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

Report of Inspection

Global Financial Services - Charleston

Report Number ISP-I-06-33, June 2006

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KEY JUDGMENTS

- The consolidation of the Department of State's (Department) financial functions and responsibilities in Charleston, SC, has succeeded. Furthermore, the Department's associated personnel reductions in Washington, DC, and Paris, France, occurred in accordance with all regulatory requirements and addressed the concerns and needs of affected personnel.
- Overall, Global Financial Services-Charleston (GFS-C) provides excellent service and support to Department bureaus and overseas posts. This is a significant accomplishment because the majority of GFS-C employees have been employed there for less than three years.
- Management controls in most of the GFS-C operational areas need improvement. To illustrate, the majority of individuals certifying payments domestically do not have certifying officer authority; nonetheless, they have certified payments amounting to over \$6 billion in FY 2005. In addition, the Department's financial records differ from those of the Treasury Department by over \$250 million.
- The compensation plan for Department employees serving in Iraq is virtually unworkable and complicated. The system's rules are difficult to understand, and various categories of civilian personnel are affected differently.
- Coordination between GFS-C and the Bureau of Administration's Office of Acquisition Management must be strengthened. Contract documentation is not always available, and the designations of contracting officer's representatives (COR) do not exist or were unavailable.
- GFS-C staff morale is mixed. Communication, top down and laterally, is weak. Viable Equal Employment Opportunity (EEO) and Federal Women's Program efforts have not existed for an extended period of time, if at all. The designated EEO counselor has been away from Charleston for almost one year. The Federal Women's Program effort appears to have never been initiated.

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- The e-Payroll Initiative is leading the effort to consolidate 26 executive branch, federal, payroll providers into four providers. If the Department chooses one of the four, the likely choice will be the National Finance Center of the Department of Agriculture. The implementation of e-Payroll must receive attention because the Department's payroll systems have many features that are unique.
- The Office of Inspector General (OIG) identified several areas during the course of this inspection that warrant further review when additional resources and time permit.

The inspection took place in Washington, DC, between January 16 and 27, 2006, and in Charleston, SC, between January 30 and March 2, 2006. (b) (6)

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CONTEXT

GFS-C has grown from the relatively small operation that opened in 1995 to replace the Financial Services Center in Mexico City into a consolidated operational center for the Department's worldwide financial operations. Most of GFS-C's growth was initiated by a 2001 decision to consolidate the Department's domestic financial operations. Reduction of overseas operations in Paris and the movement of significant activities from the Washington, DC, area contributed to its growth. Today the Department has centralized its domestic and overseas financial disbursing and accounting, international banking, payroll and retirement, and reporting activities in Charleston. GFS-C is responsible overall for more than 200 bank accounts in over 160 countries and 169 different currencies. In 2005, it disbursed over \$10 billion and purchased over \$3 billion in foreign currency.

The deputy assistant secretary responsible for these activities is based in Charleston, and he also oversees the Financial Services Center in Bangkok, the Washington Liaison Office, and the Financial Support and Training Office in Paris. In addition, with the opening of the Distressed Post Support Unit (DPSU) at the end of February 2006, the GFS-C has moved toward a new stage in growth.

OIG has not inspected the GFS-C since its creation in June 1995, nor has it conducted a management review of the consolidation program. OIG did inspect the transfer of employees from Washington (*Review of Allegations Related to Relocation of Operations of the Bureau of Resource Management to the Financial Services Center, Charleston*, ISP-I-04-18, March 2004). OIG also reviewed the Bangkok Financial Services Center (ISP-I-04-29, May 2004) and the Financial Support and Training Office, Paris (ISP-I-05-07, January 2005). There has also been an annual financial audit.

GFS-C is staffed by 301 Foreign and Civil Service direct hires and 197 contractor employees. FSC-Bangkok is staffed by eight Foreign Service officers and 111 Foreign Service nationals (FSN). There are one Foreign Service officer and 15 FSNs in Paris and one FSN in Brussels. Total funding for all activities in FY 2005 was \$31.3 million, and funding for FY 2006 is estimated at \$35.4 million.

EXECUTIVE DIRECTION

GFS-C is a unique Department organization. The only deputy assistant secretary who is not based in Washington heads the organization, and he has operational responsibilities for all of the Department's financial activities. In one sense, the deputy assistant secretary is running a "financial factory," but at the same time, the successful implementation of his operations are key supports in the Department's response to the President's Management Agenda and the need to achieve organizational excellence. At the most practical level, if the Charleston facility fails to do its job well, neither the Department nor its overseas posts can function effectively.

The current deputy assistant secretary has provided strong and effective leadership during a period of overwhelming expansion. The hiring of 236 new employees over the last three years was a daunting task, as was responding to the relocation of those employees' functions and to other changes over the past four years. The deputy assistant secretary and his senior staff should be commended for their efforts. However, OIG found numerous deficiencies in GFS-C's operations. In addition, the Department must address two fundamental issues: whether consolidation has achieved all its goals and how well GFS-C fits into the Department's transformational diplomacy goals.

OPERATIONS

CONSOLIDATION

The consolidation was undertaken as a result of a 2001 study (*FSC Charleston Consolidation Study*, January 5, 2001). In July 31, 2001, a memo to the head of the Bureau of Financial Management and Planning outlined the consolidation plan. During the consolidation, numerous decisions were made, some consistent with the original plan and some not. Although the consolidation goals identified by the study were met, RM has not conducted a follow-on review to determine whether RM should establish new goals that respond to the changing environment and whether GFS-C can meet the Department's current and future needs. The review is especially important in light of the decision to not fulfill all the goals of the original plan. Without a review, the Department does not know whether GFS-C is as efficient as possible and whether there are additional cost savings that could be achieved. Such a review could also then be used in the Bureau Performance Plan (BPP) process.

Recommendation 1: The Bureau of Resource Management should conduct a thorough review of the financial consolidation that arose from the 2001 decision to expand Global Financial Services-Charleston to determine whether further steps are necessary to improve the Department's financial management. (Action: RM)

DISTRESSED POST SUPPORT UNIT

The DPSU is a pilot project for the concept of bringing an increasing number of financial functions to the United States and other safer locations. The goal is to reduce the U.S. government's overseas presence for security reasons and possibly save money and maintain responsiveness. The key factors for deciding whether to relocate administrative support functions are determining whether the security

benefits outweigh the cost in terms of responsiveness, internal controls, and responsibility. Any assessment should also examine whether the total cost of transferring responsibilities will result in actual savings. Transferring activities that must be carried out in real time requires expanded use of the Department's information technology network, and the use must be supported and maintained at a sufficient level. It is not always cheaper to carry out functions in the United States compared to overseas locations.

Recommendation 2: The Bureau of Resource Management, in coordination with the Office of Rightsizing the U.S. Government Presence Overseas, should conduct a review six months after the opening of the Distressed Post Support Unit to see how that effort can be successfully replicated in other geographic areas. (Action: RM, in coordination with M/R)

If expansion of GFS-C's support of overseas posts is a Department goal, the Department must expand the Charleston facility's space and personnel. In the context of future initiatives, the Department will have to consider whether to request that the Federal Law Enforcement Training Center (FLETC) return to the Department the building the FLETC uses in Charleston.

CHARLESTON SUPPORT

With 301 Civil Service and Foreign Service personnel, GFS-C has 64 percent of the total positions assigned to RM. As part of a domestic functional bureau, GFS-C's administrative support functions are generally handled by RM's executive office (RM/EX) in Washington. Yet GFS-C's funding is managed as an overseas allotment because of the center's geographic separation from RM's office in Washington. Given its size and separate location and the communications and support problems that have arisen in the relationship of RM/EX and GFS-C, it would be more appropriate for GFS-C to have more independent support similar to that provided to an overseas post, rather than having to depend upon Washington for such a high level of routine activities.

Recommendation 3: The Bureau of Resource Management, in coordination with the Bureaus of Administration and Human Resources, should review the current support arrangements for Global Financial Services-Charleston to assess whether support would be better handled by providing more independent authority to Charleston. It should then take steps to either transfer authority to Charleston or strengthen support from Washington. (Action: RM, in coordination with DGHR and A)

Performance Measurement

GFS-C has initiated a major effort to implement the International Organization for Standardization (ISO) 9000 standard in order to comply with Office of Management and Budget (OMB) Circular A-123 requirements for better management and to develop performance measures. The first external audit under ISO 9000 is scheduled for August 2006. When the audit ends, OIG informally recommends that Charleston review the results with the goal of establishing performance measures that can be used by senior management to assess the quality of its work.

REGIONALIZATION AND RIGHTSIZING

Charleston

The staff reductions that occurred in Paris and Washington, DC, achieved the Department's goals for regionalization and rightsizing. In August 2003, GFS-C established a hiring plan for 305 direct-hire positions that were to assume the responsibilities and functions carried out by 340 employees. GFS-C established the plan for the 305 full-time equivalent (FTE) employees, but there is no formal documentation available to show that RM agreed with the plan. At various times during the inspection, OIG was told GFS-C's FTEs totaled 240, 266, and 340. This is less than optimal for effective planning and operation. GFS-C has now been told by RM/EX that its ceiling is 266 direct-hire FTEs.

With its present strength of 301 employees, GFS-C is already over the 266 FTE limit and must now defer additional hiring and plan for a reduction in force. The center's funding has also been cut, and contractor employees will therefore have to be reduced. The impact will be severe. Whether they are direct-hires or contractors, employees are the center's principal resource. Charleston is a service organization that is responding to the Department's requirements and has no programs it can cut.

The center's workload has increased as a result of responsibilities that have been added since the consolidation. New programs, such as the DPSU, have been established and will have to be prioritized. The center's overtime, training, travel, and awards program will have to be reduced, and contract positions will have to be eliminated. GFS-C has begun to identify the areas affected by the staffing and funding shortfalls. The shortfalls mean, for instance, that Global Financial Management Service (GFMS) cannot establish a Help Desk in Charleston. The shortfalls will also result in delays in completing financial statements and a lack of funding for the life cycle replacement of information technology equipment, such as production and development servers.

Recommendation 4: The Bureau of Resource Management should establish personnel and funding levels for Global Financial Services-Charleston that are sufficient for it to perform all required mission functions or reduce the requirements levied on Charleston. (Action: RM)

Distressed Post Support Unit

The DPSU was established to relocate functions that are not location specific and are now performed by Embassy Baghdad and Embassy Amman, reducing the need for American and locally employed staff (LES) in Baghdad to be in harms way. GFS-Charleston will assume Embassy Baghdad's financial transactional requirements by taking responsibility for all back-office financial business processes. The processes include payroll operations, recording obligations, voucher processing, and the purchase card program at Embassy Baghdad. The action will also eliminate the positions of an American financial management officer and four LES. Additional reductions - one American financial management officer and six LES - will take place in Amman. Other posts, such as Kabul, Havana, and Port au Prince, will also likely have some functions relocated to safer, more secure locations. The DPSU will initially be staffed by one Foreign Service officer and five

contractor employees in Charleston and three contractor employees in Bangkok. Continuation and expansion of the program in Charleston will depend on the success of the initial Baghdad endeavor as well as the availability of office space.

REAL PROPERTY

GFS-C occupies three of four Department buildings in Charleston. (A fourth building is occupied by the Department's Charleston Passport Center.) The four buildings are Buildings A, B, C, and D (the Passport Center) and are well equipped and furnished. The 8.7-acre site where the buildings are located was transferred from the Navy to the Department at no cost in March 1994. In April 2003, an additional 11.68 acres of land were transferred from the Navy to the Department. Both parcels were formerly part of the Charleston Naval Base, which encompassed approximately 1,800 acres and closed in 1996. Included in the second transfer were 12 buildings that were, except for one, subsequently razed. The building that remained, Building 644 (44,430 square feet), is close to GFS-C and is used by the FLETC as a fitness and training facility. A parking lot is also being constructed by the South Carolina Redevelopment Authority on this land for GFS-C.

Before occupancy, three of the four Department buildings needed extensive renovations, which cost over \$20 million. The fourth building was newly constructed at a cost of approximately \$12 million after demolition of an existing building on the site. Enclosed hallways now connect the three buildings that make up GFS-C.

In a May 2003 memorandum of understanding between the Department and FLETC's parent, the Department of Homeland Security (DHS), the Department agreed to allow FLETC sole use of Building 644 at no cost. The agreement has no expiration date but does give the Department the right to give FLETC written notice to vacate the building. The Department has not yet identified a need for the building, but if it were to implement measures to regain the building, it would no doubt meet some resistance from FLETC. FLETC has spent over \$500,000 for a new roof and other repairs and improvements to the building. In its 15-year, long-range building plan, FLETC has not scheduled construction of a replacement for Building 644. FLETC considers the building to be an important asset because its fitness and training facilities are insufficient for its number of students.

Besides FLETC, GFS-C shares the former Charleston Naval Base with the U.S. Coast Guard, the National Oceanic and Atmospheric Administration, and the National Civilian Community Corps (Americorps). FLETC has been designated the agency responsible for overseeing and controlling the Charleston Federal Enclave for DHS. FLETC wants to establish perimeter and interior security for the enclave, and the Department plans to participate fully in FLETC's planned security upgrades.

SECURITY

GFS-C's three buildings are contiguous. There is a small, controlled-access area (CAA) where classified material up to the Secret level can be stored, processed, handled, and discussed. The CAA's physical and technical security complies with Department regulations.

The Charleston Enclave

As the provider of the site's security, FLETC has security patrols operating on the compound, and the patrols are issuing warnings and citations for traffic violations and for failure to adhere to the new security regulations. Department personnel working at the Charleston facilities will have to be cleared into the enclave by FLETC security staff, which will require continued cooperation between DHS and Department entities in Charleston. Such coexistence will require clear and concise formal memoranda of internal agreements and an understanding among Department personnel.

Building and Compound Access Control

All entry doors into Buildings A, B, and C are rated forced entry/ballistic resistant and in good working order. Identity card readers located outside the external doors allow access by authorized employees. As FLETC continues its perimeter security expansion, the four Department-owned buildings will eventually be located behind an anticlimb security fence and within an area controlled and guarded 24 hours a day, seven days a week, by fixed and roving FLETC security personnel. New compound access procedures will be finalized when the DHS perimeter security upgrade is completed in June 2006.

Recommendation 5: The Bureau of Administration, in coordination with the Bureau of Diplomatic Security, should participate in all working group meetings regarding Charleston site security and obtain the necessary written agreements with the Department of Homeland Security concerning new security procedures affecting all Department operations in Charleston. (Action: A, in coordination with DS)

Locks, Alarms, and Surveillance Cameras

All CAA and non-CAA alarms are monitored and responded to by a contract guard who is on duty 24 hours a day, seven days a week. Technical security malfunctions, such as those involving alarms, locks, and closed-circuit television systems/recorders, require the assistance of a Washington-based security engineering officer, who normally travels overland from Washington to Charleston. The officer's response time is adequate.

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Emergency Preparedness

Employees raised concerns about emergency drills and were uncertain about what procedures to follow for security incidents. Neither fire/evacuation drills nor shelter-in-place drills have been performed. Occupational Safety and Health Administration guidelines as well as 29 CFR Section 1910.38 (a)(5) suggest educating employees about the types of emergencies that could occur and also suggest holding evacuation drills.

Recommendation 6: The Bureau of Resource Management, in coordination with the Bureau of Administration, should conduct the emergency evacuation and shelter-in-place drills at Global Financial Services - Charleston. (Action: RM, in coordination with A)

CERTIFICATION

Most individuals certifying payments domestically at GFS-C do not have certifying officer (CO) authority, as required in 4 FAH-3 H-065.2; nonetheless, they are certifying payments amounting to over \$6 billion annually. In addition, the procedures to train and designate these individuals as COs were not followed, and six individuals providing certification services in Washington, DC, are not authorized for that task. For example, the individual who certifies the American payroll of approximately \$100 million every two weeks, a total of \$2.6 billion annually, is not authorized to do so. Also, for FY 2005, the Office of Claims paid out over \$3.7 billion in domestic payments. Of the 25 people who currently certify payments, including six individuals in the Washington Liaison Office, only one is included in the Official List of Authorizing Certifying Officers. Therefore, 24 people are certifying payments without authority.

The Office of Claims would face undue hardship if it had to immediately comply with Department regulations and assign all voucher certification to the only authorized CO in that office. This one person would not be able to do the tasks of 24 others, plus his assigned duties, and the payment process would come to an almost complete standstill. Therefore, GFS-C should quickly train all staff who are performing CO duties, including those in the Office of Claims. Once the training is completed, these employees' supervisors should designate them as COs, according to the procedures described in 4 FAH-3 H-065.2.

Recommendation 7: The Bureau of Resource Management should train and designate as certifying officers employees who are performing certifying officer duties domestically. (Action: RM)

THE WASHINGTON LIAISON OFFICE

RM has six employees assigned to the Washington Liaison Office in Arlington, VA. These employees certify payments for six bureaus/offices in the Washington, DC area. The six bureaus/offices are the Office of Language Services, Foreign Service Institute (FSI), Bureau of Overseas Buildings Operations, Diplomatic Telecommunications Service Program Office, Bureau of Educational and Cultural Affairs (ECA), and Bureau of International Information Programs (IIP).

OIG obtained copies of just two memoranda of understanding (MOU), one for FSI and one for the bureau now called Overseas Buildings Operations. These MOUs date to 1997, more than five years before RM moved its Office of Claims to GFS-C. The MOUs outline the initial certification authority and the policies and procedures the Bureau of Finance and Management Policy (FMP), now known as RM, and the bureaus/offices follow for payment processing. Essentially, each bureau/office implemented the procedures and internal controls required for a designated billing office. RM employees would then visit each bureau/office and:

- Monitor the payment process,
- Conduct reviews to ensure adherence with policies and procedures and to ascertain that separation of duties exists and that the documentation associated with payments is adequately maintained, and
- Provide a CO to perform certification of payments.

OIG also obtained a memorandum regarding the processing of payments to ECA and IIP indicating that some time around 1997 FMP management agreed to assign an FMP employee full-time to ECA and IIP to perform the procedures required to prepare payments for certification. Another FMP employee would visit those bureaus twice a week and certify the payments. The memorandum clearly states FMP's commitment to ECA and IIP, but there is no evidence a memorandum of understanding was ever written.

Recommendation 8: The Bureau of Resource Management should review the payment certification operation that Global Financial Services-Charleston provides to six Department bureaus and offices to determine whether the appropriate memoranda of understanding are in effect and create, update, or eliminate memoranda of understanding, as appropriate. (Action: RM)

BAGHDAD PAYROLL

The compensation plan for Department employees in Iraq is virtually unworkable and complicated. The system's rules are difficult to understand, and various categories of civilian personnel are affected differently. As a result, employees are paid at different rates, and morale is adversely affected. Compensation ceilings (caps) change from year to year for total earnings and premium pay categories. The Department's payroll system must therefore be constantly manipulated to process the payroll.

The Department has recovered a total of \$451,833 from 45 employees because pay caps and ceilings were not increased and controls were not in place to enforce the caps and ceilings until mid-2004 or later. More than 20 employees not only exceeded the pay caps but also exceeded the amounts that could be carried forward. This situation arose, in part, because of the late transfer of records to the Department by the Department of Defense. However, the pay recoveries adversely affected morale.

Baghdad payroll costs for 2005 were high, totaling \$57.9 million for base pay and an additional \$13.9 million for premium pay. The overtime pay for some employees appears to be excessive. GFS-C's records are not fully reliable. Some personnel on the 2005 overpayment list are not on the listings of those who were stationed in Baghdad in 2005. In addition, management controls on processing time and attendance reports need strengthening. Employees' time and attendance reports are processed by a contractor employee in the Bureau of Near Eastern Affairs, and statements are being forwarded for payment to GFS-C without the approval and signature of an authorizing direct-hire official, contrary to 4 FAH-3 H-523.1. GFS-C has nonetheless made payments based on the incomplete reports.

Recommendation 9: The Bureau of Resource Management should perform a full-scale, multi-location audit of the payroll procedures for Department employees in Baghdad. (Action: RM)

Recommendation 10: The Bureau of Resource Management should implement procedures to process payrolls only when the time and attendance reports are properly prepared and approved. (Action: RM)

OFFICE OF PERSONNEL MANAGEMENT'S E-PAY INITIATIVE

The Office of Personnel Management's (OPM) e-Government (e-Gov) unit is the managing partner for five Presidential e-Government initiatives. These initiatives support the recruitment, selection, and development of human resources across the government. One e-Gov initiative is e-Payroll.

The e-Payroll initiative is an effort to consolidate 26 executive branch federal payroll providers and standardize payroll policies and procedures with the aim of reducing the number of payroll providers and realizing savings. To achieve consolidation, OPM conducted an internal government sourcing process that allowed existing executive branch payroll providers to submit responses to set criteria, should they be interested in continuing to provide payroll services. OPM and agency representatives reviewed these responses and selected the four best-qualified providers. Those providers are the Department of Agriculture's National Finance Center (NFC), the Department of Defense's Defense Finance and Accounting Service, the Department of Interior's National Business Center, and the General Services Administration. The agencies that no longer provide payroll services have aligned with or migrated to one of the e-Payroll providers listed above.

After conducting a 12-month study of the four e-Payroll providers, the Department determined that NFC's payroll application and operations most closely aligned to the Department's payroll system. RM followed the Department's initial study with a detailed gap-analysis project that compared the Department's payroll processing requirements and operations with those of the NFC system. This project, concluded in February 2005, identified the system changes needed in NFC's payroll system prior to the Department's migration. For example, NFC will have to add edits to the system that encompass:

- Differential pay (for example, service need, special, and communicator),
- Allowances (for example, supplemental post and separate maintenance),
- Fiscal information and time and attendance data,
- Payroll caps (on an annual aggregate basis),
- An interface with the Bureau of Human Resources database,
- Salary rollovers and earnings projections for the year for employees, and
- Department-specific pay plans (such as that for an American family member).

NFC and Department representatives have since discussed the gap analysis, are aware of the gaps between the two systems, and have proposed solutions. These solutions include determining which organization (the Department or NFC) will act on each of the gaps. OIG supports the Department's methodology on payroll migration and recognizes the migration is an ongoing project that is expected to be carefully monitored by senior management.

The e-Pay proposals only address payroll processing for American direct-hire employees. The Department will remain the service provider for FSN payroll.

TRAVEL ADVANCES

The GFS-C staff has noted that some travel-authorizing officials at overseas posts have given higher travel advances to employees assigned to FSI for long-term training than allowed by federal law and Department regulations. Post personnel may not be aware of the Federal Travel Regulations and Department policy on travel advance limits for those on temporary duty status.

According to 4 FAM 463.3-1, a travel-authorizing official may grant a travel advance for out-of-pocket expenses to an authorized traveler. The amount that may be advanced is the estimated out-of-pocket expenses, should be shown on all temporary duty travel authorizations, and may not exceed 80 percent of the estimated expenses minus the ticket. In addition, Section 301-51.201 of the Federal Travel Regulations, states that, for noncash transaction expenses in an open authorization, the advance cannot exceed a 45-day period. An official in RM's Employee (Travel) Claims division stated that long-term training at FSI is considered open authorization and the 45-day rule applies.

The Bureau of Human Resources does not include in employees' travel orders a section on travel advance limitations for employees traveling to Washington for long-term training at FSI. Such a notation would remind the travel-authorizing official that the travel advance may not exceed the sum allowed by regulation and Department policy.

Recommendation 11: The Bureau of Human Resources should include in employees' travel orders a reminder that travel advances for employees assigned to the Foreign Service Institute for training cannot exceed 80 percent of the 45-day per diem rate authorized. (Action: DGHR)

PROMPT PAY

In 1982, Congress enacted the Prompt Payment Act, requiring federal agencies to pay their bills on a timely basis, pay interest penalties when payments are late, and take discounts only when payments are made by the discount date. The Department's late interest payments total less than 10 percent each year.

GLOBAL FINANCIAL OPERATIONS

OFFICE OF REPORTS AND RECONCILIATION

The Department must reconcile all fund balances in Treasury reports with the amounts recorded in the Central Financial Management System (CFMS). To produce this reconciliation, the Department's Cash Reconciliation System compares the information in the Treasury's reports with the information in CFMS. The reconciliation shows all funds that are not reconciled, whether the difference is negative or positive, and the absolute value of the differences.

The Office of Reports and Reconciliation is responsible for preparing and submitting to the Treasury all required reports. These include the monthly Statement of Transactions, the quarterly Budget Execution and Budgetary Resources, and the year-end report for all Department fund cites. Furthermore, the office provides the Fund Balance with Treasury monthly reconciliation and processes and reconciles cash collection and federal billings to the Department made through the intragovernmental payment and collection system.

FUND BALANCE WITH TREASURY ACCOUNTS

The Fund Balance with Treasury reconciliation for the period ending December 31, 2005, shows an accumulated absolute difference of over \$256 million between the Treasury and CFMS. The differences included in the reconciliation are from FY 1999 to FY 2006. (The \$51.9 million difference from FY 2006 may be due to timing.) The prior years' differences of \$204.2 million have not been resolved. According to the Treasury Financial Manual Part 2, Chapter 5100, Section 5125:

Treasury relies on monthly financial report data from all Federal agencies to meet its congressionally mandated central accounting and reporting responsibilities. The Financial Management Service reports data to the President, the Congress, OMB, and the public. Reconciling the fund balance with

Treasury accounts is a key internal control process. It assures the reliability of the Government's receipt and disbursement data reported by agencies. Therefore, agencies must perform timely reconciliations and implement effective and efficient reconciliations processes.

Recommendation 12: The Bureau of Resource Management should review the differences in the Fund Balance with Treasury Accounts, reconcile the differences from prior fiscal years, and report the changes to the Treasury. (Action: RM)

STATEMENT OF DIFFERENCES

OIG reviewed some of the reports used by the Treasury and the Department and found major discrepancies between CFMS and Treasury records.

The Statement of Differences is produced by the Treasury to identify differences between deposits and disbursements in the Treasury's Government On-line Accounting Link System's On-line Payment and Collection system and an agency's financial records. The Treasury Financial Manual Part 2, Chapter 5100, Section 5125, requires resolution of any differences in a timely manner.

The January 2006 Deposits Statement of Differences (ALC 19 000001) showed an accumulated amount of over \$43 million, meaning CFMS has not accounted for \$43 million received by the Treasury. Some of these differences date back to April 2002.

Meanwhile, the January 2006 Disbursements Statement of Differences (ALC 19 000001) showed an accumulated amount of over \$82 million, meaning CFMS has not accounted for \$82 million recorded by the Treasury. Some of these differences date back to October 1999.

Recommendation 13: The Bureau of Resource Management should reconcile the Deposits Statements of Differences and Disbursements Statements of Differences to resolve the differences in a timely manner. (Action: RM)

UNDISBURSED APPROPRIATION ACCOUNT TRIAL BALANCE

The Treasury provides agencies with the Undisbursed Appropriation Account Trial Balance (form FMS 6654). The Trial Balance contains summary data about agencies' expenditure accounts, data it summarizes for each appropriation and fund account. The data reveals the balance forwarded at the beginning of the fiscal year, cumulative warrants, nonexpenditure transactions, net disbursements to date, and closing balances at month's end. Agencies are required to reconcile their fund balance with Treasury accounts with the closing balances shown in the report.

The FMS 6654, dated February 16, 2006, shows 27 appropriations by fiscal year with a negative Treasury balance, a potential violation of the Antideficiency Act.¹ Some of these negative balances date back to FY1998 and FY 1999, with an accumulated amount of over \$74 million.

Recommendation 14: The Bureau of Resource Management should review the appropriations in the Treasury's Statement of Difference to determine the cause of the negative balances and determine whether there has been a violation of the Antideficiency Act. (Action: RM)

Recommendation 15: The Bureau of Resource Management should implement procedures to regularly review the Treasury's Statement of Differences and resolve all negative balances. (Action: RM)

ACCOUNTS RECEIVABLES

The GFS's Accounts Receivable Division was transferred to Charleston from Washington, DC, in June 2004. At the time, some records were missing, causing an undetermined amount of receivables to remain outstanding. Accounts receivable from proceeds of sales, employee overpayments, and travel advances now total over \$6.7 million, with 67 percent outstanding for over a year. The Department has not established write-off procedures for aged accounts receivable. GFS-C has not reviewed all outstanding accounts receivable and initiated collection action in compliance with 4 FAH-3 H-494, as needed.

¹31 U.S.C. §1341

Recommendation 16: The Bureau of Resource Management should establish write-off procedures for aged accounts receivables, review all outstanding accounts receivable, and initiate collection or write-off actions, as needed. (Action: RM)

The Departments repatriation loans, loans made to U.S. citizens abroad, total over \$6.6 million, and 88 percent have been outstanding for over a year. According to 7 FAM 300 Appendix A, any loan due for more than a year must be referred to the Department of Justice for litigation.

Recommendation 17: The Bureau of Resource Management should submit all outstanding account receivables for repatriation loans overdue by more than one year to the Department of Justice for litigation. (Action: RM)

DISBURSING

FOREIGN CURRENCY PURCHASING

The GFS-C Banking and Currency Purchasing Branch purchases approximately 150 foreign currencies to support the operations of posts overseas. Treasury Financial Manual Volume I, 4-9045.40 requires that at least three bids be considered before purchasing any foreign currency. For several years, Reuters' Dealing 3000 Direct program has been used to solicit the bids. Every morning, the amounts and types of currencies needed are determined, based on disbursements and collections at posts. Once currency needs are known, a voucher is prepared, detailing the amount of U.S. dollars and foreign currencies.

According to GFS-C's Director of International Banking, the Bangkok Financial Service Center purchases about 31 foreign currencies without soliciting the three bids required by the Treasury; instead, the Bangkok center uses local banks that have agreements with the United States Disbursing Office (USDO) and posts. Of the 31 currencies, 23 can be purchased in Charleston, meeting the Treasury's bid requirement.

Recommendation 18: The Bureau of Resource Management should consolidate in Charleston the purchasing of all currencies used by the Bangkok Financial Services Center that meet the Treasury's purchasing requirements.
(Action: RM)

UNCURRENT (STALE) CHECKS

Checks issued for payment in local currencies that are outstanding for 12 months must be cancelled. The Treasury Financial Manual, Volume 1, Part 4, Chapter 8000, requires that the cancellation of uncurrent checks be processed through account 20X6045. At the end of the month, the disbursing office should

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CASHIER MONITORING

The cashier monitors' principal responsibility is to oversee 211 overseas cashiers within GFS-C's serviced region and 32 domestic cashiers. Each of the 10 cashier monitors is responsible for reviewing and recording monthly cashier reconciliations, maintaining an administrative file with cashier designations and authorized advances, and assisting in resolving differences or discrepancies in the cashier's accountability for his or her assigned posts.

In March 2005, the Office of Disbursing Oversight (ODO) reviewed the disbursing operations of GFS-C and found that temporary advances and designations had expired, deposits in transit were older than 30 days, several cashiers had fiscal irregularities, and there were a large amount of debit vouchers. Although the resulting recommendations were closed in January 2006, some of the same problems remain.

During a review of the Overseas Cashier Reporting System database, OIG found six expired cashier designations, three expired temporary advances, and some reconciliations that were not current. An informal recommendation addresses this issue. Some of the problems identified in this section may be a result of the cashier monitors' workload, which will decrease when their responsibility to monitor 26 Peace Corps and 20 U.S. Agency for International Development cashiers in the African region is transferred to the Financial Support and Training Office in Paris.

Foreign Bank Accounts

The USDO maintains bank accounts overseas to support U.S. embassies. The accounts are used to pay embassy vendors and FSN salaries, replenish embassy cashier advances, and deposit machine-readable visa fees and other embassy collections. Banks used by the USDO may also provide embassies with other services, including accommodation exchange. The Bangkok Financial Services Center monitors bank accounts in East Asia, South Asia, the Middle East, and the Caucasus, while GFS-C monitors the European, Central and South American and Africa regions. GSF-C currently monitors 124 foreign bank accounts. The reconciliation unit is tasked with reconciling these foreign USDO bank accounts, and the unit operates well. However, bank fees need to be reviewed, bank agreement files are incomplete, and more coordination is needed with the Bangkok Financial Services Center and other GFS-C units.

BANK FEES

GFS-C could not provide OIG with a total for the bank fees charged to accounts that GFS-C monitors, but OIG estimates that these fees total about \$2.4 million annually. Fees charged by some foreign banks are excessive. For example, although local banks in Rwanda and Burundi share the same parent company, bank fees per transaction in Rwanda are about half those charged in Burundi. Similarly, fees charged by a Bangkok bank are exorbitant (estimated at over \$600,000 a year), compared to those for a similar account monitored by GFS-C or another Bangkok account. Although GFS-C has reportedly taken steps to negotiate with some banks for regional rates, it has not formally reviewed the reasonableness of bank fees across countries. A perceptive banking specialist discovered the discrepancy between the Rwanda and Burundi fees. The excessive bank fees being incurred in Bangkok were discovered by a GFS-C employee when visiting the Bangkok Financial Services Center.

Recommendation 25: The Bureau of Resource Management should review bank fees charged for all foreign United States Disbursing Officer bank accounts and should renegotiate exorbitant or inconsistent fees. (Action: RM)

BANK AGREEMENTS

In October 2005, GFS-C requested that financial management officers (FMO) at 63 embassies review banking agreements because the agreements in those countries had not been reviewed for over three years. Under 4 FAH-2 H-614, agreements with existing banks must be reviewed either every three years or immediately if the embassy or USDO is not satisfied with the services or the competitiveness of bank charges. Although GFS-C's request to the FMOs represented progress, GFS-C did not offer the FMOs any analysis of how their agreements compared to those at other embassies. Clearly, bank fees could vary greatly from country to country, and because some banks share parent companies, it may be possible to negotiate lower fees and/or more services.

Recommendation 26: The Bureau of Resource Management should compare, by region, banking services and fees of all foreign United States Disbursing Office accounts and provide the results of the comparison to financial management officers. (Action: RM)

TREASURY DESIGNATIONS

According to 4 FAH-2 H-613, the USDO must formally request approval and designation from the Treasury to open a foreign bank account. Although GFS-C reports that it is reasonably certain that the Treasury designations were obtained before opening foreign bank accounts, Treasury designations for 27 of the 124 bank accounts are not on file.

Recommendation 27: The Bureau of Resource Management should obtain and retain Treasury designations for all foreign United States Disbursing Office bank accounts. (Action: RM)

Although the GFS-C has made a concerted effort over the last six months to obtain all GFS-C-monitored bank agreements, five agreements are not in the files, despite the requirement in 4 FAH-2 H-616. Additionally, some bank agreements were not translated into English, making it impossible to ensure that the agreements and fees are appropriate. OIG made informal recommendations to address these issues.

LOCAL BANK ACCOUNT RECONCILIATION

Twelve banking specialists and a supervisor reconcile foreign USDO bank account transactions with transactions recorded in the RFMS/D system. The banking specialists strive to review all bank statements monthly and to resolve all questionable (unreconciled) transactions within 90 days of the transaction date. The banking unit's supervisor tracks the status of bank statement reconciliations using RFMS/D-generated summary reports. The analysis includes the number of bank accounts reviewed each month, the number of months elapsed since the last bank account review, the number of unreconciled transactions in each bank account, and the length of time each unreconciled transaction has been outstanding. Currently, 106 of the January 2006 bank account statements have been reviewed, and six of the bank accounts are one month behind. OIG found no unreconciled

transactions outstanding for more than 12 months and 118 items were outstanding for between three and 12 months. These statistics represent a vast improvement from six months and one year ago, as shown below:

Table 1: Transactions Unreconciled for Three- and 12-month Periods

	January 2005	June 2005	January 2006
Transactions Unreconciled for more than three months	328	219	118
Transactions Unreconciled for more than 12 months	78	8	0

The replacement of two poorly performing banking specialists improved the section's statistics significantly; one of the specialists was responsible for about half of the January 2005 and June 2005 unreconciled transactions shown above. Despite these improvements, OIG remains concerned about the oversight and timeliness standards related to bank reconciliations. Some of the unreconciled transactions from the June 2005 report were processed in 2003. The longer unreconciled transactions remain outstanding, the more difficult they are to resolve and the more likely fraud can go unnoticed; one unreconciled 2003 transaction was the result of a bank employee's embezzlement. The banking unit's performance standard is to have no more than 250 unreconciled transactions greater than three months old and no unreconciled transactions that are over one year old. OIG informally recommended that RM adjust its standards to improve performance and reduce risk.

If the bank specialists suspect fraud involving a cashier, they should discuss their concerns with the cashier monitors to determine if there is a potential fiscal irregularity. OIG found that banking specialists and cashier monitors do not communicate on a regularly scheduled basis. The banking specialists contact the cashier monitors if embassy cashiers have been unresponsive or if the specialists need assistance resolving unreconciled transactions. However, monitors and specialists do not regularly discuss cashier errors or trends that could indicate fraud or disclose a cashier's weakness.

Recommendation 28: The Bureau of Resource Management should institute quarterly meetings between cashier monitors and banking specialists to discuss cashier errors, unreconciled transactions, and trends. (Action: RM)

MANUAL BANK STATEMENT ENTRY

The reconciliation process for most bank accounts is grueling. Bank specialists enter every bank statement transaction manually into the RFMS/D bank reconciliation module for 101 (or 80 percent) of the bank accounts. Some bank accounts, such as Embassy London's, have upwards of 2,500 transactions every month. Specialists spend 50 to 60 percent of their time manually entering transactions. The remaining 23 bank account statements are auto-loaded from files or downloaded directly from banks into the RFMS/D bank reconciliation module, eliminating the need to manually enter transactions. Although the auto-load process saves banking specialists a significant amount of time, GFS-C does not appear to have made it a priority to make the feature available to the remaining bank accounts. The bank reconciliation unit is waiting for GFS-C programmers to enable the auto-load feature for 12 additional accounts; the delay arises because programmers are reportedly overwhelmed in their sections. In any case, enabling the auto-load process for some small bank accounts, for which data entry takes less than two hours, may not be cost effective.

Recommendation 29: The Bureau of Resource Management should implement the auto-load feature for use with United States disbursing officer bank accounts when it would be cost effective to do so. (Action: RM)

Recommendation 30: The Bureau of Resource Management should, before the end of 2006, reexamine staffing in the bank reconciliation unit after the auto-load feature has been enabled in additional bank accounts to determine whether the number of contracted employees can be reduced. (Action: RM)

BANK STATEMENT SOURCES

Some of the bank specialists obtain bank statements directly from foreign banks while others obtain bank statements from embassy cashiers. The latter action represents a control weakness. Bank statements can be altered (especially if they are e-mailed text files or Microsoft Excel spreadsheets) to artificially balance with RFMS/D transactions, allowing fraud to go unnoticed.

Recommendation 31: The Bureau of Resource Management should obtain all foreign bank account statements directly from the banks involved or, in cases where this is impossible, obtain the statements from embassy management or financial management officers. (Action: RM)

BANK FEE TRANSACTIONS

The banking specialists do not ensure that bank fees charged to foreign bank accounts are consistent with the bank fees designated on the bank agreements. Bank fees for all bank accounts can total anywhere between \$150,000 and \$200,000 every month.

Recommendation 32: The Bureau of Resource Management should require that all banking specialists regularly check the bank fees being charged against the fees described in the banking agreements. (Action: RM)

RECONCILIATION OF ELECTRONIC FUNDS TRANSFER TRANSACTIONS

EFT transactions are reconciled differently, depending on the banking specialist and the bank account. Some bank specialists match EFT transactions by the transaction amount and reference number while other specialists match transactions by amount only. (The bank reconciliation program performs this matching automatically.) The banking specialists report that EFT transactions on bank

statements are occasionally automatically matched against the wrong RFMS/D EFT transactions. Improper matching is most likely to occur with payroll transactions in which individuals are paid the same amount every month; however, in Bangkok, the amounts matched, and the wrong embassy vendor was paid. Bank specialists have not contacted all of the USDO banks and requested that RFMS EFT reference numbers be added to the bank statements.

Recommendation 33: The Bureau of Resource Management should contact all foreign United States Disbursing Officer banks that are processing electronic funds transfers to request that Department-provided reference numbers be added to bank statements. (Action: RM)

OFFICES OF FINANCIAL OVERSIGHT AND COORDINATION AND DISBURSING OVERSIGHT

The Office of Financial Oversight and Coordination (FOC) and ODO, established in October 2005, are led by a managing director. The offices are responsible for ensuring compliance with financial laws, policies and procedures, evaluating performance measurements, and performing internal control and quality control reviews of worldwide financial activities and operations.

OFFICE OF FINANCIAL OVERSIGHT AND COORDINATION

The GFS-C-wide quality control program has not been not fully implemented. In addition, no formal compliance follow-up process exists to address the quality control program's recommendations for the few programs available for FOC staff to review. Management has not adequately focused on these areas, and internal control weaknesses may therefore exist in areas not currently under review and in areas where FOC has issued recommendations.

One FOC objective is to strengthen internal controls, which FOC intends to accomplish with a GFS-C-wide quality control program. This program includes performing internal control and quality control reviews of worldwide financial activities and operations, including areas such as payments, travel, accounts receivable, salary processing and payments, and the processing of Foreign Service retirement payments.

Of the many possible areas of review, FOC has fully implemented only one review (involving the Prompt Pay Act) and put into operation only one other review (of salary processing and payments) several months ago. Regarding the Prompt Pay Act review, FOC made 36 recommendations. Although FOC and RM have discussed resolving these recommendations, there has been no formal action to resolve and close them. Until the recommendations are closed, the areas they address remain as possible internal control weaknesses.

Having a GFS-C-wide quality control program is an excellent idea, and GFS-C management should implement this program to its fullest so that internal control weaknesses are identified and resolved. In addition, management should develop and implement a formal compliance follow-up process that includes procedures to respond to recommendations within a reasonable time, such as 30 days, while working towards resolution and closure of the recommendations as quickly as possible.

Recommendation 34: The Bureau of Resource Management should fully implement a quality control program throughout Global Financial Services-Charleston that encompasses payments, travel, accounts receivable, salary, and bank reconciliations. (Action: RM)

Recommendation 35: The Bureau of Resource Management should develop and implement a formal compliance follow-up process that addresses recommendations resulting from quality control reviews in a timely manner. (Action: RM)

OFFICE OF DISBURSEMENT OVERSIGHT

ODO's mission is to provide oversight for all disbursing activities conducted domestically and overseas by Charleston and the Bangkok Financial Service Center. Since the departure of the former ODO director in 2005, an assistant USDO has been acting as director and performing disbursing officer duties, thus overseeing his own work. According to 4 FAM 042, a system of management controls must be in place and incorporate appropriate separation of duties.

Recommendation 36: The Bureau of Resource Management should, as part of a system of management controls, write a standard operating procedure that ensures that the assistant United States Disbursing Officer does not also have collateral responsibility for oversight of disbursing operations. (Action: RM)

GLOBAL SYSTEMS OPERATIONS

The Global Systems Operations division, comprised of the Internal Systems and Messaging unit and the Financial Systems unit, is effective in providing and maintaining computer systems operability, network connectivity, financial systems operations, and customer support. The Internal Systems and Messaging unit installs, maintains, and administers hardware and software for OpenNet and the Development network and for an independent Internet connection and connections to remote applications such as CFMS. The Financial Systems unit runs the financial applications of the Department, including the Regional Financial Management System (momentum and disbursing), and the system for FSN pay. Procedures for work processes have been well documented within GFS-C's ISO 9000 initiative, and computer networks have been well documented in logical and physical diagrams. OIG's survey of GFS-C's management operations produced scores for categories involving management and support of information systems that are among the highest OIG has seen for these categories.

The Global Systems Operations division operates a production and continuity of operations plan whose systems infrastructure is valued at over \$7.5 million. Projects, such as consolidation of domestic financial systems and RFMS, provided one-time funding for significant portions of the network and server infrastructure. However, the GFS-C base does not include adequate funding for the periodic upgrade or replacement of these components. Furthermore, to absorb the reduction in the Diplomatic and Consular Programs operating budget, GFS-C proposes eliminating the hardware replacement budget. Doing so will disrupt the extended warranty and maintenance coverage schedules established for equipment. This will increase the average equipment age at a time when financial applications are increasingly processing more data faster under stricter reporting, regulatory, and security requirements. These effects will erode the Global Systems Operations division's ability to provide systems service commensurate with customer requirements and may lead to systems failure. The planned deployment of GFMS and a reporting data warehouse at GFS-C will further exacerbate this resource issue.

GFS-C's emergency power generators, uninterrupted power supply units, and air conditioning are at maximum capacity. A plan is underway to remedy this deficiency, but it calls for placing some of the new equipment in locations currently occupied by the operations staff, which might displace as much as one third of the staff.

SYSTEMS DEVELOPMENT AND MAINTENANCE

The Systems Development and Maintenance (SDM) division develops financial software applications for the Department and incorporates user requirements to further modify and release updated versions of existing applications. SDM's operations are well documented, and it has begun further documenting and improving processes in a manner consistent with the Capability Maturity Model Integration approach. SDM involves stakeholders from other GFS-C and Department elements in every step of development so that new products or product modifications will have buy-in from all affected groups. The steps in this process, including the necessary approvals to proceed through the process, are well documented by the Global Financial Architecture Review Board.

Although located at GFS-C, SDM reports to the GFMS managing director in Washington, DC. This division of resources and workload between Charleston and Washington has positive and negative aspects for autonomy, budget control, and proximity to customers. The right balance seems to be arrived at in most instances. However, as more development requirements are shifted to Charleston, including development work in support of GFMS implementation, it may be necessary to realign staffing and resources to reflect this reality.

SDM's resources are strained. It has had numerous staffing vacancies for the past two and a half years. A January 26, 2006, memorandum from RM/EX said six of these positions would be filled in the near future, but there have been no further updates. There are also shortages of equipment. The Development Network is separate from the Department's OpenNet network and is used for development, testing, and production simulation of new software. The Development Network was set up with hardware and software loaned from OpenNet and contributed by projects such as GFMS. The network has since received over \$2.4 million in investment, and a \$450,000 per year recurring maintenance budget has been established to meet new requirements. However, some of the network's older equipment remains, including servers that are over five years old and desktop computers that have been set up as servers. SDM also does not have funding for sufficient

software licenses for the development tools in use. This results in SDM staff spending time to get licenses released from one user, allowing another to use the software.

In some cases, SDM's current equipment does not allow it to create sufficient testing environments for running multiple testing simulations simultaneously. This has led to delays in product development. In the last year and a half, SDM has been able to procure only 17 new desktop computers for development work on 22 financial applications. The age of some of SDM's equipment means that new software products are being tested in an environment that does not fully mirror the OpenNet production environment. As a result, software bugs may only be discovered after implementation. New requirements introduced by the GFMS project exacerbate the resource situation, adding implementation of a major initiative to an already full queue of ongoing software development, modification, and maintenance activities. In this environment, high-level goals, such as consolidating Department financial management operations into a single instance of GFMS with one worldwide database, will not be met.

Recommendation 38: The Bureau of Resource Management should provide the funding necessary to establish and maintain, on an ongoing basis, viable infrastructures for the production network and systems development network. (Action: RM)

GLOBAL FINANCIAL MANAGEMENT SYSTEM

The GFMS project is designed to transfer domestic financial management operations from CFMS, a mainframe-based application developed by American Management Systems, Inc., to Momentum, a client-server application also developed by this contractor. Financial management operations for overseas locations are already running on Momentum in RFMS/M. The immediate goal of GFMS is to complete the transition from CFMS to Momentum by October 1, 2006. The result would be domestic financial operations running on one instance of Momentum with one database, GFMS. Overseas financial operations, meanwhile, would continue running a separate instance of Momentum with a separate database, RFMS. However, there have been delays in the budget remediation project that arose from conversion to GFMS, elimination of the GFMS Help Desk, and cuts to the hardware lifecycle replacement budget. In addition regular production staff have been used to implement GFMS as a collateral duty to their production duties.

This makes it unlikely RM will meet the October 1 deadline. The goal of merging domestic and overseas financial management operations into a single instance of Momentum with a single database appears to be just a discussion matter at this point.

One impediment to the GFMS project is the difficulty encountered in translating the various interfaces of CFMS with other systems into equivalent interfaces for GFMS. Without an implementation team, it is difficult for GFS-C staff and the staff operating CFMS - two full-time production operations - to jointly resolve these issues. Further organizational questions remain unresolved, such as the future of CFMS resources after the transition to GFMS and which operational team will run GFMS at that point.

JOINT FINANCIAL MANAGEMENT SYSTEM

The Joint Financial Management System (JFMS) project has been successfully implemented thus far. The Phoenix financial management system of the U.S. Agency for International Development (USAID) is referred to in the Department as JFMS, runs the Momentum application, and has been installed at GFS-C. USAID planned to migrate the rest of its locations in Africa to JFMS by mid-March 2006. This would result in USAID running one instance of Momentum with one database, physically colocated with and running the same software product as the Department. Eventually, the project should provide savings and reduce duplication, due to the consolidation of development, maintenance, and networking activities for two agencies at one location. However, there are no plans for further consolidation of Department and USAID programs into a true JFMS.

INFORMATION SYSTEMS SECURITY OFFICE

GFS-C's information systems security office (ISSO) is organizationally separate from the operational and systems development sections, ensuring effective separation of information technology functions. The section has its own intrusion-detection system for monitoring user activity on the network and is effective in actively monitoring and ensuring user compliance with Department computing regulations. The ISSO also approves new user accounts, briefs users on information systems security, and creates the accounts (because the office is the new users' first point of contact).

The ISSO is also responsible for creating user profiles within the financial applications, which are set up in response to requests submitted by users' supervisors. The ISSO staff advises system owners on the appropriate level of access for different types of users, but does not decline requests for access that are signed by supervisors. However, many of the request forms submitted by supervisors simply ask the office to give a new user access that is similar to that of a current user. The current user's profile is then copied and renamed to create the new user. Carrying this practice forward over the hundreds of new users added at GFS-C in the last two years has resulted in many users having unspecified access rights in their request forms. This practice does not give adequate attention to access control, and its continued use has the potential to grant unnecessarily privileged levels of access to new users.

The ISSO staff also prints lists of financial system user profiles every six months for system owners to review for appropriateness. However, these lists do not definitively indicate each user's level of access, and thus user access rights to the financial systems are not effectively controlled. The ISSO staff has submitted change requests to the RFMS systems to improve reporting on access rights, but these have not been implemented. The ISSO has also recently purchased the Courion account provisioning system, which should help manage user access rights to the financial applications.

Recommendation 39: The Bureau of Resource Management should implement a process to ensure stricter controls over access to financial applications, including enumerated access rights for each individual and increased information systems security officer oversight of user access to these applications.
(Action: RM)

TRAINING FOR LOCALLY EMPLOYED STAFF

The GFS-C training unit provides financial management and financial systems training to LES in the Department's financial operations worldwide. The unit was established in 2003 to consolidate a variety of financial management training, eliminate duplicate courses, monitor attendance, standardize curriculum, allow staff to assess financial management training, and implement consistent standards.

These courses are important to the professional development of LES overseas; they provide hands-on instruction on new software or initiatives, help employees hone skills, and are a mechanism for posts to implement Individual Development Plans for employees. GFS-C's training offerings are important and augment the FSI training, which is predominantly tailored to the Foreign Service officers who manage embassy financial management sections.

The training unit consists of two full-time Foreign Service officers, who use expert financial management specialists, FSN specialists, and contractors to teach the courses. Of the 85 training programs developed and offered by GFS-C in FY 2005, most courses provided financial-management-specific training to the 1,165 employees who attended. GFS-C also offered a few training courses that were given by FSI. The financial advantage of GFS-C's training is that GFS-C takes its courses to the field. Posts have saved significant amounts of travel dollars by sending employees to Bangkok, Paris, or other regional centers, often mitigating the need for business class travel. Fifty-eight courses were offered at overseas locations for 781 of the 1,165 employees trained.

GFS-C has already dropped several customer service and supervisory skills workshops that are also taught by FSI. Nonetheless, it continues to offer appropriations law and grants management courses that are identical in terms of instructors and material to those offered by FSI. GFS-C must assess the value of continuing to offer FSI courses for LES in the field, based on GFS-C's human and financial resources. OIG made an informal recommendation on this issue.

GFS-C maintains an excellent "documentation corner" on its Intranet web site for training. The corner provides reference materials on all GFS-C courses and for various workshops and conferences, and also has self-study guides. Employees

worldwide can use the site to quickly and easily find and save authoritative information on a variety of subjects because the material is organized alphabetically. The web site is updated regularly, and new information is highlighted in red to alert users to it.

Several federal programs require agencies to migrate distance learning systems development and distance learning systems to an authorized provider by 2007 and to retire and eliminate duplicate learning management systems. These programs are part of the President's Management Agenda (PMA) and include e-Gov e-Training, the Human Resources Line of Business, and the Enterprise Human Resource Initiative. Under this initiative, all federal agencies must collect specific data about training and transmit them through an authorized provider. FSI, the Department's chief training organization, has met the mandates to map and track courses to meet these PMA objectives and has been designated as the fourth governmentwide training service provider. Currently, only courses that replicate FSI offerings are mapped, which causes the courses to be numbered and entered into FSI's database. Mapping also automatically credits the students for taking the training, and collects all the required data fields.

Recommendation 40: The Bureau of Resource Management, in coordination with the Foreign Service Institute, should review its courses to prevent duplication and ensure that the Foreign Service Institute courses it offers are registered in the training database. (Action: RM, in coordination with FSI)

Distance learning is a flexible, convenient, cost-effective way to deliver training to the field. GFS-C has developed a distance learning voucher examination course. In the three weeks since the course became available, eight students have successfully completed it; 31 more are registered. This is the equivalent number of students to the number GFS-C would have had if it had taught the course in a traditional classroom setting twice. However, the course was developed using proprietary software that does not interface with FSI's Learn Center system and does not comply with the industry standard system that tracks distance learning usage, called the Sharable Content Object Reference Model. As a result, FSI cannot include the voucher examination course in its data-collection for the PMA. The course also does not comply with Section 508 of the Americans With Disabilities Act. GFS-C and FSI are developing a solution to enable the voucher examination course to be offered on FSI's Learn Center, but the solution will require additional resources. GFS-C should coordinate all distance learning efforts with FSI. All courses should run on the Internet-based FSI Learn Center and be given FSI course codes, adver-

tised in the schedule of courses, and incorporated into the Department Training Plan. For all distance-learning courses, GFS-C should seek guidance from FSI on instructional development, use contractors authorized by FSI, and plan to retire any learning management and registration systems currently in place before the FY 2007 PMA deadlines.

Recommendation 41: The Bureau of Resource Management should coordinate all distance learning efforts with the Foreign Service Institute. (Action: RM)

ADMINISTRATIVE OPERATIONS

The Office of Administrative Operations of GFS-C largely mirrors an overseas post's management section. The office includes a director and an administrative officer and has units focusing on budget and accounting, procurement and contracting, and human resources. Although its budget operations are performed well, there are procurement and contracting problems and human resource issues.

PROCUREMENT AND CONTRACTING

Facilities Maintenance

The Bureau of Administration's Office of Facilities Management Services provides operational and maintenance services for GFS-C. Its onsite staff includes a facilities manager, two assistants, and a secretary. A contractor, GS TECH Incorporated, handles day-to-day maintenance and repairs. The current contract, SLMAQM00C0093, commenced on October 1, 2001, and is a firm-fixed, indefinite-quantity, personal services contract. The contract allows for a base year and three option years (FY 2003 through FY 2005) and was to expire March 27, 2006.

The contract's description of services states that the contractor is responsible for the operation, maintenance, repair, preventive maintenance, installation, and alteration of the plumbing, mechanical equipment and systems, electrical equipment and systems, and elevators, uninterruptible power supplies, pest control, landscaping, recycling, trash removal, and custodial services. The contract has six elements or contract line items (CLIN). The first two CLINs are the fixed-price portions of the contract. CLIN One covers 12 monthly units of operation and maintenance services. CLIN Two covers 12 monthly units of custodial, grounds maintenance, pest control, trash removal, recycling, and deliverables. CLINs Three through Six are the indefinite-quantity portions of the contract. Each CLIN is governed by an annual contractual dollar limit. CLIN Three covers reimbursable labor done during normal working hours. CLIN Four covers reimbursable labor done outside of those hours. CLIN Five covers reimbursable services for building

alterations and installation of equipment and systems. CLIN Six covers replacement and repair parts and materials for work performed via CLINs Three and Four.

Based on available information, it appears that funds expended against the GS TECH contract far exceeded those authorized for CLINs Three through Five. The original contract and several contract modifications authorized \$388,148 to be expended against CLINs Three through Five for FY 2002 through FY 2005. However, in those same years, it appears that about \$1.5 million was spent for CLINs Three through Five. The roughly \$1.1 million difference represents unauthorized commitments. 14 FAM 215a defines an unauthorized commitment as an agreement that is not binding solely because the government representative who made it lacked the authority to enter into that agreement on behalf of the government. It appears the facilities manager directed the contractor to do the work. Both the CO and the COR are in the Washington, DC, area. According to 14 FAM 215e, ratification is the act of approving an unauthorized commitment by an official who has authority to do so. For the Department, that official is the Procurement Executive of the Office of the Procurement Executive.

Recommendation 42: The Bureau of Administration should coordinate its Office of Facilities Management Services and Office of Acquisition Management to seek ratification of unauthorized commitments made against contract SLMAQMM00C0093 with GS TECH Incorporated. (Action: A)

The GS TECH contract is a sole-source contract made under the 8(a) Minorities and Small Business program, from which the contractor graduated in 2002. During the term of the contract there were modifications under CLIN One to procure specific supplies and services totaling \$585,965. For example, on September 26, 2004, \$250,000 was provided to pay for electrical, data, and air-conditioning requirements for the disaster recovery and circuit upgrade in the Charleston Passport Center. This requirement could have been competed among the eligible 8(a)-qualified contractors, but it was not. Without question, using the services of the onsite contractor was expeditious, but it also limited competition for the contract. The Office of Acquisition Management should consider this before it awards the follow-on contract. Under the existing contract, the COR is in Washington, although the COR should be in Charleston.

Recommendation 43: The Bureau of Administration should set limits on how the new operational and maintenance services contract for the Consular Affairs and Global Financial Services-Charleston can be used to fill follow-on requirements and name the Global Financial Services-Charleston facilities manager as the contracting officer's representative. (Action: A)

WORK FORCE CONTRACTS

GFS-C employs about 200 contractor employees through seven labor-hour contracts. These contracts are with: Federal Management Systems Inc. (FMSI); American Management Systems, Inc.; STG, Inc.; Lionel Henderson and Co. (LH), Inc.; Alphatech Corp.; MIL Corp.; and RITNET Corp. In FY 2005, labor-hour contract expenditures exceeded \$11.9 million. The Office of Acquisition Management issued five of the contracts. The MIL and RITNET contracts are requisitions against General Services Administration-prepared contracts.

For the most part, the labor-hour contracts were established to fulfill Department labor requirements in multiple locations for various bureaus and offices. One contract, with American Management Systems, Inc., is specifically for RM's acquisition of professional services and related financial management software products to implement, operate, maintain, and improve the Department's worldwide financial management systems. STG, Inc. and Alphatech Corp. provide personnel for systems and software support and development Department-wide. FMSI and LH provide personnel for administrative, clerical, and professional support services Department-wide.

Improvements in contract administration at GFS-C are needed to ensure that the contractor's work is adequately monitored and Federal Acquisition Regulations and Department of State Acquisition Regulations (DOSAR) are followed.

Several factors contribute to the current situation. Perhaps the most significant is the fact that there is no designated COR in Charleston, and the CORs located elsewhere appear largely unengaged in the task. A COR is supposed to be designated to assist with contract administration for a specific contract and to review and approve contractor invoices. According to the DOSAR 652.242-70, multiple

CORs can be designated for one contract. The Department's Procurement Executive said that approving an invoice for payment is a COR delegation that cannot be redelegated.

CORs were not identified in six of the contracts reviewed, and one was only identified for the American Management Systems, Inc. contract. If CORs were designated for the other six contracts, their names had not been provided to the GFS-C. During the inspection, the Budget and Accounting unit did not have copies of the labor-hour contracts. The unit did, however, have copies of the relevant labor categories and fixed hourly labor rates and was able to work around its lack of copies of the contracts. (OIG received copies of contracts from the Office of Acquisition Management.) Per FAR Subpart 4.201, the Budget and Accounting unit should, as the funding office, be on the distribution list for contracts and modifications. With the exception of the American Management Systems, Inc. contract, there was little, if any, COR oversight for these contracts.

According to DOSAR 642.271, a CO may appoint a government technical monitor (GTM) to assist in monitoring a contractor's performance. While training a GTM is encouraged, it is not mandatory, although GTMs must read 6 FAH-2, the Contracting Officer's Representative Handbook. More importantly, a COR can redelegate many of his or her duties to the GTM. Multiple GTMs have been named for each of the labor-hour contracts at GFS-C, but the designations were not in writing and there is no evidence the CORs made the designations. As part of the review process, GTMs certify receipt of hours worked, as shown on contractors' invoices.

Recommendation 44: The Bureau of Administration should strengthen contract management procedures for Global Financial Services-Charleston's labor-hour contracts by designating contracting officer's representatives, appointing technical monitors, and distributing copies of contracts and modifications. (Action: A)

Procurement Requirements

GFS-C uses the Department's purchase cards for its small-dollar requirements and uses Office of Acquisition Management services for its large contracting and procurement requirements. A review of the process and resulting procurements identified one ill-advised procurement. This matter is discussed in detail below.

The purchase card program is well run. The three cardholders, the program coordinator, and the approving official are the officials of record, and all are trained. The director of the Office of Administrative Operations is the program coordinator. The administrative officer is the approving official. The purchase cards are not bulk-funded, so the budget and accounting unit sees each request prior to certification of the funds' availability. An FOC review of the program for the period October 2003 to February 2005 was done by the Office of Administrative Operations and fulfilled the requirement for an annual review. Its findings and recommendations have been implemented.

The three cardholders have Category One spending thresholds, with single purchase limits up to \$2,500. The Office of Administrative Operations said it would like the transaction limit for its purchase cards raised to \$5,000. However, Category Two has a single purchase limit up to \$25,000 and substantial training requirements that include 40 hours of simplified acquisition training. The complexity of the larger purchases might be too demanding on the time of the three cardholders.

A contractor employee handles requests for purchases, which involve getting approvals and funds-availability certification before routing the requests to the Office of Acquisition Management. That office's review of 18 out of 93 FY 2005 purchases, conducted with the Regional Procurement Support Office (RPSO), determined that the quality of procurements improved when responsibility shifted to Office of Acquisition Management. Sole-source purchases were not uncommon and generally were accompanied by a sole-source justification.

For its part, GFS-C requestors and the Office of Administrative Operations have sound procedures for moving purchase requests, obtaining required signatures and funding, and administering the executed purchases. However, one purchase, which at the request stage may have been well intentioned, was ill advised and resulted in unnecessary costs. The purchase's justification was that it would ensure that certain GFS-C travelers had a guaranteed hotel room in Washington, DC, during the summer season. The request was made and approved by the former administrative officer, with the approval of the deputy assistant secretary. Purchase order SWHARC-04-M-0041, prepared by RPSO in May 2004, acquired a two-room suite at the Marriott Residence Inn in Arlington, VA, for 90 days at \$200 per night. The length of the stay was later extended for approximately three months. During the period, multiple GFS-C travelers used the room for official accommodations. An internal GFS-C review by the budget and accounting unit of

the travel vouchers of those who stayed in the room determined that the travelers did not claim lodging for the same period. The hypothetical lodging costs would have been \$21,750 if travelers had obtained their own hotel rooms and collected lodging. The cost of the suite for the entire stay was \$36,800, or \$15,050 more than renting individual rooms. This does not include the \$1,488 charged by RPSO.

On another matter, improvements are needed in the way labor-hour requisitions are now administered. An accountant from the Budget and Accounting unit and a contractor employee from FMSI administer the requisitions for labor-hour services. The accountant handles most requisitions, obligates funds for each, and places them through ARIBA, the procurement module of the Department's Integrated Logistics Management System. The FMSI employee also handles requisitions for FMSI and LH, an FMSI competitor. As part of the job, the employee has LH's labor-hour rates. From a management controls perspective, an accountant who has access to the Department's primary overseas financial system and to the system controlling the labor-hour contract funds should not also have access to ARIBA. Similarly, an FMS contractor employee should not administer the requisitions for LH and thereby gain access to proprietary information.

Recommendation 45: The Bureau of Resource Management should cease requiring the accountant from the Budget and Accounting unit to place requisitions for labor-hour contracts, and the bureau should no longer allow contractor employees to administer requisitions involving competitor companies. (Action: RM)

HUMAN RESOURCES

Phase Two of GFS-C's consolidation of domestic financial services and payroll operations was a monumental effort, even with the assistance of RM/EX. The executive office provided a two-person human resources (HR) office that was formed in 2002 to plan and coordinate position classification, recruitment, hiring, and the orientation for 236 employees. Despite the office's fine efforts, two HR specialists could not provide the full range of HR services. An additional HR specialist was hired in 2004 to function as the training officer, manage the incentive awards program, and coordinate performance evaluations. Another HR assistant position was established and filled in 2005 to provide administrative support.

Many issues from the consolidation have been resolved, but one or two require further effort. One outstanding consolidation-related issue still under discussion is agreement on the number of FTE positions. Until the FTE issue is resolved, RM/EX has placed a hold on filling positions in Charleston; they can only be filled internally through merit promotion. To get GFS-C operational, new position descriptions were developed quickly or existing descriptions were used; this allowed the hiring of hundreds of employees with no serious look at office structure. The HR officer is working with managers and supervisors to do position management and office structure reviews and revise position descriptions as necessary.

To facilitate the consolidation and ensure a smooth transition, RM and the Bureau of Human Resources agreed in January 2004 to transfer most HR functions from RM/EX to GFS-C. Requests for recruitment, position classification, and personnel actions are now processed directly by the GFS-C HR office to the Civil Service Personnel office in the Bureau of Human Resources. The transfer improved accountability and timeliness by placing responsibility for HR on GFS-C, with limited intervention from RM/EX. RM/EX provides oversight through the Department's online personnel system and occasional visits. Certain HR processes require RM/EX coordination, such as employee relations, Foreign Service personnel services, and approval of certain incentive awards. RM/EX provides HR support for GFS-C's Foreign Service officers, including the assignment process and performance evaluations. There are no negative effects from the transfer of HR functions to GFS-C, and there is a good working relationship between the two HR offices.

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Contractors and Civil Service Employees

GFS-C staff spoke of a divide between Civil Service and contractor employees. Contractor employees are hired through one of several Department labor services contracts and, as such, are not the responsibility of the HR office. The HR office's contractor support is limited to general orientation or coordinating Department-specific training requests. Contractor employees do not understand what they can or cannot do or what their entitlements are, although these matters should be clearly spelled out in the contract. This creates a "them vs. us" mentality because contractors are not entitled to the awards, training, or travel routinely approved for Civil Service employees performing the same jobs. Contractor employees see this as unfair. Contractor employees say they feel like "Christmas help" and do not feel they are part of the organization. The Civil Service employees say contractor

employees are unqualified or were put in supervisory roles over Civil Service employees. As noted elsewhere, the labor contracts have not been well managed by the Department. The Department and RM provide very little guidance on contractor employment. GFS-C management must continue to address this issue since contractors make up almost half the workforce. OIG informally recommended that GFS-C management require labor contractors to fully enumerate responsibilities and entitlements to their employees at GFS-C and clearly state the differences between contractor employees and Civil Service employees.

Policies

GFS-C staff have real or perceived concerns about nepotism, favoritism, unfair incentive awards, abuse of time and attendance, and the hiring process. They also believe that prohibited personnel practices may be lowering morale. Many employees said they would not raise their concerns with management because they do not trust the integrity of the system. Perceptions exist that there are some actions approved by management for family and friends, such as employment, promotions, awards, and training or travel. These would give the appearance of nepotism or prohibited personnel practices. Management must establish a policy and procedures that cannot be circumvented to build trust and assure employees that prohibited personnel practices will not be tolerated. The policy statement should communicate management's commitment to fair and equitable practices and high standards of conduct. For example, only three supervisors attended a broadcast briefing held last year on merit system principles and prohibited personnel practices. OIG informally recommended the briefing be held again and that management requires all supervisors and managers to attend.

Recommendation 49: The Bureau of Resource Management should publicize and implement a policy in support of merit system principles and emphasize that the bureau has no tolerance for prohibited personnel practices. (Action: RM)

The appearance of or the potential for nepotism is a problem at GFS-C. There are 35 working married couples that can be readily identified among the staff. Less apparent are the numerous family members and friends hired throughout GFS-C. Most of these employees do not work in positions where they could violate prohibited conditions, such as approve official actions, have joint control of resources, or engage in direct supervision. However, there is a question of internal controls,

such as when a married couple is working in the same office but in different sections. The perception among some employees is that managers hire family members and friends who may or may not be qualified for the position. Management must guard against any action that benefits, affects, or appears to benefit family members or friends. A statement of policy on nepotism is required by 3 FAM 8310 and should clearly define prohibited conditions of employment.

Recommendation 50: The Bureau of Resource Management should issue and implement a nepotism policy that defines prohibited conditions of employment and requires careful review of all personnel decisions to ensure strict compliance. (Action: RM)

Incentive Awards

GFS-C follows RM's incentive awards program guidance and Department regulations for Civil Service and Foreign Service employees. Contractor employees do not participate in the awards program, other than to receive certificates of appreciation. Award nomination requests are sent out semiannually to managers and supervisors along with submission guidance and a completion timeline. GFS-C's awards committee can recommend approval by the deputy assistant secretary for most award nominations. High-dollar cash awards, superior honor awards, and quality step increases require the review and approval of the RM/EX awards committee. GFS-C has a large incentive awards program involving two award ceremonies a year. However, budget constraints are limiting the number and dollar amount of awards in this cycle.

Some GFS-C employees see the awards program as unfair or not equitable because they believe the same "favored" individuals receive awards every year. OIG reviewed awards given in 2003 and found some employees did receive awards in subsequent years. The explanation for the repetitive awards was that many employees received individual and group awards for their consolidation efforts over the past two years. Management seems to be heavily involved in the awards process, receiving information even before GFS-C's awards committee meets. The deputy assistant secretary is briefed on all award nominations, followed by a discussion with senior staff. The action aims to address concerns that the awards program is not fair and equitable, but some think this means management is driving the awards program. OIG informally recommended that management limit its

intervention in the awards process to establishing general numbers and dollar amounts for awards, taking no other action until it must review and approve the awards committee's recommendations.

Training

GFS-C has an impressive training plan for FY 2006, one that establishes policy and procedures and identifies needs. Hundreds of new employees hired during the consolidation met basic qualifications for their positions but lacked government or Department experience. GFS-C management is fully committed to the training and development of its employees. The HR specialist responsible for training has increased the effort to get as many employees trained as possible by bringing trainers to Charleston. In FY 2005, this saved over \$500,000 in individual travel and per diem costs.

Budget constraints may limit training opportunities this year, although GFS-C has several courses scheduled. Contractor employees are trained for Department-specific programs or systems with FSI approval. All Civil Service employees must complete a two-year Individual Development Plan, and no training is approved without one. The plan must include complete information on the training requested, give a justification, set a priority, and reflect the total cost, including travel. GFS-C has conducted training on Individual Development Plans for supervisors and employees.

Performance Evaluations

GFS-C complies with the Department's Civil Service and Foreign Service performance management regulations and provides guidance and timelines to all managers and supervisors. However, it is up to supervisors to establish performance plans within 30 days of the start of the rating period and to conduct interim performance appraisals. The HR specialist does not track supervisors' performance management responsibilities or hold supervisors accountable. OIG questionnaires show there is a problem with performance plans, which are being established well after the start of the rating period. In addition, interim appraisal discussions are never being held. OIG informally recommended that a tracking system be developed to ensure supervisors complete performance plans within 30 days of the start of the rating cycle and hold interim performance appraisal discussions at mid-year.

Time and Attendance

Proper procedures on time and attendance are not always followed nor are adequate records maintained. Some believe there is insufficient oversight and that time and attendance are not being reported accurately. OIG found that supervisors have not been consistently responsible in monitoring and approving the time and attendance of their staff. Supervisors and employees do not follow RM's policy on time and attendance, which is spelled out in the GFS-C employee handbook. Because most employees work flexible or irregular work schedules, all employees must complete a daily time sheet. The handbook states that all employees must be in the office during a specified core period of hours. A review of the daily time sheets shows some employees work before or after the core period, and there was no evidence they had received approval of these special arrangements. Also, employees do not routinely sign in and out every day. Some employees are allowed to leave early by not taking a lunch break.

Timekeeper procedures at GFS-C are not standardized. Some timekeepers verify the daily time sheets against the employee-prepared timesheet for the pay period. Other timekeepers do not verify timesheets and use leave slips to reflect exceptions to the 40-hour workweek. Supervisors sign the final time and attendance submissions, although some are not reviewing or spot-checking the timesheets to verify them.

Recommendation 51: The Bureau of Resource Management should establish standardized policies and procedures for time and attendance at Global Financial Services - Charleston. (Action: RM)

Equal Employment Opportunity

GFS-C does not have an active EEO program. The designated EEO counselor is on long-term temporary duty and previously was detailed to Iraq for most of 2005. GFS-C designated a new counselor and sent the nomination to RM/EX in November 2005. However, RM/EX failed to pass the name on to the Department's Office of Civil Rights (S/OCR), despite repeated follow-ups. After OIG intervened, RM/EX notified S/OCR on January 31, 2006. S/OCR will prepare a letter of designation and schedule the new counselor for training; until then, the designee cannot conduct EEO counseling. OIG informally recommended that GFS-C nominate more than one counselor, considering that it is a regional operation having over 300 employees.

A small number of formal and informal EEO complaints filed in the recent past have been resolved informally or dropped. At the time of the inspection, two formal complaints were pending final resolution with S/OCR. Responses to the OIG questionnaires indicate there is a perception of unfair personnel practices, and it may prompt new EEO complaints in the future. OIG also heard allegations of possible discrimination that could not be substantiated but emphasize the need for an EEO program. Some employees believe there is no recourse because the EEO program is nonexistent, inaccessible, and unsupportive. Other employees believe management uses subtle forms of discrimination by hiring relatives and friends, promoting favored employees, treating certain employees with disrespect, and approving repetitive incentive awards for a select few.

Management support is critical for a successful EEO program. Employees need to know the policies and that individuals will be held accountable. Notices on the EEO program are not being posted. They are supposed to include the name of the EEO counselor, procedures for filing a discrimination complaint, and a policy statement in support of EEO principles. The employee handbook does not even mention EEO. A few steps have been taken, but more needs to be done. Managers and supervisors do have their work on personnel management and EEO listed as a critical element in their performance evaluations. The HR office recently started monitoring EEO and diversity representation in the incentive awards program. EEO and diversity awareness training was scheduled at GFS-C for March and May 2006 for employees and supervisors.

Recommendation 52: The Bureau of Resource Management should set policies and establish an effective program to promote equal employment opportunities and diversity awareness. (Action: RM)

Federal Womens' Program

GFS-C has not designated a Federal Women's Program coordinator, as required by 3 FAM 1514 to support the Department's program to promote career opportunities and advancement for women. This special emphasis program is part of the federal EEO effort. Several female GFS-C employees voiced concern in OIG questionnaires that women were underrepresented at the center. Management has not requested a Foreign Service or Civil Service employee to volunteer to be the program coordinator and notify S/OCR of the nomination.

Recommendation 53: The Bureau of Resource Management should designate a Federal Women's Program coordinator for Global Financial Services - Charleston and post the coordinator's name and program information throughout the center. (Action: RM)

Travel

GFS-C is managing its travel program well. It issued 572 travel authorizations in FY 2005 and the first quarter of FY 2006. Business class travel was allowed and properly authorized in 84 instances. There were three instances where the travel qualified for and was accomplished on business class, but the travel authorization did not cite the authorization for business class travel. There was one instance of a traveler using business class on one portion of journey that did not qualify. GFS-C is recouping the excess ticket cost.

MATTERS FOR FURTHER REVIEW

The onsite GFS-C inspection lasted five weeks. GFS-C is a unique and highly complex operation that handles over \$10 billion in transactions each year and supports all Department activities and those of 45 other agencies' operations overseas. OIG had insufficient resources to do everything that needed to be done in the time allotted and identified other areas that should be reviewed in more detail at a future time. Issues that need further review are:

- GFMS, which is scheduled to come online on October 1, 2006. OIG does not anticipate it will meet this target date or that GFMS will fully address user needs. The development of GFMS must be a high priority but further examination of its user requirements and implementation schedule should be undertaken.
- The Integrated Logistics Management System (ILMS), which is expected to mesh seamlessly with the GFMS but is also under development. The development of ILMS and its integration with GFMS should be a high priority, but further examination of the joint development should be undertaken
- Vendor claims - \$3 billion dollars of domestic vendor claims are processed by GFS-C every year.
- Transportation and employee claims.
- Accountability and control of Treasury checks. A complete review of the controls of Treasury checks for approximately 150 currencies is needed.
- Travel voucher processing. There was insufficient time to even carry out a statistical sampling of this key area. Given the potential for error and fraud, further review is necessary.

- Payroll, particularly domestic American, overseas American LES and the Foreign Service retirement system payrolls, which total several billion dollars a year.
- Undelivered Orders (unliquidated obligations). An audit of this function is currently underway, and OIG did not pursue it.

FORMAL RECOMMENDATIONS

Recommendation 1: The Bureau of Resource Management should conduct a thorough review of the financial consolidation that arose from the 2001 decision to expand Global Financial Services-Charleston to determine whether further steps are necessary to improve the Department's financial management.

(Action: RM)

Recommendation 2: The Bureau of Resource Management, in coordination with the Office of Rightsizing the U.S. Government Presence Overseas, should conduct a review six months after the opening of the Distressed Post Support Unit to see how that effort can be successfully replicated in other geographic areas.

(Action: RM, in coordination with M/R)

Recommendation 3: The Bureau of Resource Management, in coordination with the Bureaus of Administration and Human Resources, should review the current support arrangements for Global Financial Services-Charleston to assess whether support would be better handled by providing more independent authority to Charleston. It should then take steps to either transfer authority to Charleston or strengthen support from Washington. (Action: RM, in coordination with DGHR and A)

Recommendation 4: The Bureau of Resource Management should establish personnel and funding levels for Global Financial Services-Charleston that are sufficient for it to perform all required mission functions or reduce the requirements levied on Charleston. (Action: RM)

Recommendation 5: The Bureau of Administration, in coordination with the Bureau of Diplomatic Security, should participate in all working group meetings regarding Charleston site security and obtain the necessary written agreements with the Department of Homeland Security concerning new security procedures affecting all Department operations in Charleston. (Action: A, in coordination with DS)

Recommendation 6: The Bureau of Resource Management, in coordination with the Bureau of Administration, should conduct the emergency evacuation and shelter-in-place drills at Global Financial Services - Charleston. (Action: RM, in coordination with A)

Recommendation 7: The Bureau of Resource Management should train and designate as certifying officers employees who are performing certifying officer duties domestically. (Action: RM)

Recommendation 8: The Bureau of Resource Management should review the payment certification operation that Global Financial Services-Charleston provides to six Department bureaus and offices to determine whether the appropriate memoranda of understanding are in effect and create, update, or eliminate memoranda of understanding, as appropriate. (Action: RM)

Recommendation 9: The Bureau of Resource Management should perform a full-scale, multi-location audit of the payroll procedures for Department employees in Baghdad. (Action: RM)

Recommendation 10: The Bureau of Resource Management should implement procedures to process payrolls only when the time and attendance reports are properly prepared and approved. (Action: RM)

Recommendation 11: The Bureau of Human Resources should include in employees' travel orders a reminder that travel advances for employees assigned to the Foreign Service Institute for training cannot exceed 80 percent of the 45-day per diem rate authorized. (Action: DGHR)

Recommendation 12: The Bureau of Resource Management should review the differences in the Fund Balance with Treasury Accounts, reconcile the differences from prior fiscal years, and report the changes to the Treasury. (Action: RM)

Recommendation 13: The Bureau of Resource Management should reconcile the Deposits Statements of Differences and Disbursements Statements of Differences to resolve the differences in a timely manner. (Action: RM)

Recommendation 14: The Bureau of Resource Management should review the appropriations in the Treasury's Statement of Difference to determine the cause of the negative balances and determine whether there has been a violation of the Antideficiency Act. (Action: RM)

Recommendation 15: The Bureau of Resource Management should implement procedures to regularly review the Treasury's Statement of Differences and resolve all negative balances. (Action: RM)

- Recommendation 25:** The Bureau of Resource Management should review bank fees charged for all foreign United States Disbursing Officer bank accounts and should renegotiate exorbitant or inconsistent fees. (Action: RM)
- Recommendation 26:** The Bureau of Resource Management should compare, by region, banking services and fees of all foreign United States Disbursing Office accounts and provide the results of the comparison to financial management officers. (Action: RM)
- Recommendation 27:** The Bureau of Resource Management should obtain and retain Treasury designations for all foreign United States Disbursing Office bank accounts. (Action: RM)
- Recommendation 28:** The Bureau of Resource Management should institute quarterly meetings between cashier monitors and banking specialists to discuss cashier errors, unreconciled transactions, and trends. (Action: RM)
- Recommendation 29:** The Bureau of Resource Management should implement the auto-load feature for use with United States disbursing officer bank accounts when it would be cost effective to do so. (Action: RM)
- Recommendation 30:** The Bureau of Resource Management should, before the end of 2006, reexamine staffing in the bank reconciliation unit after the auto-load feature has been enabled in additional bank accounts to determine whether the number of contracted employees can be reduced. (Action: RM)
- Recommendation 31:** The Bureau of Resource Management should obtain all foreign bank account statements directly from the banks involved or, in cases where this is impossible, obtain the statements from embassy management or financial management officers. (Action: RM)
- Recommendation 32:** The Bureau of Resource Management should require that all banking specialists regularly check the bank fees being charged against the fees described in the banking agreements. (Action: RM)
- Recommendation 33:** The Bureau of Resource Management should contact all foreign United States Disbursing Officer banks that are processing electronic funds transfers to request that Department-provided reference numbers be added to bank statements. (Action: RM)

Recommendation 34: The Bureau of Resource Management should fully implement a quality control program throughout Global Financial Services-Charleston that encompasses payments, travel, accounts receivable, salary, and bank reconciliations. (Action: RM)

Recommendation 35: The Bureau of Resource Management should develop and implement a formal compliance follow-up process that addresses recommendations resulting from quality control reviews in a timely manner. (Action: RM)

Recommendation 36: The Bureau of Resource Management should, as part of a system of management controls, write a standard operating procedure that ensures that the assistant United States Disbursing Officer does not also have collateral responsibility for oversight of disbursing operations. (Action: RM)

Recommendation 37: The Bureau of Resource Management should review all assigned responsibilities of employees who are related to each other to ensure that real or potential conflicts of interest do not exist. (Action: RM)

Recommendation 38: The Bureau of Resource Management should provide the funding necessary to establish and maintain, on an ongoing basis, viable infrastructures for the production network and systems development network. (Action: RM)

Recommendation 39: The Bureau of Resource Management should implement a process to ensure stricter controls over access to financial applications, including enumerated access rights for each individual and increased information systems security officer oversight of user access to these applications. (Action: RM)

Recommendation 40: The Bureau of Resource Management, in coordination with the Foreign Service Institute, should review its courses to prevent duplication and ensure that the Foreign Service Institute courses it offers are registered in the training database. (Action: RM, in coordination with FSI)

Recommendation 41: The Bureau of Resource Management should coordinate all distance learning efforts with the Foreign Service Institute. (Action: RM)

Recommendation 42: The Bureau of Administration should coordinate its Office of Facilities Management Services and Office of Acquisition Management to seek ratification of unauthorized commitments made against contract SLMAQMM00C0093 with GS TECH Incorporated. (Action: A)

Recommendation 43: The Bureau of Administration should set limits on how the new operational and maintenance services contract for the Consular Affairs and Global Financial Services-Charleston can be used to fill follow-on requirements and name the Global Financial Services-Charleston facilities manager as the contracting officer's representative. (Action: A)

Recommendation 44: The Bureau of Administration should strengthen contract management procedures for Global Financial Services-Charleston's labor-hour contracts by designating contracting officer's representatives, appointing technical monitors, and distributing copies of contracts and modifications. (Action: A)

Recommendation 45: The Bureau of Resource Management should cease requiring the accountant from the Budget and Accounting unit to place requisitions for labor-hour contracts, and the bureau should no longer allow contractor employees to administer requisitions involving competitor companies. (Action: RM)

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Recommendation 49: The Bureau of Resource Management should publicize and implement a policy in support of merit system principles and emphasize that the bureau has no tolerance for prohibited personnel practices. (Action: RM)

Recommendation 50: The Bureau of Resource Management should issue and implement a nepotism policy that defines prohibited conditions of employment and requires careful review of all personnel decisions to ensure strict compliance. (Action: RM)

Recommendation 51: The Bureau of Resource Management should establish standardized policies and procedures for time and attendance at Global Financial Services - Charleston. (Action: RM)

Recommendation 52: The Bureau of Resource Management should set policies and establish an effective program to promote equal employment opportunities and diversity awareness. (Action: RM)

Recommendation 53: The Bureau of Resource Management should designate a Federal Women's Program coordinator for Global Financial Services - Charleston and post the coordinator's name and program information throughout the center. (Action: RM)

INFORMAL RECOMMENDATIONS

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

Performance Measurement

There are no standards in place to measure the quality of GFS-C's work.

Informal Recommendation 1: The Bureau of Resource Management should review the results of the International Standards Organization 9000 audit with a goal of establishing performance measures.

Security

Personnel from the Bureau of Diplomatic Security in Washington only visit GFS-C periodically to carry out security responsibilities for GFS-C.

Informal Recommendation 2: The Bureau of Resource Management should assign the collateral duties of a unit security officer to a full-time Department employee at Charleston who can serve as liaison to the Bureau of Diplomatic Security so that security-related issues affecting the center are better coordinated.

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Informal Recommendation 3: The Bureau of Resource Management should train mail room employees in the procedures for handling suspicious mail.

Page 100-5, section VII, of the Charleston site's Emergency Action Plan does not identify who is responsible for emergency drills.

Informal Recommendation 4: The Bureau of Resource Management should work with the Bureau of Administration to identify who is responsible for emergency drills and revise the plan to indicate that responsibility.

The Emergency Action Plan for GFS-C and Consular Affairs Passport Agency in Charleston was published in June 2004. Within the past year the Department of Homeland Security has begun to assume a more active role in access control and general security for the Charleston compound. The existing Emergency Action Plan does not reflect the new role of Homeland Security and does not indicate how the Department's emergency crisis response at Charleston will be coordinated with DHS.

Informal Recommendation 5: The Bureau of Resource Management should work with the Bureaus of Administration and Diplomatic Security to update the Facility Emergency Action Plan for Charleston to reflect the role of the Department of Homeland Security in Charleston.

There is no emergency action committee that includes representatives of all federal agencies, including the Department of Homeland Security, working on the compound in Charleston.

Informal Recommendation 6: The Bureau of Resource Management should engage Charleston representatives of all federal agencies on the Charleston compound to create an emergency action committee.

Operations

Rds to update the Foreign Affairs Manual, which does not reflect the current organizational structure of GFS-C. For example, the manual does not list the position of the managing director of Financial Oversight and Coordination and Office of Disbursing Oversight.

Informal Recommendation 7: The Bureau of Resource Management should update the relevant sections of the Foreign Affairs Manual and Foreign Affairs Handbook to reflect the current organizational structure of the Global Financial Services-Charleston.

RM has not reviewed and updated the 4 FAH related to certifying officers, which states that, if a bureau's executive director wishes to designate an individual as a CO, the executive director sends a written request to the Office of Disbursing Oversight. In actuality, Financial Oversight and Coordination maintains and updates the official list of authorized COs.

Informal Recommendation 8: The Bureau of Resource Management should review and update the section of Foreign Affairs Handbook that relates to certifying officers.

Cashier Monitoring

In March 2005, ODO reviewed the disbursing operations at Charleston. Although the resulting recommendations were closed in January 2006, OIG found that some of the same problems remain. During a review of the Overseas Cashier Reporting System database, OIG found six expired cashier designations, three expired temporary advances, and some reconciliations that were not current.

Informal Recommendation 9: The Bureau of Resource Management should review the expired cashier designations and temporary advances and, as needed, issue new designations or revoke the existing ones and collect temporary advances.

Banking

RM does not have bank agreements for five of the 124 foreign USDO bank accounts, despite the requirements of 4 FAH-2, H-616.

Informal Recommendation 10: The Bureau of Resource Management should obtain bank agreements for all foreign United States Disbursing Officer bank accounts.

Some bank agreements are not translated into English, making it impossible to ensure that bank fees are appropriate.

Informal Recommendation 11: The Bureau of Resource Management should require overseas posts to translate all bank agreements into English.

Performance standards related to the length of time the transactions may remain unreconciled allow far too much time.

Informal Recommendation 12: The Bureau of Resource Management should adjust bank reconciliation performance standards to improve performance and reduce risk.

The bank reconciliation unit's aging unreconciled summary report is inaccurate. Although a summary report can be created by manually adding aged unreconciled reports for each bank account, creating the summary report is cumbersome.

Informal Recommendation 13: The Bureau of Resource Management should fix the Regional Financial Management System's aging unreconciled summary report.

Cashiers do not always provide the banking specialists with Financial Service Center-211 forms, which support the RFMS entries needed to reconcile bank statements.

Informal Recommendation 14: The Bureau of Resource Management should require banking specialists to inform cashier monitors in instances when cashiers do not provide adequate supporting documentation for Regional Financial Management System transactions.

Some of the banking specialists have worked with the same bank accounts for over three years. Although this means they become familiar with the accounts, they do not necessarily gain exposure to different types of transactions. Additionally, when a banking specialist is on leave or leaves the government, other specialists are not familiar with the account, making the transition more difficult.

Informal Recommendation 15: The Bureau of Resource Management should rotate the responsibility for reconciling bank accounts every two or three years.

Some of the banking specialists do not have a complete understanding of operations in other GFS-C offices or of financial operations at embassies; a broader perspective would assist the specialists in resolving unreconciled transactions.

Informal Recommendation 16: The Bureau of Resource Management should institute a shadow program, allowing each banking specialist to spend time with Civil Service and Foreign Service employees in the cashier monitoring, disbursing, accounting, claims, and payroll sections.

Some bank statements are auto-loaded into the RFMS/D bank reconciliation module by downloading transactions from the bank's Intranet site. Other bank statements are auto-loaded from an e-mailed text file or Excel spreadsheet file. Downloading transactions from secure bank web sites is a more secure process.

Informal Recommendation 17: The Bureau of Resource Management should download bank statement transactions via secure bank web sites when possible, rather than downloading from e-mails in text or Excel spreadsheet format.

Customer Support Training

GFS-C offers several training programs that are also offered by FSI. These include Principles of Appropriation Law, Introduction to Grants and Cooperative Agreements, and Monitoring Grants and Cooperative Agreements.

Informal Recommendation 18: The Bureau of Resource Management should analyze the value of paying for courses if the courses are also offered by the Foreign Service Institute.

Human Resources

GFS-C employees complained about what they see as a divide between Civil Service employees and contractor employees. They said contractor employees do not understand what they can or cannot do or what their entitlements are, although these matters should be clearly spelled out in the contract.

Informal Recommendation 19: The Bureau of Resource Management should require labor contractors to fully enumerate responsibilities and entitlements and clearly state the differences between contractor and direct-hire employees.

GFS-C management needs to establish a policy on merit system principles and its refusal to tolerate prohibited personnel practices. Only three supervisors attended a broadcast briefing given in 2005 on merit system principles.

Informal Recommendation 20: The Bureau of Resource Management should repeat the broadcast briefing it provided in 2005 on merit system principles and prohibited personnel practices and require all supervisors and managers to attend.

Some GFS-C employees say the awards program is unfair or inequitable. Management seems to be heavily involved in the awards process before GFS-C's awards committee meets. The deputy assistant secretary is given a briefing on all award nominations, followed by a discussion with senior staff. The action is supposed to address employee concerns about the program, but some see the action as management driving the awards program.

Informal Recommendation 21: The Bureau of Resource Management should limit management involvement in the awards process to the establishment of general numbers and dollar amounts for awards, taking no other action until it reviews and approves Global Financial Services-Charleston's awards committee recommendations.

It is left to supervisors to establish performance plans for Civil Service employees within 30 days of the start of the rating period and to hold interim performance appraisals, actions required by regulation. OIG questionnaires indicate performance plans are not being established at the start of the rating period and interim appraisal discussions are seldom held.

Informal Recommendation 22: The Bureau of Resource Management should develop a tracking system to ensure that supervisors complete performance plans within 30 days of the start of the rating cycle and hold interim performance appraisal discussions at mid-year.

Equal Employment Opportunity

GFS-C is a large, regional operation having over 300 Civil Service and Foreign Service employees but only one counselor designated to conduct EEO counseling.

Informal Recommendation 23: The Bureau of Resource Management should nominate more than one Equal Employment Opportunity counselor for Global Financial Services-Charleston.

Travel

Although GFS-C has issued a number of administrative notices and guidance documents on travel issues, no notice or guidance explains travel rules and regulations.

Informal Recommendation 24: The Bureau of Resource Management should issue a travel policy in accordance with all aspects of 14 FAM 500, establishing procedures that authorize business class travel for trips in excess of 14 hours and that emphasize that the traveler is not authorized U.S. government rates when traveling indirectly for personal convenience and that all travel must comply with the Fly America Act.

PRINCIPAL OFFICIALS

	<u>Name</u>	<u>Arrival Date</u>
Director - Deputy Assistant Secretary	James L. Millette	08/02
Deputy Director and Principal Managing Director for Customer Support, Training and Global Disbursing Operations	Charles H. Grover	09/03
Managing Director for Financial Oversight & Coordination and Disbursing Oversight	Betsy Murphy	01/06
Managing Director for Global Compensation Operations	Cecelia A. Cooper	04/04
Director for Global Financial Operations	Roger W. Anderson	01/04
Director for Global Systems Operations	Randy R. Clark	09/02
Director for Customer Support and Global Training	Richard M. Sizemore	08/04

Director, Overseas Disbursing	William J. Booth	10/03
Director, Administrative Operations	Robert Nicolai	02/05
Director, Washington Liaison Office	Howard A. Renman	05/00

ABBREVIATIONS

CAA	Controlled access area
CFMS	Central Financial Management System
CLIN	Contract line items
CO	Certifying officer
COR	Contracting officer's representative
DHS	Department of Homeland Security
ODO	Office of Disbursing Oversight
ECA	Bureau of Educational and Cultural Affairs
EEO	Equal Employment Opportunity
EFT	Electronic funds transfer
FAR	Federal Acquisitions Regulations
FLETC	Federal Law Enforcement Training Center
FMO	Financial management officer
FMP	Bureau of Finance and Management Policy
FMSI	Federal Management Systems, Inc.
FOC	Office of Financial Oversight and Coordination
FSI	Foreign Service Institute
FSN	Foreign Service national
FTE	Full-time equivalent
GFMS	Global Financial Management System
GFS-C	Global Financial Services - Charleston
GSO	Global System Operations
GTM	Government technical monitor

HR	Human Resources
IIP	Bureau of International Information Programs
ISO	International Organization for Standardization
ISSO	Information systems security office(r)
JFMS	Joint Financial Management System
LES	Locally employed staff
LH	Lionel Henderson
NEA/SA	Bureau of Near East and Southeast Asia
NFC	Department of Agriculture's National Finance Center
OMB	Office of Management and Budget
OIG	Office of Inspector General
OPM	Office of Personnel Management
PMA	President's Management Agenda
RFMS	Regional Financial Management System
RFMS/D	Regional Financial Management System - Disbursing
RM	Bureau of Resource Management
RM/EX	Bureau of Resource Management/Executive Office
RPSO	Regional Procurement Support Office
S/OCR	Office of Civil Rights
SDM	Systems development and maintenance
USAID	U.S. Agency for International Development
USDO	United States disbursing office(r)

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