors that, although not systemic or material, require management attention. These issues are included as “Other Matters” (page 5).

The report recommends that USAID/Iraq:

1. Clarify in writing the relevant sections of the Local Compensation Plan for the Bangkok payroll office to understand the types of allowances to be included in the computation of unused annual leave (page 3).
2. Establish written procedures to obtain the computation package of severance and retirement payments from the Bangkok payroll office for verification before processing payment (page 4).
3. Determine the amount of underpayments in unused leave and severance pay to Foreign Service National employees, and pay any amounts due (page 4).
4. Remind staff of the mission’s overtime policy and the procedures for recording overtime in time and attendance sheets (page 5).
5. Establish procedures to require the financial management office to review time sheets for overtime hours recorded and resolve discrepancies before entering the time into the electronic time and attendance system (page 5).
6. Clarify in writing the different overtime rates and the standard workweek in Iraq, as stated in the Local Compensation Plan, for the Bangkok payroll office (page 5).
7. Recompute underpayments to employees and pay any amounts due, and prepare bills of collection to recover overpayments from employees (page 5).
8. Reinforce to all staff the mission’s overtime approval processes (page 5).

The audit scope and methodology are described in Appendix I. The mission agreed with report recommendations. Mission written comments on the draft report are included in Appendix II; our evaluation of management comments is on page 6. USAID/Iraq’s procedures for processing payroll and allowances are included in Appendix III. Detailed findings follow.

AUDIT FINDINGS

Severance and Retirement Payments for Foreign Service Nationals Were Not Accurately Computed

According to the July 5, 2009, Iraq Local Compensation Plan issued by U.S. Embassy Baghdad, an employee is entitled to payment on separation for unused annual leave and restored annual leave. The Local Compensation Plan further states that keeping a current security clearance is a condition of employment with the mission; employees who lose their security clearance are separated from the embassy's employment without cause and are given severance pay.

Eight of the universe of nine Foreign Service Nationals were underpaid a total of \$13,420 in unused annual leave. This amount included \$7,061 in restored annual leave and \$6,359 in unused annual leave.

- Four of the nine employees had restored leave balances. However, only one of the four employees was compensated, and that employee was compensated for an incorrect amount. The underpayments totaled \$7,061.
- Eight of the nine employees had unused annual leave totaling \$27,258. However, they were compensated for only \$20,899, resulting in underpayments amounting to \$6,359.

In addition, three of the nine employees had lost their security clearance as a result of failing their polygraph test and therefore were terminated without cause. However, only one of the three employees received a severance payment; the other two employees were not compensated for a total of \$4,776. These underpayments occurred although USAID/Iraq had explicitly listed severance pay as one of the benefits for the three employees in the documents transmitted to the Bangkok payroll office for payments.

These underpayments occurred because the Bangkok payroll staff did not understand the composition of allowances included in the computation of accrued annual leave in compliance with the Local Compensation Plan. The Bangkok office included only the base salary rate and work allowances in the computation, but the Local Compensation Plan also included a retention differential. Moreover, these errors occurred because policies and procedures were not in place to require the Bangkok payroll office, before processing payments, to provide the computation package of severance and retirement payments to USAID/Iraq for verification.

As a result, employees were not properly compensated for their unused leave and severance pay on their departure. We recommend the following:

Recommendation 1. *We recommend that USAID/Iraq clarify in writing the relevant sections of the Local Compensation Plan for the Bangkok payroll office to understand the types of allowances to be included in the computation of unused annual leave.*

Recommendation 2. *We recommend that USAID/Iraq establish written procedures to obtain the computation package of severance and retirement payments from the Bangkok payroll office for verification prior to payment processing.*

Recommendation 3. *We recommend that USAID/Iraq determine the amount of underpayments in unused leave and severance pay to Foreign Service National employees, and pay the individuals any amounts due.*

Overtime Payments for Foreign Service Nationals Were Not Accurately Computed

According to USAID/Iraq's Mission Order 09-08-01 for overtime and compensatory time-off policy, August 16, 2009, overtime or compensatory time may be accrued, if approved, for hours actually worked in excess of 8 hours in a weekday and 40 hours in a week. For example, if an employee took 32 hours of paid leave in a week, and then worked 8 hours in the same week, the employee would be paid at a regular rate for those 8 hours and not at an overtime rate. In addition, according to the Local Compensation Plan, different overtime rates are used in computing overtime payments depending on the day of the week when overtime is earned:

- 150 percent of the hourly rate applies for each hour of overtime worked on a workweek day (Sunday through Thursday), or on a Saturday that is not a local holiday.
- 200 percent of the hourly rate applies for each hour of overtime worked on a workweek day or on a Saturday that is a local holiday.
- 200 percent of the hourly rate applies for each hour of overtime worked on a Friday.

Of the 48 sampled payroll transactions, 12 (25 percent) were not properly computed. Seven of the inaccurately computed transactions resulted from the following systemic errors:

- Supervisors approved overtime during a week when the actual hours worked were fewer than 40 hours because of a holiday or because the employee was in a leave status.
- Payroll officials did not apply the correct overtime rate. For example, an employee worked 8 hours of overtime on a Friday and 8 hours on a Saturday that was not a holiday. Officials applied the 200 percent overtime rate to the full 16 hours worked, instead of applying the 150 percent rate to the 8 hours worked on Saturday.

These overtime errors occurred in part because the employees did not record their overtime hours accurately in their time and attendance sheets, and their supervisors approved the inaccurate time sheets. In addition, the payroll officials at USAID/Iraq entered the time and attendance records as prepared by the employees. Moreover, the payroll officials in Bangkok did not apply the overtime rates specified in the Local Compensation Plan in computing employees' overtime payments.

These errors resulted in overall differences of \$1,264, of which \$708 was due to systemic errors. We recommend the following:

Recommendation 4. *We recommend that USAID/Iraq remind staff of its overtime policy and the procedures for recording overtime in time and attendance sheets.*

Recommendation 5. *We recommend that USAID/Iraq establish procedures to require the financial management office to review time sheets for overtime hours recorded and resolve discrepancies before entering the time into the electronic time and attendance system.*

Recommendation 6. *We recommend that USAID/Iraq clarify in writing the different overtime rates and the standard workweek in Iraq, as stated in the Local Compensation Plan, for the Bangkok payroll office.*

Other Matters

The audit identified other errors that, although not found to be systemic or material, require management attention.

In the payment category for involuntary separate maintenance allowance, payroll officials made four computation errors with an absolute dollar value of \$1,974—one overpayment of \$190 and three underpayments totaling \$1,784.

In all payroll categories reviewed, the audit disclosed six instances in which the office directors approved overtime in excess of limits established by the mission without obtaining the required approval of the deputy mission director or his designee.

We also identified eight errors totaling \$2,208 in processing the payroll for third-country nationals and U.S. personal services contractors. Two of the eight errors were subsequently corrected and require no further actions; four resulted from overtime approvals discussed in the preceding paragraph. The two remaining errors requiring management attention are:

- A third-country national employee was underpaid \$1,496 because payroll officials incorrectly computed post differential.
- In one instance, a U.S. personal services contractor was paid for 80 hours of Sunday differential by the paying office rather than the 8 hours reported by the mission, resulting in an overpayment of \$670.

We recommend the following:

Recommendation 7. *We recommend that USAID/Iraq recompute the amounts of underpayments made to employees and any amounts due, and prepare bills of collection to recover overpayments due from employees.*

Recommendation 8. *We recommend that USAID/Iraq reinforce to all staff the mission's overtime approval processes.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, the mission agreed with all of the recommendations and described actions taken to address the recommendations. We reviewed the mission's response and supporting documents, and determined that final action has been taken on Recommendations 1, 2, 4, 5, 6, and 8. Management decisions have been reached on Recommendations 3 and 7. The status of each of the recommendations is discussed below.

Regarding Recommendation 1, the mission sought clarification from the embassy for the Local Compensation Plan. The Local Compensation Plan has been updated, effective October 10, 2010, and the section related to allowances for payment of unused annual leave was updated with the necessary explanation. Accordingly, we determined that final action has been taken on this recommendation.

Regarding Recommendation 2, the mission has established written procedures requiring the financial management office to (1) obtain from the Bangkok payroll office the computation of severance and retirement payments and (2) review the computation for accuracy before processing payments for separated employees. We consider that final action has been taken on this recommendation.

Regarding Recommendation 3, the mission's payroll specialist is coordinating with the mission human resources office to obtain the personnel actions to determine the amount of underpayments in unused leave and severance pay to separated Foreign Service National employees. Accordingly, a management decision has been reached on Recommendation 3. The estimated date for completion is December 31, 2010.

Regarding Recommendation 4, the mission's payroll specialist provides a biweekly e-mail reminder to the mission's Foreign Service National staff of the overtime policy and approval processes. The e-mail also references the mission order on overtime and provides instructions for proper recording of overtime in time and attendance sheets. We determined that final action has been taken on this recommendation.

Regarding Recommendation 5, the mission has payroll desk procedures that address the review of time and attendance. The relevant procedure requires the payroll specialist to review time and attendance and make sure that the overtime and leave forms are signed by the authorized supervisors. The payroll specialist questions any discrepancies, which are corrected before the specialist records information in the electronic time and attendance system. We consider that final action has been taken on this recommendation.

Regarding Recommendation 6, the mission discussed the issue of different overtime rates and the standard workweek in Iraq with the embassy's human resources officials. The embassy's human resources office has addressed the problem with the Bangkok payroll office, and the necessary corrections were made in the payroll system at the

beginning of calendar year 2010. We consider that final action has been taken on this recommendation.

Regarding Recommendation 7, the mission recomputed the amounts of underpaid involuntary separate maintenance allowance and post differential. The mission is in the process of making payments to employees for underpayments and has issued a bill of collection to a former employee to recover an overpayment. We consider that a management decision has been made on this recommendation. The mission expects to complete final action by December 31, 2010.

Regarding Recommendation 8, the mission sends staff a biweekly e-mail reminder of the mission's overtime policies and approval processes. The e-mail reminder includes as an attachment the mission order on overtime policy. We consider that final action has been taken on this recommendation.

Determinations of final action for Recommendations 3 and 7 will be made by the Audit Performance and Compliance Division on completion of the planned corrective actions. The mission's written comments on the draft report are included in their entirety, without attachments, in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit was designed to answer the following audit objective:

Did USAID/Iraq properly calculate and disburse payroll payments to its Foreign Service Nationals, third-country nationals, and U.S. personal services contractors in accordance with established regulations, policies, and procedures?

We conducted fieldwork at USAID/Iraq's financial management office and human resources office. In calendar year 2009, USAID/Iraq paid about \$8.2 million to its 134 non-U.S. direct-hire workforce in payroll, benefits, and allowances. USAID/Iraq's non-U.S. direct-hire workforce was composed of 57 third-country nationals, 38 Foreign Service Nationals (locally hired Iraqis), and 34 U.S. personal services contractors. The \$8.2 million included:

- \$6,554,429 in payroll to 91 third-country nationals and U.S. personal services contractors
- \$564,159 in involuntary separate maintenance allowances to 53 third-country nationals and U.S. personal services contractors
- \$973,678 in payroll to 43 Foreign Service Nationals
- \$100,594 in severance and retirement payments to nine Foreign Service Nationals

To answer the audit objective, we statistically selected and tested 185 transactions, totaling \$348,648. This amount included \$100,594 in severance and retirement payments. On the basis of the sampling methodology we used, we can project the results of our sample to the universe of each payment category.

In conducting our audit, we obtained and verified source documents provided by the mission. We reviewed pertinent criteria and documents related to computation of payroll and allowances for third-country nationals, U.S. personal services contractors, and Foreign Service Nationals. Those documents included the (1) Local Compensation Plan, (2) U.S. Department of State Foreign Affairs Handbook FAH-1 H-3412.1, (3) mission overtime policy, and (4) Acquisition and Assistance Policy Directive for revision of contracts and contract procedures for personal services contracts with third-country nationals to work in Iraq and Afghanistan (AAPD 03-11). We also identified and assessed the internal controls related to each category of payments.

Because no prior audits of payroll had been conducted, no prior audit recommendations

required follow-up. We conducted our fieldwork between January 13 and May 24, 2010, at USAID/Iraq. We also collected and confirmed information with wage specialists at the Department of State in Washington, D.C., and at the U.S. Embassy in Baghdad, Iraq. We collected and confirmed information from (1) the U.S. disbursing office in Bangkok, Thailand, for payments to Foreign Service Nationals and (2) the USAID/Jordan financial management office for payments to U.S. personal services contractors. We did not collect or confirm information from the USAID/Egypt financial management office for (1) payments to third-country nationals or (2) payments of involuntary separate maintenance allowances, because all of these payments are computed at USAID/Iraq.

Methodology

To answer the audit objective, we divided the universe of payments into four different subuniverses: (1) payments for severance and retirement, (2) payroll for Foreign Service Nationals, (3) payroll for third-country nationals and U.S. personal services contractors, and (4) payments for involuntary separate maintenance allowances. We statistically selected the following universes:

- For payments for severance and retirement, we selected 100 percent of severance and retirement payments, totaling \$100,594, to nine Foreign Service Nationals.
- For payroll for Foreign Service Nationals, we selected 48 transactions (\$104,343) from the universe of 735 transactions (\$973,678) on the basis of (1) 90 percent confidence level, (2) less than 5 percent error rate, and (3) 4 percent precision.
- For payroll for third-country nationals and U.S. personal services contractors, we selected 81 transactions (\$85,550) from the universe of 6,697 transactions (\$6.5 million) on the basis of (1) 95 percent confidence level, (2) less than 5 percent error rate, and (3) 4 percent precision.
- For payments for involuntary separate maintenance allowances, we selected 47 transactions (\$58,161) from the universe of 444 transactions (\$564,159) on the basis of (1) 90 percent confidence level, (2) less than 5 percent error rate, and (3) 4 percent precision.

Regarding the materiality of the findings, we relied on our professional judgment to combine significance within the sample and universe as well as to determine whether findings were systemic or isolated. We used the following methodology in answering the audit objective for each subuniverse.

Severance and Retirement Payments. We obtained supporting documents including employees' final time sheets, final statements of earnings and leave, and personnel action forms. We designed a test plan using the information from interviews with USAID/Iraq officials and our review of the Local Compensation Plan. We independently computed each employee's severance and retirement pay and identified payments that were different from those computed by the Bangkok office. We discussed differences with USAID/Iraq officials. We also clarified issues with officials at U.S. Embassy Baghdad and at the Department of State in Washington, D.C., on eligibility for severance and retirement payments.

Foreign Service National Payroll. We extracted a list of 43 Foreign Service National employees from the universe of USAID/Iraq employees. We requested from the financial management office the payroll transactions posted in USAID's accounting system. Those transactions were posted for all employees monthly in a lump sum. We also obtained the employees' statements of earnings and leave and, with assistance from the information technology section at USAID/Iraq, we converted that information into an Excel spreadsheet for statistical selection purpose. We reconciled the amount of the transactions with the total amounts of employees' statements of earnings and leave, and we found no exceptions.

The universe of payroll transactions in calendar year 2009 for the 43 Foreign Service Nationals was 735 (\$973,678 total). We provided this data to the Office of Inspector General statistician, who selected a sample of 48 transactions (\$104,343) on the basis of a 90 percent confidence level. We presented the selected transactions to USAID/Iraq's financial management office and obtained time sheets with supporting documentation for leave or overtime as appropriate. We designed a test plan using the information from interviews with USAID/Iraq officials and our review of the Local Compensation Plan. We computed selected employees' payroll using their time sheets and verified that the time sheets had been signed by the employees and had supervisory approval. We determined whether overtime requests had been properly approved. We compared our computation with the employees' statements of earnings and leave and identified any differences. We shared differences with USAID/Iraq officials and, as necessary, recomputed exceptions with USAID/Iraq officials.

Third-Country Nationals and U.S. Personal Services Contractors. We obtained the universe of payroll transactions for 91 third-country nationals and U.S. personal services contractors with the assistance of financial management officials. This resulted in 6,697 transactions (\$6.5 million). These transactions represented (1) base pay, (2) danger pay, (3) post differential, (4) Sunday differential, and (5) overtime, and they were posted in USAID/Iraq's accounting system under different individual codes. Generally, these five transactions represented payroll for each pay period per individual. We sorted the transaction universe according to the five different payment types. We then presented our universe to the Office of Inspector General statistician and asked for a statistical sample, the result of which could be projected to the population. The statistician selected a sample of 81 transactions (\$85,550), which included items from each category on the basis of a 95 percent confidence level.

We designed a test plan using the information from interviews with USAID/Iraq officials and documents. We computed each selected transaction using the supporting time sheets and approved overtime, as appropriate, and compared the results with the amounts in the accounting system. We identified and discussed the differences with USAID/Iraq officials. We also compared the grade level of the individuals in the sample with their personal service contracts, and we identified exceptions.

Involuntary Separate Maintenance Allowances. We obtained the universe of 444 involuntary separate maintenance allowances transactions (\$564,159) paid to 53 third-country nationals and U.S. personal services contractors in calendar year 2009. We presented the universe to the Office of Inspector General statistician and asked for a statistically selected sample of transactions, the result of which could be projected to the population. The statistician selected a sample of 47 transactions (\$58,161) on the basis of a 90 percent confidence level. We presented the sample of transactions to

USAID/Iraq financial management officials and obtained supporting documents that included (1) marriage certificate, (2) birth certificate for children, (3) other official documents for dependents other than children, and (4) forms signed and authorized by the mission officials necessary to initiate the payment process. We designed a test plan that included (1) employee name, (2) number of dependents, (3) amount of annual involuntary separate maintenance allowance according to the policy, (4) daily rate, and (5) period covered. We then computed payments independently and examined the supporting documents to determine whether they were sufficient and properly authorized. We identified exceptions and discussed them with USAID/Iraq financial management officials.

MANAGEMENT COMMENTS



MEMORANDUM

Date: November 14, 2010

To: Lloyd Miller, Office of the Inspector General/Iraq

From: Robert E. Wuertz, Acting Mission Director /s/

Subject: Management Comments to Draft Audit Report E-267-11-00X-P

Thank you for affording the USAID/Iraq Mission an opportunity to respond to the draft audit of USAID/Iraq's Payroll payments to Foreign Service Nationals, Third Country Nationals and U.S. Personal Services Contractors. The Mission concurs with the audit findings and recommendations and the Mission's comments on the overall report can be found below. Specifically we have responded to the eight recommendations outlined in the draft OIG audit report, addressing actions taken or actions which are soon to be implemented.

Background

The Office of the Inspector General (OIG) draft audit report on the USAID/Iraq's Payroll payments to Foreign Service Nationals, Third Country Nationals and U.S. Personal Services Contractors was provided to the Mission on October 13, 2010. USAID/Iraq is responsible to process payroll for a non-U.S. direct-hire workforce composed of 57 Third Country National's, 34 U.S. Personal Service Contractors (paid under OPM guidelines), 38 Foreign Service National's (locally hired Iraqis paid using the Local Compensation Plan), using different reporting tools and systems.

Each of the findings and recommendations has been examined to determine 1) whether the Mission is in agreement and 2) what actions would be undertaken in response to the audit. The Mission is in agreement with the audit findings and recommendations of the audit and has taken the actions described below in response to the audit. The Mission recognizes the value of this audit as a management tool.

After receipt of the audit report the USAID/Iraq's Financial Management Office (FMO) met with the Executive Office and Human Resources Office to bring to their attention the issues identified in the report as they were significant enough to warrant immediate action by the Mission.

Below are the management decisions regarding the proposed audit recommendations:

Recommendation 1. We recommend that USAID/Iraq clarify in writing the relevant sections of the Local Compensation Plan for the Bangkok payroll office to understand the type of allowance to be included in the computation of unused annual leave.

Management Decision:

Local Compensation Plan has been updated effective October 10, 2010. The section related to allowances to be computed for the final payment of unused annual leave is updated with the necessary explanation (Attachment I).

Recommendation 2. We recommend that USAID/Iraq establish written procedures to obtain the computation package of severance and retirement payments from the Bangkok payroll office for verification prior to payment processing

Management Decision:

USAID/Iraq FMO has established procedures with GFS/Bangkok Payroll office and obtained the computation package of final payment to FSN staff. Payroll Specialist reviews the computation worksheet and coordinates with Bangkok Payroll office miscalculations if any.

Recommendation 3. We recommend that USAID/Iraq determine the amount of underpayments in unused leave and severance pay to Foreign Service National employees and pay the individuals any amount due.

Management Decision:

Unused Annual Leave and Severance Pay – Payroll Specialist is coordinating with the Mission HR office the payment request to Bangkok Payroll Office via JF-62. Action to be completed by December 31, 2010 (Attachment I & II).

Recommendation 4. We recommend that USAID/Iraq remind staff of its overtime policy, and the procedures for recording overtime in time and attendance sheets.

Management Decision:

Payroll Specialist provides and reminds the overtime policy and approval processes on bi-weekly basis via e-mail. This email advises employees to ensure that all overtime and leave forms are approved and appropriately signed. The Mission Order on the Mission Overtime Policy is available for all staff (Attachment III).

Recommendation 5. We recommend that USAID/Iraq establish procedures to require financial management office to review timesheets for overtime hours recorded and resolve discrepancies before entering the time into the electronic time and attendance system.

Management Decision:

FMO Payroll desk procedures are in place. Payroll Specialist reviews timesheets for overtime hours; correct any discrepancies or requests clarification on the submitted supporting documents before Time & Attendances recorded into the WinT&A for FSN staff.

Recommendation 6. We recommend that USAID/Iraq clarify in writing the different overtime rates and the standard workweek in Iraq, as stated in the Local Compensation Plan, for Bangkok payroll office.

Management Decision:

The issue of different overtime rates and standard workweek in Iraq was discussed with the Embassy HR. State Department FSN staff had similar problem for overtime rates for the work performed over the weekend. The Embassy HR office had addressed this problem to Bangkok Payroll office and the necessary corrections were made in the payroll system at the beginning of CY 2010.

Recommendation 7. We recommend that USAID/Iraq re-compute the amounts of underpayments made to employees and any amounts due, and prepare bills of collection to recover overpayments due from employee

Management Decision:

FMO re-computed the amounts of underpaid ISMA and post differential. Payment is in process and will be completed by November 30, 2010 (Attachment IV).

FMO issued Bill for Collection 267-BD-11-001 (Attachment V) for Sunday Differential in the amount of \$670.00. Bill for Collection was sent to former employee on 10/21/2010. Payroll Specialist will follow up in case of any problem/delays with refund. Action to be completed by December 31, 2010

Recommendation 8. We recommend that USAID/Iraq reinforce to all staff the mission's overtime policies and approval processes.

Management Decision:

Payroll Specialist provides and reminds the overtime policy and approval processes on bi-weekly basis via e-mail (Attachment II). This email advises employees to ensure that all overtime and leave forms are approved and appropriately signed. The Mission Order on the Mission Overtime Policy is available for all staff.

Based on the above, we believe that the actions taken by USAID/Iraq have adequately addressed the eight audit recommendations and the auditor's concerns. Therefore, we believe that final action has been reached on the recommendations.

Attachments:

- Attachment I: Copy of the updated section on Final Payment of Annual Leave
- Attachment II: Emails to TCNPSCS and FSNPSCS and Mission Order on Overtime Policy
- Attachment III: Email from Payroll Specialist on ISMA payments
- Attachment IV: Copy of Bill for Collection 267-11-BD-001 for overpayment of Sunday Differential

Procedures for Processing Payroll and Allowances

Payroll procedures for each payment category are described in the following paragraphs.

Foreign Service Nationals

- USAID/Iraq human resources office prepares personnel actions for new employees, including grade, salary level, and new employee number.
- The human resources office sends these personnel actions to the USAID/Iraq financial management office and the Bangkok payroll office.
- The financial management office enters the new employee's name and number into the Department of State's time and attendance payroll application (WinTA), and creates a new employee record for entering the employee's time and attendance records.
- The financial management office enters Foreign Service Nationals' time sheets into WinTA, generates the biweekly report, and traces the biweekly report to the employees' time sheets to ensure accuracy.
- Upon receipt of the WinTA data, the Bangkok payroll office processes the payroll and generates statements of earnings and leave for each employee.
- The Bangkok payroll office issues a combined payroll check and forwards the check to USAID/Iraq.
- The financial management office downloads statements of earnings and leave from the Bangkok Web site to verify the amount of salary disbursements.

Severance and Retirement Payments

The payment process for severance and retirement payments to Foreign Service Nationals is similar to the payroll process for Foreign Service Nationals. The additional step is for the Bangkok payroll office to compute the severance or retirement payment using the information from USAID/Iraq and the Local Compensation Plan. However, as noted in our report, the payroll office does not consistently provide the payment package for each employee to USAID/Iraq for verification before disbursement.

Third-Country Nationals

The payroll process for third-country nationals is distinct from that for Foreign Service Nationals. The key controls are the following:

- The USAID/Iraq human resources office prepares personnel actions for new employees including grade, salary level, and amount of leave accruals per pay period.
- The human resources office sends these personnel actions to the USAID/Iraq financial management office.
- The financial management office prepares payroll templates (such as salary, allowances, grade level, and amount of leave accruals) for each new employee on the basis of the employee's contract.
- The financial management office periodically verifies leave information with employees.
- The financial management office prepares two worksheets—time and attendance and earnings and leave—using information from the time sheet submitted by the employee.
- USAID/Iraq reviews time sheets to ensure that they have been properly signed and their overtime and leave have been properly approved.
- The USAID/Iraq financial management office computes the payroll for the third-country nationals. The USAID/Egypt financial management office is used only for disbursement purposes.

U.S. Personal Services Contractors

The payroll process for U.S. personal services contractors is distinct from those for Foreign Service Nationals and third-country nationals. The key controls are the following:

- The USAID/Iraq human resources office prepares personnel actions for new employees, including grade, salary level, and amount of leave accruals per pay period.
- The human resources office sends these personnel actions to the USAID/Iraq financial management office.
- Employees submit time sheets and supporting documentation. USAID/Iraq reviews time sheets to ensure that they have been properly signed and their overtime and leave have been properly approved.
- The USAID/Iraq financial management office prepares a summary spreadsheet, which includes information such as employee name, grade, salary level, number of hours worked, annual leave, holiday, and overtime. This spreadsheet is reviewed by the chief accountant and cleared by the deputy controller.
- The financial management office scans this worksheet with supporting time sheets and sends it to USAID/Jordan for salary computation and processing.

- USAID/Jordan computes payroll for U.S. personal services contractors in accordance with information provided by USAID/Iraq, prepares statements of earnings and leave, and sends them to USAID/Iraq.

Involuntary Separate Maintenance Allowance

For payments of involuntary separate maintenance allowance, the process is distinct from the payroll process. The key controls are the following:

- Employees submit required forms with approvals noted.
- Employees must submit a new request every month and must inform the human resources office if their status has changed.
- The financial management office traces each request for the month to the original forms prepared by the employee.
- The financial management office prepares a summary monthly worksheet, which includes all eligible staff, and attaches the required forms. The worksheet is reviewed and approved by the chief accountant and deputy controller.
- The USAID/Iraq financial management office sends the information to USAID/Egypt for disbursement.

USAID/Iraq Payroll Payments and Audit Samples—Calendar Year 2009

Sampling Information	Payment Type				
	Severance Payments for Foreign Service Nationals	Payroll for Foreign Service Nationals	Payroll for Third-Country Nationals and U.S. Personal Services Contractors	Payments for Involuntary Separate Maintenance Allowance	Total
Total paid	\$100,594	\$973,678	\$6,554,429	\$564,159	\$8,192,860
Number of employees	9	43	91	53	196
Number of payments	9	735	6,697	444	7,885
Payments in sample	9	48	81	47	185
Confidence level (%)	100	90	95	90	
Number of errors	8	12	8	4	32
Dollar amount of errors	\$18,196	\$1,264	\$2,208	\$1,974	\$23,642
Number of systemic errors	8 of 8	7 of 12	4 of 8	0 of 4	19 of 32
Range of projected errors	8	96 to 272	509 to 978	20 to 56	

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