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Report of Inspection

Bureau of Administration,
Office of Allowances

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KEY JUDGMENTS

- The Office of Allowances (ALS) is a well-functioning office that coordinates policies, regulations, standards, and procedures for overseas allowances and differentials applicable to U.S. government civilian employees throughout the federal government.
- ALS played a constructive role in the development of benefits packages applicable to employees serving in Iraq and Afghanistan. The office moved quickly to implement statutorily authorized changes to allowance levels payable at these posts.
- Neither ALS nor any bureau in the Department of State (Department) measures the effectiveness of Department of State Standardized Regulations (DSSR) incentive payments established to recruit personnel at hardship posts overseas. As a result, the effectiveness of the Department's expenditures of \$80.9 million for DSSR incentive payments cannot be demonstrated. The establishment of performance measures for these incentive payments would allow the Department to demonstrate the impact of its programs more clearly.
- The office maintains a commendable level of productivity and routinely meets its self-imposed bimonthly schedules. The office also delivers excellent customer service to Department and other agency personnel offices. Responsibility for office management is overly concentrated in the hands of the two team supervisors who are overworked, while some of their staff are ready to assume more responsibility.
- Internal controls to monitor embassies and consulates that are delinquent in submitting required allowances reports need improvement. At the time of the inspection, some posts had not submitted required danger pay, post hardship differential, and cost of living reports in many years.
- A \$13 million initiative to modernize ALS information systems, E-Allowances, is on track for completion in 2007. The ambitious deployment schedule means that ALS will need to devote considerable time to monitoring the contractor's progress in meeting project milestones.

The inspection took place in Washington, DC, between May 16 and June 24, 2006. Bohdan Dmytrewycz (team leader), Arne B. Baker (deputy team leader), Eric Chavera, Linda E. Erskine, Frances T. Jones, and Pamela R. Young conducted the inspection.

CONTEXT

The Bureau of Administration (A) is one of the largest organizations in the Department, with 829 direct-hire employees and an FY 2005 budget of almost \$379 million. The size and complexity of the bureau led OIG to conduct the inspection in several phases. As a constituent office of the A bureau, ALS develops policies, standards, and procedures to administer allowances and differentials applicable to all U.S. civilian employees assigned overseas.

Under the authority of Executive Order 10903, the DSSR apply to approximately 80,000 U.S. government overseas civilian employees from more than 40 federal agencies, in addition to employees of the Department. ALS is the administrative agent responsible for writing the regulations, establishing methodologies for paying allowances, and collecting data from overseas missions to set allowance and differential levels. Among other functions, the office also establishes foreign per diem allowances for overseas locations, exercises the Secretary's authority to authorize special allowances, and determines eligibility for the consumables shipment allowance for Department employees. In the Department alone, overseas employee allowance and differential payments exceeded \$140 million in FY 2005.¹

The Secretary of State has broad authority to create, adopt, and administer DSSR allowances and differentials. With the exception of evacuation payments, all DSSR allowances are made at the discretion of the implementing agency. Each federal agency may choose to implement DSSR allowances, but if an agency implements an allowance it generally must adhere to the regulations in the DSSR, including those setting the level of an allowance. Senior Department officials, most often the Under Secretary for Management, the Bureau of Human Resources (DGHR), and the Assistant Secretary for Administration, make policy decisions on allowances, with strong oversight exercised by the Bureau of Resource Management (RM) for allowance changes with cost implications. Responsibility for implementing DSSR policy decisions rests with ALS.

¹ Partial estimate of Department allowances provided by Global Financial Service Center - Charleston that includes post allowance, post hardship differential, separate maintenance allowance, danger pay allowance, and difficult to staff incentive differential payments only.

There are many misconceptions about ALS's role in the Department. It does not directly pay any allowance. It also does not set policy for employee compensation benefits other than those in the DSSR; instead, DGHR establishes and manages personnel programs under the Foreign Service Act of 1980 and other Title 5 personnel authorities. ALS implements policy decisions only for DSSR allowances (see Appendix) and a handful of non-DSSR programs. Most other federal agencies also divide their internal operations between policy and operations, but often in a way different from that of the Department. Allowances policy decisions therefore require involvement from several offices in the Department and with the many federal agencies affected by these regulations.

EXECUTIVE DIRECTION

ALS is headed by a Foreign Service office director who reports directly to the Deputy Assistant Secretary for Operations within the Bureau of Administration. The office also has 15 Civil Service employees and one Foreign Service specialist. The office's operating budget, excluding salaries, was slightly over \$280,000 in FY 2005.

In a relatively short time, the office director reinvigorated efforts to restructure the office and refocus the E-Allowances project, an initiative to automate allowance reporting by posts. He was also instrumental in implementing the new authorization to raise the danger pay allowance and post hardship differential to 35 percent without affecting agency budgets. During the course of the inspection, the director was intermittently assigned to another Department project and was later permanently reassigned to another position at the end of the inspection. The office functioned efficiently in his absence, albeit with an increased workload for the two team supervisors.

OFFICE STRUCTURE AND STAFFING

ALS underwent reorganization in 2003 that redirected analysts from specializing in specific allowances to assuming responsibility for all allowances within geographic regions. Most analysts appreciated the added variety in their work and the more comprehensive range of duties. Their positions were upgraded at the end of 2003 to recognize their more complex duties.

After the reorganization, ALS established two team supervisor positions with limited supervisory responsibilities. A deputy director position was left vacant after the incumbent retired, but this gave the office director sole supervisory responsibility for the remaining 15 positions. To redistribute the office workload more equitably, the office director requested that supervisory duties be assigned to the two supervisors. Subsequently, he requested that the Office of the Executive Director (A/EX) review and reclassify the two team supervisor positions to the GS-14 level.

WORKLOAD

The reorganization has permitted a better use of staff time. Regional analysts analyze the reports submitted by posts overseas and write recommendation memoranda used to establish allowance and differential levels. They pass their work to the two team supervisors who review it before passing the results to the office director for approval. But the team supervisors have numerous other duties, including being the primary point of contact for Department personnel on regulations and policies, liaison with other federal agencies, outreach, and training. The supervisors' workload was unusually heavy and, currently, temporarily increased because of the design and development of a new software application, e-Allowances, the absence of an office director, and the long-term training detail of an employee to another office.

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COMMUNICATIONS AND CUSTOMER SERVICE

ALS receives high marks from its customers in embassies and consulates overseas and in Department bureaus. A majority of respondents to an OIG survey characterized support from the office as timely and responsive. A representative comment from one embassy described the office as "extremely helpful and responsive to all post's needs." Contacts interviewed by OIG from Department bureaus also praised the office for its customer service orientation. The ALS web site has been expanded to include a larger range of frequently asked questions, training materials, and explanatory information. The office offered training to new post management officers in the geographic bureaus in 2005; by all accounts it was an especially effective exercise. A senior analyst in ALS is working with the Bureau of Administration to produce an informational training video on living quarters allowance (LQA), and training videos for other allowances will be mailed to posts worldwide to coincide with the release of new modules for the E-Allowances project.

Overseas embassies and consulates are required to submit reports for as many as five separate allowances on rotating schedules. Respondents to an OIG survey prepared for the inspection perceive the office's reporting requirements as burden-

some. A total of 63 percent of respondents characterized ALS reporting requirements as either “very burdensome” or “generally burdensome.” Partly in response to complaints from field offices, ALS staff have reviewed and restructured allowances forms to streamline the reporting process under the new E-Allowances system. Respondents to OIG’s questionnaire identified official residence expense (ORE), post allowance, and separate maintenance allowance (SMA) as among the most complicated allowances to administer.

PROGRAM AND POLICY IMPLEMENTATION

ALS has two core responsibilities. The first responsibility is maintaining and updating the DSSR as a current, comprehensive body of regulations. This includes providing consistent guidance on allowances policy to agency personnel offices and employees. The second responsibility is processing allowance reports submitted by embassies and consulates in order to establish the applicable rates for allowance and differential payments. The office is also regularly involved in special projects, such as the development of the Iraq Service Recognition Package.

TRANSFORMATIONAL DIPLOMACY: IRAQ AND AFGHANISTAN ALLOWANCES

Department employees have been volunteering for duty in Afghanistan since 2002 and Iraq since 2003, but continued success in staffing depends on attracting volunteers from a limited pool of candidates.² To improve its recruiting potential, especially for Baghdad and the Iraq Provincial Reconstruction Teams, the Department recently expanded its benefits package for these posts. The Bureau of Near Eastern Affairs (NEA) led the effort to enhance recruitment and retention benefits through the Iraq Working Group comprised of representatives from NEA and administrative support bureaus. The ALS director, as a member of the group, was able to comment on the menu of options that developed and help policy makers see how to organize and implement those changes applicable to the DSSR. NEA employees praised their ALS colleagues for fully sharing their recruitment concerns and for proposing alternatives whenever discussions hit a regulatory wall.

The Department announced its Iraq Service Recognition Package in October 2003 and the Afghanistan Service Recognition Package in November 2003. These packages were the successors to similar benefits packages for the Coalition Provisional Authority in Iraq. Both packages established a mix of career and financial

² OIG Report, Review of Staffing at U.S. Embassy Baghdad, IQO-05-57, March 2005.

inducements for service in Iraq and Afghanistan that included substantial changes to the DSSR allowances structure. ALS amended the regulations to allow employees to keep their post hardship differential payments when visiting the United States for less than 30 days and to permit retroactive payment to temporary duty employees assigned to these posts. ALS also abolished the differential pay cap that formerly limited DSSR incentive payments.

Absent legislative changes, ALS believes that the Department has exhausted its options under the DSSR for attracting employees to assignments in Iraq and Afghanistan. This appears to be borne out by the incentives approved by the Secretary of State in April 2006 to staff the Iraq Provincial Reconstruction Teams, Regional Embassy Offices, and Department officers embedded with the U.S. military. None of the new incentives announced for these positions involved additional DSSR benefits.

TRANSFORMATIONAL DIPLOMACY: PERFORMANCE MEASURES FOR ALLOWANCES AND DIFFERENTIALS

In a widely publicized speech at Georgetown University, the Secretary announced her intention to shift resources and personnel to developing countries crucial to U.S. interests.³ The Secretary's concept of transformational diplomacy requires assignment of Department employees to the new front lines of diplomacy in the 21st century - countries such as India, China, Brazil, Indonesia, and South Africa - and at posts outside capital cities.

DSSR allowances and differentials are important financial tools to make service at such posts more attractive. Agencies are authorized to pay recruitment and retention incentive allowances and differentials to employees assigned to posts where dangerous or difficult living conditions prevail.⁴ The Department paid \$80.9 million in DSSR incentive allowance and differential payments in FY 2005. However, the Department does not have performance metrics to measure whether the financial incentives available under the DSSR are effective in meeting staffing goals for the Department and other agencies. The absence of performance measures for DSSR incentive allowances raises the risk that funds allocated for these purposes may be applied ineffectively and inefficiently. For example, the same post hardship differential rate, 10 percent of basic salary, applies to Cape Town, South Africa and

³ Transformational Diplomacy, speech at Georgetown University, January 18, 2006.

⁴ 5 U.S.C. 5925 (post hardship differential) and 5 U.S.C. 5928 (danger pay allowance).

Kingston, Jamaica. According to officials in the Bureau of Western Hemisphere Affairs, Kingston has a history of staffing shortfalls and a high crime rate that deters prospective bidders; embassy personnel officers believe that the differential is not adequate to recruit qualified candidates. By contrast, Cape Town is one of the most heavily bid posts in the Foreign Service, with many more bidders than jobs.

As the President's agent and adviser for overseas allowances policies, the Department has a lead role in administering overseas allowances under E.O. 10903. In addition, the Department is required by P.L. 109-140 to report to the Congress on the effectiveness of the recent increase in danger pay and post hardship differential rates. Bureau of Administration management agreed with OIG that performance measurement for incentive allowances would be desirable, but said that agency program managers, including DGHR in the Department, should be responsible for developing measures. OIG recognizes that development of performance measurements for these allowances is a difficult undertaking. Changes to the long-established DSSR allowances structure would require careful study and coordination with DGHR, other agencies, and labor bargaining units. However, OIG believes that a targeted system of financial incentives with performance measurements directly related to policy and staffing priorities would support the Secretary's transformational diplomacy initiatives and ensure more efficient use of taxpayer funds.

Recommendation 1: The Office of Management and Policy, in coordination with the Bureau of Human Resources, the Bureau of Administration, and the Bureau of Resource Management, should establish a working group to propose performance measures for Department of State Standardized Regulations incentive allowances and differentials. (Action: M/P, in coordination with DGHR, RM, and A)

RECRUITMENT AND RETENTION ALLOWANCES AND DIFFERENTIALS⁵

Post Hardship Differential

The post hardship differential allowance is intended to provide additional compensation to employees for service at foreign posts where hardship conditions warrant additional compensation as a recruitment and retention incentive. A total of

⁵ This report refers to overseas allowances and differentials as they are defined under 5 U.S.C. 5920-5928.

211 posts submit post hardship differential reports on a biennial basis. In FY 2005, the Department expended over \$64 million for post hardship differential payments, which range from five to 35 percent of basic pay. Using its existing scoring methodology, ALS established thresholds for 30 and 35 percent posts in March 2006, as authorized by P.L. 109-140. The restructuring boosted 20 posts to 30 or 35 percent hardship differential and stripped 14 posts of their eligibility for this differential.

The methodology used to determine a post's eligibility for the post hardship differential allowance is based on an objective, numerical system that assigns points for 15 factors associated with overseas hardships. Last revised in 2002, these factors are weighted to reflect employee assessments of what makes living overseas difficult: inadequate schools, poor medical facilities, social isolation, crime, and political violence, for example. The factors do not include a measure that assesses difficulty in recruiting personnel to a post. In processing reports from posts, analysts refer to independent information about living conditions, such as Bureau of Diplomatic Security (DS) threat assessments, statements from the Office of the Medical Director, and public information. Analysts also crosscheck information with public consular advisories and embassy recruiting reports (post reports). On occasion, ALS teams visit posts to verify the accuracy of information submitted in allowance reports. Allowances analyst recommendations are reviewed by supervisors and contain well-documented reasons for establishing differential rates under the methodology.

Employees are not eligible to receive locality pay when assigned overseas. As a result, some employees take a salary cut to serve at hardship differential posts. This can occur when the post's hardship differential is below the locality pay level that an employee receives in the United States. Locality pay under the Federal Employees Pay Comparability Act of 1990 supplements basic pay, depending on an employee's duty station. Thus, the financial incentive to serve at overseas posts has correspondingly diminished. The Department has proposed a legislative change to correct this pay disincentive for service at designated hardship posts.

Danger Pay Allowance

Danger pay allowance is authorized for service in foreign areas where there exist conditions of civil insurrection, civil war, terrorism, or wartime conditions that threaten physical harm or imminent danger to the health or well being of an employee. Danger pay could be more effectively administered through regular submission of reports and keeping minutes of danger pay working group decisions. ALS had

already implemented these suggestions by the end of the inspection. A total of 28 countries are designated as eligible for danger pay. The Department paid a total of \$16.3 million in danger pay allowances in FY 2005. U.S. government civilians serving in Iraq and in Afghanistan began to receive the 35 percent danger pay rate beginning in March 2006.

To establish danger pay, a post must submit the danger pay factors form (DS-578) that enumerates specific conditions that justify danger pay. Allowances specialists who prepare assessments that assign points using a standard methodology then review the forms. A danger pay working group convenes to review danger pay factors forms to ascertain whether conditions exist to justify payment of the danger pay allowance. The working group consists of representatives from regional bureaus, DS, and the Department of Defense. When danger pay is authorized or terminated, the Department prepares a congressional notification of the proposed action.

Until July 2006, there was no requirement under the DSSR that posts submit danger pay factors forms on a regular basis. Instead, posts were required to submit updated forms only “periodically and at regular intervals” (DSSR 653.3). As a result, some posts had not submitted reports in years, even when security situations had improved over time. For example, at the time of the inspection, Embassy Bogotá had not submitted a danger pay factors form in over four years, even though security conditions in Colombia had improved during the intervening period, as documented in OIG’s inspection of Embassy Bogotá in 2005. After the evacuation of Embassy Khartoum, there were no danger pay factors forms submitted for an 11-year period from 1993 to 2004. OIG is satisfied that the recently implemented revision to the DSSR to require biennial reports should improve the danger pay evaluation process. OIG made an informal recommendation that the danger pay working group keep a record of its advice to the Assistant Secretary in the form of written minutes.

COST OF LIVING ALLOWANCES

Cost of living allowances include the post allowance (cost of living allowance), education allowance, separate maintenance allowance, foreign and home service transfer allowances, and educational travel. These allowances reimburse employees for expenses associated with overseas employment and are nontaxable. The Department made payments totaling \$47.5 million for the post allowance and \$4.2 million for SMA in FY 2005. According to ALS employees interviewed by OIG, allowances in this category account for a significant part of the office’s workload and many of the questions that the office answers on allowances administration.

Post Allowance

The post allowance compensates employees for differences in the cost of living between Washington, DC and overseas posts. It is arguably the most complex and least understood of all the allowances. Despite the allowance's complexity, OIG believes that ALS has developed a sound methodology for collecting, validating, and analyzing data for the post allowance. ALS requires that posts submit a seven-part retail price schedule that contains approximately 300 items with prices reported by posts on a biennial basis. These reports are then manually entered into the AIS system, which compares costs to a Washington, DC baseline calculated from Bureau of Labor Statistics data. The Bureau of Labor Statistics data is updated four times per year to reflect actual costs. The allowance levels are also reviewed on a biweekly basis to correct for foreign exchange fluctuations. At the time of the inspection, ALS was in the process of reviewing the mix of items included in the Washington baseline. ALS staff estimated that little would change as a result of the review.

Separate Maintenance Allowance

Separate maintenance allowance is intended to assist in offsetting the additional expense incurred by an employee who is compelled by personal or work circumstances to maintain a separate household for the family or a member of the family. OIG received complaints from employees surveyed that SMA had not been adjusted in many years to reflect an updated market basket consumption pattern. However, the amount payable and methodology used are at the discretion of the Department. ALS increased the level of SMA by 24 percent in 2002 to account for inflation changes since the previous update. Created in the early 1980s, this allowance was infrequently used and involuntary separations applied to a very few, small missions in its initial years. Since 2001, the number of positions where family members cannot accompany employees has grown substantially to an estimated 800 in FY 2005. In recognition of the fact that significant numbers of employees are being separated from their families for the needs of the government, an additional, related involuntary SMA was created in 2003, at a slightly higher level than voluntary SMA.

The Department's procedures for administering SMA are unusually complicated and inefficient. The Department's procedures for implementing SMA are beyond the scope of this inspection, but OIG prepared a separate memorandum to relevant offices containing suggestions for improvement in the process.

Education Allowance and Educational Travel

The education allowance is designed to assist in defraying those costs necessary to obtain educational services which are ordinarily provided without charge by the public schools in the United States, and, in those cases where adequate schools are not available at the employee's post, the costs of room and board and periodic transportation between such posts and the nearest locality where an adequate school is available. Educational travel compensates employees for the extraordinary costs associated with travel of family members as a result of an overseas assignment.

What should be straightforward allowances generate disproportionate queries from employees and managers alike, largely because travel for educational purposes often is taken in conjunction with other family travel such as rest and recuperation travel (established by DGHR and administered by posts) and employee transfers. ALS does a highly commendable job in sorting out complex arrangements and providing timely and accurate information when required.

FOREIGN PER DIEM

ALS establishes per diem rates for foreign areas under the Federal Travel Regulation. Foreign per diem rates are updated on a monthly basis, based on DS-2026 hotel and restaurant survey forms submitted by posts. The Department is one of three federal agencies that set per diem rates for U.S. government travelers - the other two are the General Services Administration for the conterminous United States, and the Department of Defense for the nonconterminous United States (Alaska, Hawaii, and the U.S. territories and possessions).

Each agency employs slightly different methodologies in calculating per diem amounts. For example, the General Services Administration collects restaurant data through purchase of commercial data and does not include taxes and laundry in the per diem. The Department reviewed its data collection methodology in 2000, and decided to continue including laundry, taxes, and dry cleaning in the overseas per diem rate.

QUARTERS ALLOWANCES

Quarters allowances include the LQA, temporary quarters subsistence allowance, and extraordinary quarters allowance. These allowances are intended to reimburse employees for housing costs, either temporary or permanent, where government housing is not provided. LQA rates are set for a post based on salary and family size. ALS analysts seldom encounter questions involving temporary quarters subsistence allowance or extraordinary quarters allowance, as both are straightforward to administer.

LQA is more complicated. Analysts review annual reports and make determinations on allowable expenses that may necessitate an adjustment to the LQA group rate. All employees who receive LQA and all employees initially occupying privately leased quarters must submit an annual quarters expense report. Sometimes ALS has problems getting posts to submit the required annual expense and reconciliation form when prices or expenses do not change. As ALS tracks most allowance reports, OIG suggested LQA reports be included in its updated tracking system.

Analysts enter data from the annual LQA report and review claims for individual reimbursement to determine if the claims are excessive. Analysts consult the previous year's submission for comparison. Most employees submit actual bills with receipts to justify claimed expenses. Analysts review initial LQA reports to determine the estimated expenses that can be allowed and the LQA group rate for the employee. DSSR 077.2 states that all requests for LQA and annual reports must include a statement by either a Department management officer or other agency official that the information is accurate and represents actual expenses. At posts with an interagency housing board, the board reviews LQA requests for residential quarters exceeding the space standards or the established rental control ceiling. ALS coordinates with the Bureau of Overseas Buildings Operations on space standards or special circumstances. ALS analysts accept the post certifying officers' statements that allowance payments are correct but do not independently verify the data submitted to the office.

CONSUMABLES

Consumables shipments are authorized when ALS designates a post as one at which conditions make it difficult to obtain locally the consumables required by families and their eligible family members. Although consumables shipments are not DSSR allowances, ALS assumed responsibility for this allowance because no office in the Department had cognizance over the allowance. Since assuming responsibility for consumables shipments policy, ALS updated consumables regulations in 14 FAM 613, introduced a standard process for reviewing consumables reports, and removed a number of posts from the list eligible for consumables shipments, a commendable effort. These practices have saved taxpayer funds and improved administration of the allowance.

OTHER ALLOWANCES

ALS administers a number of miscellaneous allowances and regulations. These include ORE, representation allowance, advance of pay, Department of Defense teachers allowances, evacuation payments, and allowances payable to U.S. delegates to the United Nations who are not members of the permanent delegation. All but one of these allowances generate few questions and are straightforward to administer.

The exception is ORE. Respondents to OIG's survey noted that the regulations do not adequately describe prohibited expenditures. ORE implementation remains confusing and occasionally contentious. Even though ALS is the author of the regulations, implementation and guidance from the Department has come from RM and the regional bureaus. Because determinations of permissible expenditures must be made on a case-by-case basis, through review of Department policy and Government Accountability Office cases, OIG does not believe that it would be practical to describe all circumstances under which these funds cannot be expended. However, OIG made an informal recommendations that ORE questions be included in the frequently asked questions section of the ALS web site and that the office reissue an ORE cable produced in 2003 (03 STATE 317659).

COST-BENEFIT ANALYSIS

Some allowances decisions require formal cost-benefit analysis. To cite one example, the Department has two tools to compensate employees for the high costs of living at certain overseas posts: the post allowance and the consumables allowance. The former reimburses the employee, and the latter allows employees to ship goods at government expense where goods are not available on the local market. In most parts of the world, the employee can nonetheless ship goods that are unavailable at post, albeit at a high cost. It is possible that raising the post allowance instead of providing a consumables allowance would be more cost-effective in meeting employee needs in these cases.

The implementation of the difficult to staff incentive differential (also known as the service needs differential) also illustrates how a lack of analysis affects Department decisions. The difficult to staff incentive differential, as implemented by the Department, authorizes payment of an additional differential of 15 percent to employees willing to serve a third year at specially designated hardship posts. Costs to the Department for travel and transportation of personal effects are lowered for employees who stay for longer tours at posts. Yet the Department maintains strict limits on the number of posts eligible for this allowance, ostensibly to contain costs. As a practical matter, the Department does not collect data to know what the policy actually costs. OIG made an informal recommendation that ALS consider partnership with either a private-sector consultant or other Department body, such as the Center for Administrative Innovation in the Bureau of Administration, when reviewing allowances changes with complex cost implications.

INTERAGENCY COORDINATION

Because DSSR regulations affect U.S. government employees from over 40 agencies, and changes often do have a budgetary impact, ALS does notify agencies of proposed changes several weeks in advance of the date of change. During survey meetings with other agencies, OIG found general but not universal satisfaction with ALS services. Other agency representatives attend monthly per diem committee meetings and occasionally participate in danger pay committee meetings. Beyond these working-level groups, there are no regular, high-level policy meetings between managers in the Department and other agencies on overseas allowances.

AIS system requires each user to submit a paper survey via conventional mail to an analyst in Washington for data entry and processing. This is a time-consuming task for both the post and the ALS analyst.

To address this issue, in May 2004 ALS officials began a new initiative, E-Allowances, a web-based system designed to improve the efficiency of allowance processing. It is a \$13 million project whose deployment is scheduled for October 2007, with full system activation scheduled for December 2007. Successful implementation would allow Department users, overseas posts, and domestic bureaus to input data online, thus eliminating the need to submit paper surveys. This would eliminate duplicative data entry and off-line processing. When fully implemented, this application would also improve current processes for collecting, submitting, storing, analyzing, manipulating, and publishing allowances information.

Development of this application will occur in two phases. Phase I, which began in May 2004, is intended to be a functional system that implements general system functions, per diem, exchange rates, limited publication functionality, limited system administration, and user interface and general system supplemental requirements. Phase II will build on phase one and will include modules for living quarters, hardship differential, cost of living and education allowances.

E-Allowances will be a new addition to the web Post Administrative Software Suite (Web.PASS) and will be supported by the PASS office. The Web.PASS suite of applications provides users at the posts, regional centers, and domestic locations with administrative, desktop, and networked applications that promote data sharing and consistency and are similar in use and administration, rationally integrated, and alike in the appearance of the user interface.

LACK OF EFFECTIVE INFORMATION TECHNOLOGY PROJECT PLANNING AND MANAGEMENT

The per diem module, which is the first of five modules to be developed for the entire application, serves as the prototype. The remaining four modules are being developed during phase II and include living quarters, post hardship differential, cost of living, and education allowances.

Inadequate project management during phase I resulted in late delivery and implementation of the per diem module. During this phase, the former ALS office director carried out project management responsibilities. In accordance with 5 FAM 620, ALS used the Managing State Projects (MSP) framework to plan the project. MSP provides a logical approach to developing and implementing information technology projects. MSP methodology includes, but is not limited to, steps defining requirements, identifying tasks and technical feasibility, performing cost-benefit analysis, preparing a project plan, and setting clear performance measures as a key to ensuring the success of the information technology project.

During phase I, OIG assessed that officials failed to fully identify the user and business requirements per MSP and did not allow sufficient time for testing. Officials reported that conflicting work schedules for the ALS staff were a major obstacle to identifying requirements. Poor collaboration between the contractors developing the prototype also resulted in the projects being delayed. As a remedy, the development team had to identify requirements during the testing cycle, which further delayed testing. As a result, implementation of the per diem prototype was four months late.

IMPROVED PROJECT MANAGEMENT THROUGH LESSONS LEARNED

Building on knowledge management and lessons learned from the phase I development and implementation of the per diem module resulted in improved and better structured project management during phase II. Responsibility for project management was shifted to A/EX during phase II. The team is benefiting from lessons learned from the per diem prototype and has incorporated these to help meet established milestones. For example, the project manager is assisted by a coordinator in ALS who schedules specific times with the ALS staff to identify the requirements for each of the four modules in phase II. Scheduling times prevents taxing an already overworked ALS staff and ensures that requirements are sufficiently identified. In addition, the testing period is expanded to allow adequate time for the team to address problems discovered during the testing cycles. Also, the project manager reported that communication has improved, and a better working relationship has been forged between the contractors which has also helped the project stay on schedule.

The A/EX-led project team has planned a very aggressive schedule for developing and implementing the four remaining modules. Although the project team has benefited from lessons learned and is meeting contract milestones, the sched-

ule planned for the second phase will require the project manager to be vigilant in managing schedules and deliverables to ensure that project deadlines are met and the project is delivered on time.

MANAGEMENT CONTROLS

ALS received acceptable scores on the Bureau of Resource Management risk assessment analysis performed immediately before OIG's inspection. The office has written, comprehensive standard operating procedures in place for each allowance. These procedures are being updated as new E-Allowance modules are released. The Bureau of Administration sets policy guidance and monitors ALS management controls as part of its overall bureau responsibility through external program reviews by A/EX. All travel requests from ALS staff, including premium-class travel, are approved and authorized by A/EX.

TRACKING OF REQUIRED POST REPORTS

ALS requires posts to submit regular reports to establish the levels of five allowances: post allowance, education allowance, LQA, danger pay allowance, and foreign per diem allowance. Reports are due at various annual and biennial deadlines. A total of 25 percent of post hardship differential reports and 12.5 percent of retail price surveys (for the post allowance) were overdue at the time of the inspection. In some cases, post hardship differential reports were 10 years or more overdue. Danger pay factors forms had not been completed at some posts for many years because the regulations did not require reports by specific deadlines until July 2006. The office's information systems do not allow managers to easily retrieve and review the due dates for allowances reports. In addition, the office does not have a standard process for following up with posts that are delinquent with their reports. Although the DSSR (072.34) allows the Secretary to reduce or eliminate a post's allowance, differential, or danger pay designation in the event of delinquent reporting, this authority is seldom exercised. As a result of these conditions, allowances paid to employees do not reflect accurate, current information about conditions at post, leading to possible overpayment of allowances.

Recommendation 2: The Bureau of Administration should establish and implement written standard operating procedures to address delinquent allowance reports submitted by overseas posts. These procedures should include provisions for notifying the Chief of Mission of delinquent reports and for terminating allowance payments for delinquent posts when warranted. (Action: A)

FORMAL RECOMMENDATIONS

Recommendation 1: The Office of Management and Policy, in coordination with the Bureau of Human Resources, the Bureau of Administration, and the Bureau of Resource Management, should establish a working group to propose performance measures for Department of State Standardized Regulations incentive allowances and differentials. (Action: M/P, in coordination with DGHR, RM, and A)

Recommendation 2: The Bureau of Administration should establish and implement written standard operating procedures to address delinquent allowance reports submitted by overseas posts. These procedures should include provisions for notifying the Chief of Mission of delinquent reports and for terminating allowance payments for delinquent posts when warranted. (Action: A)

INFORMAL RECOMMENDATIONS

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

The danger pay working group chaired by the ALS director does not keep minutes of its deliberations. Under the regulations, this body advises the Assistant Secretary on danger pay determinations.

Informal Recommendation 1: The Office of Allowances should prepare minutes to document discussions and recommendation for the Assistant Secretary.

The ALS web site does not include frequently asked questions on the ORE allowance.

Informal Recommendation 2: The Office of Allowances should include guidance on the official residence expense allowance on its web site.

ALS has not issued guidance in several years on the ORE allowance. Respondents to OIG's questionnaire cited this allowance as a particularly difficult one to administer.

Informal Recommendation 3: The Office of Allowances should reissue an ALDAC cable outlining official residence expense issues.

ALS staff believes more training and refresher training on the more complex allowances is needed. The performance and abilities of ALS analysts are not equal and could be improved through more focused training. New analysts need more one-on-one training by senior analysts.

Informal Recommendation 4: The Office of Allowances should designate a senior analyst from each team as the training specialist to conduct refresher training for staff and on the job training for new analysts.

According to 1 FAM 213.3 d. (2), ALS designates principal representatives of the United States for all U.S. government agencies for eligibility for payment of official residence expenses. ALS does not perform this function.

Informal Recommendation 5: The Office of Allowances should revise 1 FAM 213.3 d. (2) to describe the duties the office performs under law and regulation.

PRINCIPAL OFFICIALS

	Name	Arrival Date
Assistant Secretary	Rajkumar Chellaraj	06/06
Deputy Assistant Secretary for Operations	Steven J. Rodriguez, acting	07/05
Director, Office of Allowances	Audrey E. Thurman, acting	06/06

ABBREVIATIONS

A	Bureau of Administration
AIS	Allowance Information System
ALS	Office of Allowances, Bureau of Administration
A/EX	Office of the Executive Director, Bureau of Administration
Department	Department of State
DSSR	Department of State Standardized Regulations
LQA	Living quarters allowance
OIG	Office of Inspector General
ORE	Official residence expense
RM	Bureau of Resource Management
SMA	Separate maintenance allowance

Appendix I. Allowances, Differentials, and Programs Administered by the Office of Allowances

Cost of Living Allowances	Allowance Description
Post Allowance	Cost of living allowance granted to an employee officially stationed at a post in a foreign area where the cost of living, exclusive of quarters costs, is substantially higher than in Washington, D.C.
Foreign Transfer Allowance	Allowance for extraordinary, necessary and reasonable expenses, not otherwise compensated for, incurred by an employee incidental to establishing him or herself at any post of assignment in a foreign area.
Home Service Transfer Allowance	Allowance for extraordinary, necessary, and reasonable expenses, not otherwise compensated for, incurred by an employee incident to establishing him/herself at a post of assignment in the United States.
Separate Maintenance Allowance	Allowance to assist an employee who is compelled by reason of dangerous, notably unhealthful, or excessively adverse living conditions at the post of assignment in a foreign area, or for the convenience of the Government, to meet the additional expense of maintaining family members elsewhere than at such post. This allowance may also be authorized to an employee who personally requests such an allowance, based on special needs or hardship involving the employee or family member.
Education Allowance	Allowance to assist an employee in meeting the extraordinary and necessary expenses incurred by an employee by reason of service in a foreign area, not otherwise compensated for, in providing adequate elementary and secondary education for dependant children.
Educational Travel	Travel to and from a school in the United States for purposes of attending a full-time course for secondary (in lieu of an education allowance), undergraduate college education or an accredited post-secondary vocational or technical education.
Recruiting and Retention Incentive Allowances	
Post Hardship Differential	Hardship differential is designed to provide additional compensation to employees for service at places in foreign areas where conditions of environment differ substantially from conditions of environment in the continental United States and warrant additional compensation as a recruitment and retention incentive.
Danger Pay Allowance	Allowance designed to provide additional compensation above basic compensation to all U.S. Government civilian employees for service at places in foreign areas where there exist conditions of civil insurrection, civil war, terrorism or wartime conditions which threaten physical harm or imminent danger to the health or well-being of an employee.
Difficult to Staff Incentive Differential	Differential payable to an employee assigned to a

~~SENSITIVE BUT UNCLASSIFIED~~

	differential post upon a determination that especially adverse conditions of environment warrant additional pay as a recruitment and retention incentive to fill the employee's position at that post.
Quarters Allowances	
Living Quarters Allowance	Quarters allowance granted for the annual cost of suitable, habitable, adequate living quarters for the employee and his/her family.
Temporary Quarters Subsistence Allowance Extraordinary Quarters Allowance	Quarters allowances granted to an employee for the reasonable cost of temporary quarters, meals and laundry expenses incurred by the employee and/or family members.
Foreign Per Diem Allowance	Rates established monthly by ALS as maximum rates for government civilians in foreign areas reported in U.S. dollars.
Other Allowances	
Representation Allowance	Allowances for the purpose of furthering abroad the interests of the United States.
Official Representation Expense	Defraying of official residence expenses intended to make possible the operation and maintenance of official residences in which principal representatives can properly represent the United States abroad.
Evacuation Payments	Payments during and after an evacuation, such as advance of pay, continuation of salary and allowance payments during the period of ordered/authorized departure, and special allowances to partially offset certain direct added expenses incurred as a result of a post evacuation.
Advance of Pay	The head of an agency or designee may provide for the advance payment of up to three months salary under certain circumstances.
Consumables Allowance	Consumables shipments are authorized when the Office of Allowances designates a post as one at which conditions make it difficult to obtain locally the consumables required by employees and their eligible family members. Non-DSSR benefit.
Compensatory time off	Compensatory time off is intended to provide employees at isolated posts who so elect and who work regularly scheduled overtime with time off equal to the overtime worked; or at posts customarily observing irregular work hours or having other special considerations with time off during the same pay period equal to the overtime worked.

Source: Office of Allowances

Appendix II. Selected DSSR Allowance Payments to Department Employees, FY 2005

Post Allowance	Post Hardship Differential	Danger Pay Allowance	Living Quarters Allowance	Separate Maintenance Allowance	Difficult to Staff Incentive Differential	Total (\$)
47,475,956	64,618,527	16,393,261	4,879,363	4,203,690	3,343,621	140,914,421

Source: Global Financial Services - Charleston