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From: Joaquin Ferrao, Acting Inspector General

Date: November 29, 2022

Subject: Final Audit Report: The Peace Corps' Management of Payroll and Benefits for U.S. Direct Hires (IG-23-01-A)

Transmitted for your information is our final report on the agency's management of payroll and benefits for U.S. Direct Hires.

Management concurred with all 30 recommendations, which remain open. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. We will close recommendation number 1 based on evidence of corrective actions that address the recommendation. The other 29 recommendations will remain open pending confirmation from the chief compliance officer that the documentation identified in management's response has been received. We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities.

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Judy Leonhardt at 202.692.2914 or to Lead Auditor Renita Davis at 202.692.2937.

Please accept our thanks for your cooperation and assistance in our review.

cc: Lauren Stephens, Chief of Staff
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Peace Corps Office of

INSPECTOR GENERAL

Final Audit Report

The Peace Corps'
Management of Payroll and
Benefits for U.S. Direct Hires

IG-23-01-A
November 2022

EXECUTIVE SUMMARY

BACKGROUND

The Peace Corps employs U.S. direct hires (USDH) to work at headquarters, regional recruiting offices, and posts. The Office of Human Resources Management (HRM) serves all overseas and domestic USDH employees. The Senior Policy Committee and the Human Resource Council, led by the Chief Human Capital Officer of Human Resources, review, discuss, and approve decisions regarding HRM policies and procedures relating to human resource programs. HRM is responsible for the maintenance and administration of the Peace Corps' U.S. Direct Hires personnel, recruitment, and selection program for domestic and overseas, timekeeping, the Official Personnel Folder recordkeeping system, the management-employee and labor relations program, and the workers compensation program. HRM is also responsible for ensuring that all USDH employee payroll amounts, and benefit deductions were established properly and accurately within the National Finance Center's (NFC) integrated payroll and personnel system. NFC is a certified Human Resources Shared Service Center (SSC) that is part of the United States Department of Agriculture's Office of the Chief Financial Officer. Among other key services, the Peace Corps established an interagency agreement with NFC to process payroll services, manage employee debt, and make corrections.

The Office of Chief Financial Officer (OCFO) is responsible for providing financial planning, oversight, and internal controls for domestic and overseas operations. The Office of Accounting and Financial Reporting (AFR) within OCFO records payroll expenditures into the general ledger through journal vouchers, reviews payroll reports, and reconciles monthly payroll transactions with NFC and the U.S. Department of the Treasury reports. Between Fiscal Year (FY) 2019 to 2021, the average spending for USDH payroll transactions was approximately \$135,482,928, about 28 percent of Peace Corps' total disbursement.

During an audit of [Improper Payment Elimination and Recovery for FY 2019](#), the Office of Inspector General determined that the improper payment amount reported for U.S. Direct Hire Payroll was underestimated by \$163,329. We reported that OCFO did not provide oversight over the U.S. Direct Hire Payroll payments per Peace Corps Manual Section 128. OCFO only recorded the payment based on the information entered each pay period without conducting any validation for accuracy or completeness. Any errors or changes were handled by HRM.

OBJECTIVE

The objective of this audit is to assess internal controls concerning payroll and benefits related to personnel actions for U.S. direct hires.

WHAT WE FOUND

While most of the payroll transaction were processed accurately, the OCFO and the Chief Human Capital Officer lacks an adequate internal control system for risk assessment, control activities, and monitoring.

Risk Assessment:

- The agency lacked a comprehensive risk management program that included human resource management. The agency developed risk registers for several large offices critical to its business processes, however, a risk register was not completed for HRM

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Control Activities:

- OCFO and HRM did not consistently implement policies and procedures designed to detect and prevent errors for locality pay, advance pay, waivers, within grade increases (WGIs), and promotions. Specifically, the agency did not:
 - Properly update duty station records resulting in incorrect salary rates for 14 employees.
 - Recoup an \$18,000 salary advance within the established 18 pay periods.
 - Comply with federal law and agency policy by waiving 18 salary overpayments without proper authority.
 - Accurately record information for 17 WGIs resulting in incorrect salary payments.
 - Retain required hiring files for 24 employees.

Monitoring:

- HRM and OCFO did not establish effective oversight procedures to reconcile payroll transactions and remediate deficiencies. Specifically, OCFO/AFR and HRM did not:
 - Establish a process to review and reconcile the accuracy of retroactive payroll adjustments.
 - Resolve discrepancies identified during the monthly reconciliations.
 - Design procedures to research unreconciled payroll balances.
 - Ensure payroll files were formatted to include relevant information to reconcile discrepancies.
 - Collaborate to resolve discrepancies in payroll data.
 - Detect and verify the accuracy of unusual payroll transactions and payments for hazard pay and departed employee's health benefits.

In addition, HRM did not accurately record retirement plans for 81 employees resulting in salary overpayments of approximately \$ 71,831 and overcharged retirement contributions of approximately \$215,694 that required refunds for employees.

RECOMMENDATIONS IN BRIEF

Our report contains 30 recommendations. We recommend the Chief Human Capital Officer to ensure:

- The agency complies with record retention policies.
- Accurate recording of WGI dates, duty stations, and retirement plans.
- Retroactive adjustments are accurate.
- Collections for salary overpayments.
- Adjustments are applied to underpaid employees.
- Update PMSO standard operating procedures to review duty station for promoted employees.
- A risk register is created for HRM

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In addition, we recommend the Office of Chief Financial Officer in collaboration with Chief Human Capital Officer to:

- Strengthen controls over payroll reconciliation and oversight over remediating deficiencies.
- Strengthen controls over processing waivers.

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BACKGROUND

THE OFFICE OF HUMAN RESOURCE MANAGEMENT

The Peace Corps employs U.S. direct hires (USDH)¹ to work at headquarters, regional recruiting offices, and posts. The Office of Human Resources Management (HRM) serves all overseas and domestic USDH employees. The divisions within HRM consist of: Staffing and Classification; Overseas Recruitment, Selection, and Support; Payroll and Benefits; and Employee and Labor Relations.

Our audit focused on processes and procedures performed by Staffing and Classification; Payroll and Benefits; and Employee and Labor Relations.

The Staffing and Classification division processes personnel actions for promotions, recruitment, reassignments, extensions, end of tour, within grade increases, job applications, electronic official personnel folder, exit/clearance packages, Non-Competitive Eligibility letters, Physician's Comparability Allowances, leave accrual, pre-employment information, and release dates.

The Payroll and Benefit division processes and resolves employee payroll benefits, timekeeping, and worker's compensation claims reporting and reconciling issues, and maintains confidential employee records and provides information to new and current employees, providers and/or administrators.

In support of the agency's mission and goals, the Employee and Labor Relations division provides guidance to USDH on awards; employee and union-management relations; drug-free workplace; performance management; telework; and workers' compensation.

Per Peace Corps policy, the Senior Policy Committee, and the Human Resource Council—led by the Chief Human Capital Officer of Human Resources—should review, discuss, and approve decisions regarding HRM policies and procedures relating to human resource programs.

NATIONAL FINANCE CENTER

The National Finance Center (NFC) is an OPM certified Human Resources Shared Service Center (SSC) that is part of the United States Department of Agriculture's Office of the Chief Financial Officer. As a certified SSC—under OPM's Human Resources Line of Business—NFC offers a suite of solutions to provide the core functionality required to strategically manage human capital.

Peace Corps HRM established an interagency agreement² with NFC to provide all services related to processing payroll transactions. These services include the following:

- Processing transactions for payroll and time and attendance;
- Employee debt management;

¹ USDH are U.S. citizens.

² An Interagency Agreement (IAA) is a written agreement entered between two federal agencies (each referred to as a Federal Program Agency (FPA)), which specifies the goods to be furnished or tasks to be accomplished by one agency (servicing agency) in support of another (requesting agency).

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- Payroll adjustments;
- Input of personnel actions for onboarding employees, separation, promotion, reassignment, and reclassification;
- Reconciliation of health insurance records of the Government with the records of the insurance providers; and
- Reporting.

After NFC processes the payroll on behalf of the Peace Corps, OCFO/AFR records the payroll transactions into Odyssey³. NFC transmits bi-weekly payroll disbursement amounts to the U.S. Department of the Treasury (Treasury) on behalf of the Peace Corps.

THE OFFICE OF THE CHIEF FINANCIAL OFFICER

Peace Corps Manual Section (MS) 128 states that OCFO is responsible for providing financial planning, oversight, and internal controls for domestic and overseas operations. Specifically, the OCFO/AFR provides prompt, accurate financial and analytical services to the users of the agency's financial data and manages the timely and accurate submission of financial statements and other financial reports to Treasury, the Office of Management and Budget (OMB), and other Federal agencies.

OCFO/AFR has the following responsibilities for processing payroll and benefit transactions:

- Load payroll files or transaction details from NFC into Odyssey.
- Review reports and perform reconciliations to ensure that payroll batches are posted as accurately as possible.
- Process manual journal vouchers⁴ as necessary from the *NFC to General Ledger Error Report* and Corrective Action Plan (CAP) Report.
- Review Administrative Billings and Collections (ABCO)/Miscellaneous Report in Odyssey to identify payroll billing and collections transactions.
- Reconcile monthly NFC's Abstract of Transactions report with Odyssey General Ledger⁵, and the Treasury.
- Reconcile the Central Accounting Reporting System and the General Ledger for disbursements recorded in Odyssey.

ACTUAL SPENDING FOR PAYROLL AND BENEFITS

On average, the Peace Corps spent approximately \$135 million for USDH payroll and benefits which accounted for 28 percent of the total disbursements within our scope period.

³ Peace Corps' financial management application system that integrates with various end-user applications to capture financial activities performed by the agency. It is the official system of record for financial transactions.

⁴ A manual journal voucher is a document which stores the essential information about an accounting transaction. The voucher contains a unique identifying number, the transaction date, transaction description, and transaction amount.

⁵ Odyssey is Peace Corps' general ledger, which encompasses all the transaction data needed to produce financial statements and other financial reports.

Table 1. Peace Corps USDH payroll and benefits from FY 2019 to 2021

Fiscal Year	NFC Disbursements	Total Disbursements	Percentage
FY 2019	128,455,527.68	506,545,866.66	25%
FY 2020	136,452,291.16	530,454,627.33	26%
FY 2021	141,540,964.35	390,327,101.83	36%
Average	135,482,927.73	475,775,865.27	28%

Source: Disbursement reports from the Peace Corps' Odyssey financial reporting system.

AUDIT OF THE PEACE CORPS' COMPLIANCE WITH THE IMPROPER PAYMENT ELIMINATION AND RECOVERY ACT (FY 2019)

In May 2020, OIG issued an audit report stating that the improper payment estimates in the FY 2019 Agency Financial Report (AFR) were not accurate because the agency did not have a robust internal controls program established.

HRM was responsible for setting up new employees and ensuring that all payroll amounts, and benefit deductions were established correctly. OCFO recorded improper payment estimates based on the information entered by HRM without conducting any validation for accuracy or completeness.

Since OCFO did not have oversight over the U.S. Direct Hire Payroll payments, they relied on HRM to provide accurate information on errors or changes made during the fiscal year. HRM staff responsible for generating these numbers stated that HRM did not maintain any supporting documentation or information regarding how improper payment estimates were calculated. Without adequate information and the ability to validate these figures it was impossible for the agency to know if the improper payment amounts were accurate. Through our analysis, we determined that the improper payment amount reported for U.S. Direct Hire Payroll was underestimated by \$163,329. The actual errors identified were more than double the \$93,000 reported by the agency reported in the FY 2019 AFR. Our estimate of improper payments related to USDH payroll was \$256,329.

OBJECTIVE

The objective of this audit is to assess internal controls concerning payroll and benefits related personnel actions for U.S. direct hires. For more information on the methodology used, see Appendix A. For a list of Federal requirements, Peace Corps policies, and procedures used as criteria, see Appendix D.

RESULTS

OVERVIEW

During the audit, we reviewed three internal control components: risk assessment, control activities, and monitoring. While most of the payroll transaction were processed accurately, the OCFO and the Chief Human Capital Officer lack an adequate internal control system. We determined that the agency did not perform a risk assessment for HRM. Risk assessments enables management to identify changes that could impact the internal control system. Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system. Without a HRM risk assessment, the control activities have not been effectively designed or implemented to prevent and detect payroll transaction errors. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. Due to ineffective monitoring related to HRM supervisory review and/or OCFO oversight, the discrepancies were not detected for remediation in a timely manner.

RISK ASSESSMENT

The agency lacked a comprehensive risk management program that included human resource management

Pursuant to Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Green Book), Principle 7.01, “Management should identify, analyze, and respond to risks related to achieving the defined objectives.”

The agency did not have a risk assessment that addresses human resource management objectives. HRM reported that they rely on NFC controls because they enter information into the hosted NFC database. NFC conducts a risk assessment for establishing internal controls. However, HRM does not conduct a separate risk assessment for on-boarding and processing salary and benefits.

Each year, NFC provides the Peace Corps with a copy of their annual Statement on Standards for Attestation Engagements (SSAE) auditors’ report, which includes NFC’s risk assessment section. The SSAE tests the suitability of the design and effectiveness of NFC payroll and personnel controls. In FY 2020, NFC received an adverse opinion on their SSAE report. In its response to NFC’s adverse opinion, the Peace Corps stated that HRM had sufficient verification options and processes in place to identify unauthorized or inconsistent changes to data. However, our audit found that HRM did not have a process to identify changes to the data. HRM did not receive, review, or reconcile the bi-weekly payroll transactions transmitted to OCFO.

Overall, the agency lacks a comprehensive risk-based approach to managing its operations, as required by OMB M-16-17, *Management’s Responsibility for Enterprise Risk Management and Internal Control*. As addressed in prior OIG audits and recently in [Management Challenges for FY 2021](#), a key foundational issue is the absence of a fully implemented, comprehensive agency-wide risk management program that is effective at monitoring, identifying, and assessing security weaknesses and resolving related problems at the entity, business process, and information

system levels. As of FY 2021, the agency developed risk registers⁶ for several large offices critical to its business process. However, a risk register was not yet completed for HRM.

Performing a comprehensive risk assessment for the full program of payments is critical and required as noted above. Identifying risks will allow the agency to ensure that proper oversight is in place to minimize waste, fraud, and abuse of appropriated funds and protect employees' compensation. A formal risk assessment will also allow the agency to determine how existing and proposed changes to policies, procedures, or methodology will impact controls and risks to payroll. Further, it will help ensure that the agency employs and trains the right personnel to conduct oversight of payments. Adequate oversight will assist in preventing and minimizing future errors, as well as helping to ensure more effective use of the agency's budget.

We recommend:

- 1. That the Peace Corps develop mitigating strategies for deficiencies in National Finance Center systems while completing the Human Resource Management risk register.**

CONTROL ACTIVITY

The Office of Human Resource Management and Office of Chief Financial Officer did not consistently implement policies and procedures designed to detect and prevent errors for locality pay, advance pay, waiver process, within grade increases, and promotions.

GAO's *Standards for Internal Control in the Federal Government*, Principle 10- Design Control Activities (10.01) states, "Management should design control activities to achieve objectives and respond to risk." We reviewed five different areas within HRM and noted that the agency designed significant control activities to respond to risk. However, the policies and procedures to prevent and detect errors were not consistently implemented.

⁶ GAO-17-63 Enterprise Risk Management Report summarizes a risk register as a comprehensive list of risks that identifies the relevant source and a risk owner to management the treatment of the risk.



Figure 1. Control Activities assessed for HRM.

1. Locality Pay

The Office of Personnel Management (OPM) sets the policy for the official worksite location-based payments.⁷ Peace Corps Manual Section 603, Section 3.2 General Schedule, states that the Peace Corps normally follows OPM position classification standards. A fact sheet from OPM’s website summarizes the location-based pay standard as the following:

The official worksite generally is the location where the employee regularly performs his or her duties. If the employee's work involves recurring travel or the employee's work location varies on a recurring basis, the official worksite is the location where the work activities of the employee's position of record are based, as determined by the employing agency, subject to the requirement that the official worksite must be in a locality pay area in which the employee regularly performs work. An agency must document an employee's official worksite on the employee's Notification of Personnel Action (Standard Form 50 or equivalent).

During the audit we noted that the annual salaries for 14 employees differed from the official worksite location rates. As a result, five employees were overpaid by approximately \$4,374 and nine employees were paid less than the duty station allocation by approximately \$15,562. According to the human resource staffing specialists, these errors occurred because the duty station was not changed in the Position Management System Online (PMSO). The PMSO duty station defaults to the duty location of the prior employee that occupied the job position. Whenever an employee is promoted to a new position, the human resource staffing specialist should review the PMSO location for accuracy. However, PMSO standard operating procedure does not mention this review. The human resource specialists are generally notified of the errors by the employees or the payroll and benefits specialists. HRM updated the duty stations,

⁷ 5 CFR § 531.605 Determining an employee’s official worksite.

however, some of the employees' compensation were not retroactively adjusted as of December 2021.

We found that 11 out of the 14 errors identified remained unresolved by HRM as of December 2021. Five employees' bills were lower than the discrepancy amount resulting in an uncollected balance of approximately \$1,550. Similarly, HRM did not resolve the errors for three employees that were paid less than the duty station allocation resulting in a balance owed to the employees of approximately \$4,383. Three employees were paid \$8,085 more than the calculated error and HRM was not able to explain this difference.

“HRM and OCFO did not have a procedure to review payroll transactions to ensure adjustments are properly applied by NFC.”

HRM and OCFO did not have a procedure to review payroll transactions to ensure adjustments are properly applied by NFC. By not ensuring that the HRM staff are consistently updating the duty station in PMSO and failing to provide adequate supervisory review over payroll adjustments, HRM risks incorrectly compensating employees. Although the error amounts are immaterial to the overall payroll expense, the agency's updated telework and remote work policy could increase the duty station errors in the future if the human resources specialists are not trained to review all NFC systems.

We recommend:

- 2. That the Chief Human Capital Officer ensure approximately \$1,550 in salary overpayments due to incorrect locality rates are resolved by issuing Administrative Billings and Collections bills and/or request waiver approvals from the Chief Financial Officer.**
- 3. That Chief Human Capital Officer issue retroactive locality payments to the three underpaid individuals for approximately \$4,383.**
- 4. That Chief Human Capital Officer and Office of Chief Financial Officer establish a process to review and reconcile retroactive adjustments to ensure that the correct amounts are reflected in the payroll transactions.**
- 5. That the Chief Human Capital Officer ensures that human resource management staff are trained to research errors that need retroactive adjustments.**
- 6. That Chief Human Capital Officer ensure that standard operating procedures for Position Management System Online are updated to include the review of the duty station codes when employees are promoted.**

2. Advance Pay

The U.S. Department of State *Standardized Regulations* (DSSR) 850 authorizes the Peace Corps to grant advance payment of up to three months' pay to employees assigned to a post in a foreign country. Based on DSSR 850, HRM created standard operating procedure relating to advance pay which outlines the following tasks:

1. *Requesting Payroll Advance of Pay:* The authorizing officer must examine the documents to verify the completeness and correctness of the request, the computation of advance amount, the pay back rate, and accounting data.
 - a. *All salary advance requests must contain the following statement:* Repayment of this advance is to be made by payroll deductions over a period not to exceed 18 pay periods. I will maintain other voluntary deductions such as allotments in amounts so as not to delay repayment of this advance
 - b. An employee may elect a repayment schedule of less than 18 pay periods.
2. *Processing Request for Advance of Pay:* Care should be exercised to make sure that an advance is not greater than the maximum amount of basic compensation for six biweekly pay periods and that the net pay is adequate to cover the repayment schedule. Basic compensation and mandatory deductions may be determined from the Earnings and Leave Statement.
3. *Verification:* After payroll is process, review ABCO (#4) for deduction. Contact ABCO [Administrative Billings and Collections Report]. if the amount is different than the employee's request.

“...the payroll specialists were not trained to review the ABCO reports and verify collections.”

We noted that one employee received an advance payment for \$18,000 in 2021. The agency should have recouped the entire salary advance by pay period (PP) 9 of calendar year 2022, but collections did not begin until May 2022 (PP 10) resulting in an outstanding balance of \$15,000 in June 2022. In September 2021, a payroll and benefits specialist submitted a foreign salary advance request to NFC with instructions to recoup \$1,000 starting in PP 18 of 2021. NFC was supposed to establish a recoupment of \$1,000 for 18 PPs. Consequently, the payroll and benefits specialists never verified that the deductions were initiated in ABCO, only reviewing the special pay system to ensure the advance payment was processed. Although, the standard operating procedures documented instructions to verify the deduction in ABCO, the payroll specialists were

not trained to review the ABCO reports and verify collections. Subsequently, HRM initiated training with the staff to highlight the requirement to review ABCO and earnings and leave statements for deductions. By not implementing the necessary procedures to ensure advance payment deductions were initiated, the agency risks erroneously overpaying staff and not collecting advance payments within 18 pay periods.

We recommend:

7. **That the Chief Human Capital Officer ensures that the salary advance for \$18,000 is collected.**

8. That the Chief Human Capital Officer ensure Human Resource Management staff are trained on the policies and procedures for advance payments and collections.

3. Waiver Process

Under 5 U.S.C. § 5584,⁸ an authorized official may waive recovery of overpayments, in whole or in part, resulting from erroneous payment to an employee. Peace Corps Manual Section 778 (MS 778) outlines the internal policy for such waivers.

Generally, this standard is met by a finding that the erroneous payment was caused by an administrative error, and there is no evidence that the erroneous payment occurred through fraud, misrepresentation, fault, or lack of good faith on the part of the claimant...

Within the scope of this audit, the Peace Corps issued 43 waivers associated with payroll transactions totaling approximately \$70,650. However, 18 of the 43 waivers were made without authority because they were not approved by an authorized official per 5 U.S.C. § 5584 and MS 778 Section 6.4. MS 778 Section 6.4 (Waiver Decision) states,

The CFO shall review the application for waiver and the report and determine either to: (a) Waive the claim in whole or in part and record the date and reasons for the waiver; or (b) Refuse to waive the claim and record the date and reason for refusal. The CFO will then prepare a decision memorandum and submit it with the application and report to the Office of General Counsel for legal clearance.

Regardless of HRM practices, HRM did not have the designated authority to waive debt since MS 778 does not stipulate exceptions to the policy to designate HRM as an authorized official.

Furthermore, OCFO noted that the data included in the waiver applications were not always accurate. On April 16, 2019, the former Peace Corps Director approved a memo to waive 24 employees' salary overpayments for incorrect retirement plans totaling \$108,377.38. However, the waiver amounts included in the memo were miscalculated by approximately \$66,629. HRM waived about \$41,748 for 22 employees. Two employees were included in the waiver memo; however, one employee was never billed for their outstanding balance. The remaining employee was in the correct retirement category and did not have an outstanding balance due.

“...18 of the 43 waivers were made without authority because they were not approved by an authorized official...”

Although the agency waived approximately 9 percent of the ABCO bills, we concluded that the agency was not compliant in implementing MS 778, creating a lack of transparency and consistency in the waiver process. OCFO lacked oversight over the process because waiver

⁸ Authorized official for the purposes of this statute means the Director of the Office of Management and Budget. The determination to waive collection of erroneous payments under 5 U.S.C. § 5584 was delegated by the OMB director to the Executive Branch agency that made the erroneous payment. See OMB Memorandum, “Determination with Respect to Transfer of Functions Pursuant to Public Law 104-316,” December 17, 1996, which transferred waiver approval authority of overpayments over \$1500 to the Executive agency that made the erroneous payment in question.

requests routinely by-passed both OCFO and the Office of General Counsel (OGC). Under the current practice, the application requests contained inaccurate data, and notification was not provided to OCFO and OGC regarding the resolution of the waivers. In addition, OCFO did not develop a report to track payroll bills, collections, and waivers to effectively account for improper payments related to payroll transactions.

Furthermore, the procedures outlined in MS 778 do not stipulate a timely resolution to ensure approved waivers are processed prior to collections.⁹ Waivers represent money that Peace Corps will not recover. Clear policies and actionable procedures are needed to ensure that Federal requirements are consistently adhered to, and that Peace Corps acts in the best interests of the government. In the absence of specific procedures governing the waiver approval process, CFO cannot readily ensure that its waiver decisions comply with Federal requirements. Because waivers must be based on an assessment of the facts involved in the individual case under consideration, it is important for CFO to maintain adequate documentation to support the basis of its waiver decisions consistent with record keeping requirements and guidance, and applicable record retention requirements.

We recommend:

- 9. That the Senior Policy Committee and Office of Chief Financial Officer update the waiver process to allow for increased transparency in the approval process timeline, require proper waiver justifications, including accurate waiver amounts, and document how the bill was ultimately resolved.**
- 10. That Office of Chief Financial Officer develop a report to track payroll bills, collections, and waivers to properly account for improper payments for payroll transactions.**
- 11. That the Chief Financial Officer and Office of General Counsel determine a resolution for the 18 unauthorized waivers.**

4. Within Grade Increase

Peace Corps MS 622 states that a full-time or part-time employee¹⁰ with a work performance rating of satisfactory or better shall advance automatically to the next higher step within the grade. Typically, a full-time or part-time employee may receive a within grade increase (WGI) annually (52 calendar weeks) for advancement to steps 2 through 10; and every two years (104 calendar weeks) after step 10.

⁹ Our findings in this area are consistent with the findings that GAO OIG made regarding GAO internal operations. See GAO OIG-18-3, *Debt and Interest Waivers*, May 21, 2018.

¹⁰ The provisions of the MS apply to full-time and part-time employees, except: Employees appointed by the President with the advice and consent of the Senate; Senior Foreign Service employees (FE); Foreign Service National employees (FSN); Expert/Consultants (EE); and Temporary employees (appointments limited to less than 1 year).

“...HRM did not correct 5 of the 17 WGI errors resulting in underpaid salaries totaling approximately \$13,011 and salary overpayment of approximately \$3,880.”

We identified 17 instances where HRM did not ensure WGIs were processed timely and one occurrence where the WGI was processed twice within the waiting period. According to HRM, these errors occurred because WGI dates were not entered correctly, incorrect information was entered when on-boarding transferred employees, mistakes were applied when multiple personnel actions were processed, and WGI dates were incorrectly changed for reassignments. In addition, we learned that HRM did not regularly review the suspense reports. A suspense report is used by HRM to rectify suspended or unprocessed actions in the NFC system. Usually, if an action is on the suspense report, HRM will manually rectify the issue.

Per MS 622 Section 5.2.6.3,

A WGI which was delayed solely by administrative error, delay, or oversight will be processed, once the error has been identified, retroactive to the effective date that would have applied had there not been such administrative error, delay, or oversight.

We noted that HRM did not correct 5 of the 17 WGI errors resulting in underpaid salaries totaling approximately \$13,011 and salary overpayment of approximately \$3,880. Although the number of errors were minimal, the monetary impact on the employee can be significant and could affect future WGIs. Unless the agency implements a process to review suspense reports and enhance controls to detect and prevent processing errors, the employees will continue to receive inaccurate pay and delayed corrections.

We recommend:

- 12. That the Chief Human Capital Officer ensure employees receive appropriate retroactive compensation for delayed within grade increases totaling approximately \$13,011.**
- 13. That the Chief Human Capital Officer ensure that the employee is billed, or a Chief Financial Officer approved waiver is processed for the within grade salary overpayments totaling approximately \$3,880.**
- 14. That the Chief Human Capital Officer ensure that staff are trained to review suspense reports to detect errors and administer timely corrective action.**
- 15. That the Chief Human Capital Officer establish and implement procedures to detect and prevent administrative errors from on-boarding, processing re-assignments, and multiple personnel actions that could affect other areas such as within grade increases.**

5. Promotions

Peace Corps MS 620.9.2 requires HRM to maintain a record of the recruitment action for a period of three years from the selection date. Recruitment action includes all documents and support related to the process of hiring an employee.

OPM has identified job announcements as a part of the hiring process.¹¹ HRM did not retain vacancy announcements for 24 out of 25 promotions sampled. During our scope period, HRM switched recruiting systems from Career Connector to USA Staffing, which the hiring specialists attributed as the cause of these record deficiencies. Vacancy announcements were stored in the old system and management did not transfer the supporting documentation to the new system nor save them externally. Without adequate documentation, it is not possible to ascertain whether promotions met appropriate criteria.

We recommend:

16. That Chief Human Capital Officer ensure that the Peace Corps policy is implemented to retain pertinent records, such as recruitment actions, whenever human resource systems are changed or updated.

MONITORING

The Office of Human Resource Management and Office of Chief Financial Officer did not establish effective oversight procedures to reconcile payroll transactions and remediate deficiencies.

GAO's *Standards for Internal Control in the Federal Government* outlines the responsibility of the agency to monitor, evaluate, and remediate internal control systems. Principle 16.05 states that management should perform ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Additionally, Principle 17.05 states, "Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis." Furthermore, Principle 17.06 states, "Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis."

In 2019, OIG notified HRM and OCFO of the lack of oversight for USDH payroll transactions. Despite this finding, OCFO did not enhance monitoring procedures over the USDH payroll process.

U.S. Direct Hire Payroll Reconciliation

Based on our review of HRM's documented payroll process, we noted that employee paychecks are processed based upon timesheets and the most recent salary information entered for the employee by HRM. OCFO receives payroll transactions data in two batch files (commonly referred to as the main and baby payroll files). OCFO developed a programming interface that

¹¹ [National Archives and Records Administration General Records Schedule, 2.1: Employee Acquisition Records: Items 050 and 051.](#)

translates the batch files and automatically records the payroll transactions into Odyssey. The interface program issues exception reports for any transaction rejected for various reasons.

After the second payroll file is posted, OCFO/AFR reviews reports and performs reconciliations monthly to ensure payroll batches are posted accurately. In addition, a three-way reconciliation is performed between NFC reports, the general ledger, and Treasury.

During our audit, we identified 12 duplicate entries, 17 missing transactions, and 11 miscoded journal entries in the general ledger and concluded that the agency was not regularly reconciling the general ledger with NFC and Treasury reports. OCFO was unaware of the errors¹² prior to the audit but confirmed that the reconciliations were not expected to balance 100 percent with NFC and Treasury since journal vouchers were not always recorded within the month. OCFO assumed that the journal vouchers would resolve most of the discrepancies from the three-way reconciliation. However, there were discrepancies that remained unresolved after journal vouchers posted because OCFO/AFR did not design procedures to research unreconciled balances. Per OCFO/AFR, the payroll files contained limited information that prevented them from resolving discrepancies.

“...we identified 12 duplicate entries, 17 missing transactions, and 11 miscoded journal entries in the general ledger and concluded that the agency was not regularly reconciling the general ledger with NFC and Treasury reports.”

At the time of the audit, OCFO reconciled payroll transactions totals by the fund, standard general ledger accounts, object class codes, and the categories (reimbursable, direct funds, billings, and collections, and the President’s Emergency Plan for AIDS Relief). The payroll files were not formatted to include important data fields such as the employee names, social security numbers, individual amounts, and covered pay periods. By not having all the necessary data fields in the payroll files, OCFO was unable to establish the cause of errors or identify the employees associated with the discrepancies.

Furthermore, OCFO stated that there was not a cumulative report to track unresolved differences found during the three-way reconciliation nor a process to collaborate with HRM to resolve discrepancies in payroll transaction data. OCFO generates the bi-weekly report called *NFC to General Ledger Error Report*, to identify payroll transactions that failed to populate in the general ledger due to mapping errors. If a transaction is in the *NFC to General Ledger Error Report*, a journal voucher is prepared and posted by OCFO. Additionally, OCFO would need to follow up with HRM to understand the transactions listed on the *NFC to General Ledger Error Report*. OCFO confirmed that HRM was not consistently consulted about payroll transactions on the error report, resulting in erroneous journal vouchers.

¹² OCFO subsequently corrected three of the errors in January 2022.

“...two employees who received questionable payroll payments for \$97,780 and \$37,832 that HRM and OCFO were unable to reconcile or provide supporting documentation.”

Similarly, HRM did not consult with OCFO to ensure corrections and adjustments processed by HRM appear accurately in the payroll files. We identified two employees who received questionable payroll payments for \$97,780 and \$37,832 that HRM and OCFO were unable to reconcile or provide supporting documentation. According to HRM, the payments were to correct an error of duplicate credits that were administered in 2018 and 2019, respectively. However, none of the payroll files in 2019 contained credits for the two employees. Consequently, HRM and OCFO could not verify if the payments were allowable.

Furthermore, OCFO does not have a process to detect and verify accuracy of unusual payroll transactions. We identified two employees received payments after separation. One employee received hazard pay for approximately \$710 which is considered an unallowable payment for Peace Corps employees; and the agency paid another employee's health benefits totaling \$568.94 after the employee departed the agency. Neither of these transactions were detected as an error by OCFO/AFR or HRM.

If the agency does not establish and implement an effective reconciliation and monitoring process, there is a strong likelihood that Peace Corps payroll transactions recorded in the general ledger will contain unallowable transactions and errors. OCFO could identify and remediate deficiencies effectively by timely processing journal vouchers, analyzing detailed payroll files, ensuring appropriate collaboration with HRM on resolving discrepancies, and reviewing variances in payroll transactions to detect unusual payments. By not improving the reconciliation process, the agency may be unable to ensure accuracy when reporting out on the financial statements, improper payments, and detecting and timely reconciling errors.

We recommend:

- 17. That Office of Chief Financial Officer develop reports using data received from payroll files to assist with resolving discrepancies such as employee's names, social security numbers, pay period covered dates, and individual transaction amounts.**
- 18. That Office of Chief Financial Officer ensure journal vouchers are timely processed to be included in the monthly reconciliation process.**
- 19. That Office of Chief Financial Officer establish and implement a process to review, reconcile, and resolve discrepancies identified during the three-way reconciliation process between National Finance Center reports, Treasury, and the general ledger.**
- 20. That Office of Chief Financial Officer document the monitoring process in a standard operating procedure that records the process and assigns accountability for reconciling, recording and correcting errors during the monthly reconciliation.**

- 21. That Office of Chief Financial Officer and Chief Human Capital Officer develop and implement a process to track all unresolved errors, investigate, and record corrective actions.**
- 22. That Chief Human Capital Officer and Office of Chief Financial Officer reconcile charges totaling approximately \$135,612 with National Finance Center to determine if the two payments (\$97,780 and \$37,832) were allowable and request a correction if they are unallowable.**
- 23. That the Office of Chief Financial Officer develop and implement a process to reconcile variances in employees' payroll to detect unusual transactions**
- 24. That Chief Human Capital Officer and Office of Chief Financial Officer bill, request CFO approval to waive, or collect the unallowable payments hazard pay totaling \$710 and health benefits paid by the agency for \$569.**

Retirement

The U.S. Office of Personnel Management (OPM)'s *Civil Service Retirement System (CSRS)*¹³ and *Federal Employees Retirement System (FERS)*¹⁴ *Handbook for Personnel and Payroll Offices*¹⁵ advises Federal agencies about various aspects of benefits administration. According to Chapter 1, subpart 1C.1 D of the FERS Handbook, agencies payroll offices are responsible for:

- Withholding retirement deductions from employees' pay, making the correct agency contribution, and transmitting these monies to the Fund;
- Preparing and maintaining an individual retirement record for each employee who is covered by CSRS or FERS;
- Maintaining post-56 military deposits accounts; and
- Certifying individual retirement records and related records, ensuring the correctness of data in these records.

HRM assesses the following factors when determining the appropriate retirement categories per the CSRS and FERS handbook for Personnel and Payroll Offices:

- date of new hires
 - hired between 1/1/1983- 1/1/1987—CSRS
 - hired before 1/1/2013—FERS
 - hired before 1/1/2014—FERS Revised Annuity Employees (FERS RAE)
 - hired after 12/31/2013—FERS Further Revised Annuity Employees (FERS FRAE)
- rehires
- transfers or conversions with no break in service or a break of three days or less

¹³ The Civil Service Retirement System is a defined benefit, contributory retirement system. Employees share in the expense of the annuities to which they may become entitled.

¹⁴ The Federal Employees Retirement System is a three-tiered plan consisting of Social Security, a basic FERS annuity, and the Thrift Savings Plan.

¹⁵ *Civil Service Retirement System and Federal Employees Retirement System Handbook for Personnel and Payroll Offices.*

- creditable civilian service or creditable nonfederal service
 - five years of credible or potentially creditable service
 - service under another retirement system for which credit may be transferred
 - Peace Corps Volunteer Service
- type of appointment
- type of prior retirement coverage

The employee retirement deductions and agency contribution rates vary for each retirement plan. For CSRS, employee’s contribution rate can range between 7 percent, 7.5 percent, or 8 percent. While the employee generally pays no Social Security or Old-Age, Survivors, and Disability Insurance taxes, they must pay the Medicare tax. The agency matches the employee's CSRS contributions.

Our audit focused on FERS retirement contributions because most of Peace Corps employees were in the FERS retirement plan. FERS is a pension system funded by employee salary withholdings and the employing agency’s contribution. OPM determines the percentages for each group of employees and the employing agency. The amount of contribution is based on the percentages listed below multiplied by the basic pay.

Table 2. The FERS system categories

FERS Retirement Plan	Employee Deduction Rates	Agency Contribution		
		2019	2020	2021
FERS	0.80%	13.7%	16%	17.3%
FERS RAE	3.10%	11.9%	14.2%	15.5%
FERS FRAE	4.40%	11.9%	14.2%	15.5%

Source: *Civil Service Retirement and Federal Employees’ Retirement System Handbook for Personnel and Payroll Offices*

During the 2019 improper payments audit, HRM stated that they conducted an audit of the retirement plans for active employees from FY 2017 to 2019 and concluded that employees were put into incorrect retirement plans. A waiver request was submitted to the Peace Corps Director for approval to discharge overpayments to 24 Peace Corps employees.

GAO’s *Standards for Internal Control in the Federal Government*, Principle 17.01, states, “Management should remediate identified internal control deficiencies on a timely basis.” Furthermore, Principle 17.05 concludes,

...An internal control deficiency can be in the design, implementation, or operating effectiveness of the internal control and its related process. Management determines from the type of internal control deficiency the appropriate corrective actions to remediate the internal control deficiency on a timely basis. Management assigns responsibility and delegates authority to remediate the internal control deficiency.

According to HRM, there were meetings and training sessions to discuss retirement plan errors. Despite the HRM audit and the training sessions, HRM was unable to design and implement effective procedures to ensure accuracy of the employees’ retirement plan. We identified 81 employees with improper retirement categories (see Figure 2). The employees that overpaid their retirement contributions would require a refund because more money was deducted from their

gross pay. Employees that paid less than the required contribution rate would receive an ABCO bill because their salaries were overpaid.

Employee Retirement Payment Contributions

Jan. 2019 - Sep. 2021

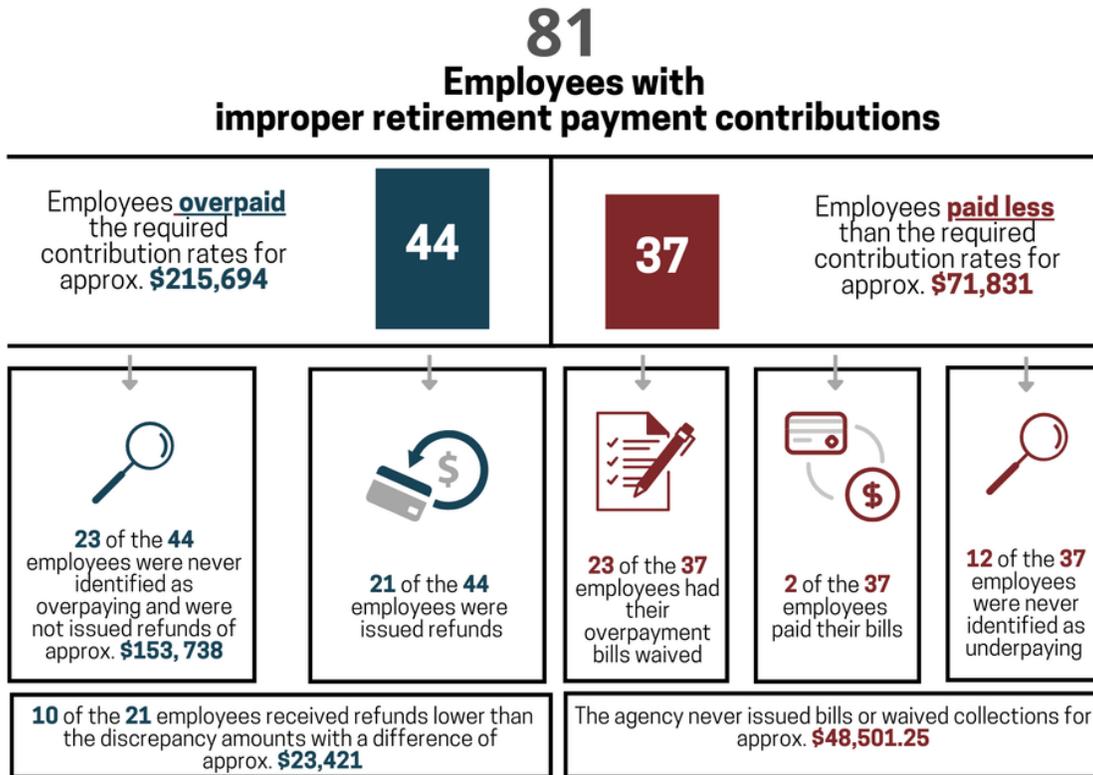


Figure 2. Employee Retirement Payment Contributions from January 2019 through September 2021.

The incorrect retirement rates also effected the agency’s retirement contribution payments (see Figure 3). Although the rates were the same for FERS RAE and FERS FRAE, the agency contribution rates were incorrect for 61 employees between January 2019 through September 2021. Whenever the agency paid more than the required contribution rates, the agency should deduct overpaid funds from employees’ retirement fund. Additionally, whenever the agency paid less than the required contribution rate, the agency should make additional payments to the employees’ retirement fund.

Agency's Retirement Payment Contributions

Jan. 2019 - Sep. 2021

81

Employees with improper retirement payment contributions

61 of the **81** employees' agency contribution rates were incorrect

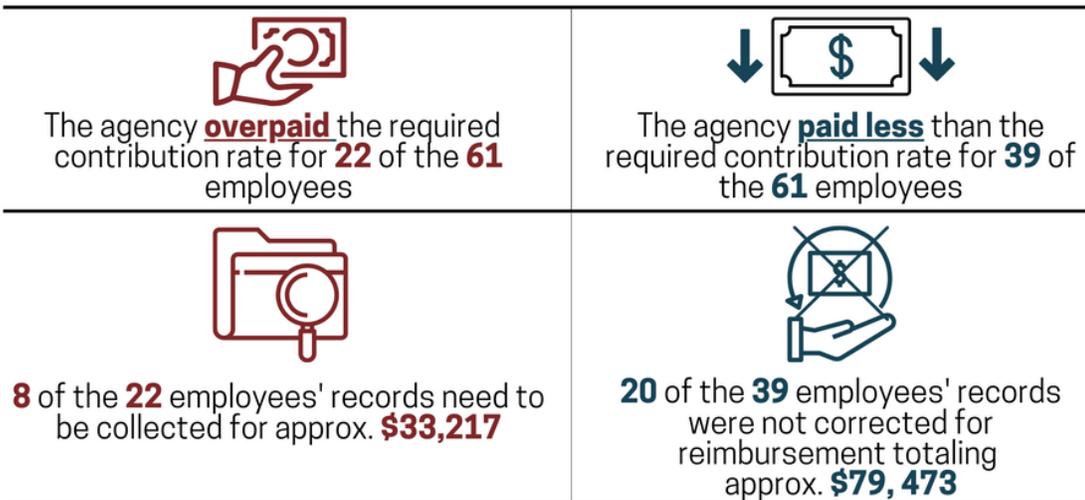


Figure 3. Agency's Retirement Payment Contributions from January 2019 through September 2021.

Per OPM's *CSRS and FERS Handbook for Personnel and Payroll Offices*, the employing agency is responsible for paying both the agency and employee share to the retirement fund. When it is determined that the agency has paid less than the correct total amount of the costs for the current or past employees, the agency will pay the additional amount to the retirement fund.

As stated above, there are a variety of factors that HRM uses to determine the retirement plan. However, it appears that additional supervisory review and monitoring is needed to ensure that the retirement decision factors are applied accurately during the new employee setup. Although the errors rates for retirement remains small as compared to the total number of employees, the impact on the employees can be significant. The impact of ineffective controls affects both the agency and the employees resulting in under/overpayments to retirement plans, incorrect salary payments, and unexpected collections. In addition, by waiving employee debts the agency is incurring unnecessary costs. Improving the supervisory review process could enhance the agency's ability to detect, prevent, or remediate identified retirement errors in a timely manner.

We recommend:

- 25. That the Chief Human Capital Officer develop checks lists or frequently asked questions that could assist new staff or supervisors when assessing the appropriate retirement rates and categories.**
- 26. That the Chief Human Capital Officer ensure the incorrect retirement categories are changed and retroactively adjusted for 35 employees.**
- 27. That the Chief Human Capital Officer ensure approximately \$48,501 in salary overpayments for retirement are resolved by issuing Administrative Billing and Collection bills and/or requesting waiver approvals from the Chief Financial Officer.**
- 28. That the Chief Human Capital Officer ensure employees that were over charged approximately \$153,738 in retirement deductions receive refunds.**
- 29. That the Chief Human Capital Officer review the accuracy of the refunds already issued to employees and make necessary corrections.**
- 30. That the Chief Human Capital Officer and Office of Chief Financial Officer ensure agency contribution rates were accurately adjusted to reflect retroactive corrections for approximately \$79,473 in underpayments and \$33,217 in overpayments.**

OTHER AREAS OF CONCERN

The Agency did not update the Program Handbook for Merit Step Increase to reflect the CFO's approval process.

Merit Step Increase

Peace Corps Manual Section (MS) 662, *Peace Corps Incentive Awards Program Handbook* (Program Handbook), Section 3.3.3(c)(1) requires that a Meritorious Step Increase (MSI) proposal must be submitted to the OCFO for the appropriate budget official's signature. MS 622 defines MSI as an "...additional within-grade step increase in recognition of high-quality performance above that ordinarily found in the type of position concerned."

During our audit, we found that only one of the 12 reviewed MSI nomination forms was signed by a CFO budget officer, as required by the MS 662 Program Handbook. Per the OCFO Program Manager, budget officers' signatures were not required for several years. The budget officer and the deputy CFO approves the award allocations by office, based on a certain percentage of salary spending. Therefore, signatures were not needed for individual award forms. Additionally, in 2019 and 2020, the former Chief Human Capital Officer distributed an award guidance memorandum instructing staff that an OCFO signature was not required for monetary award nominations. Nevertheless, the agency did not update the Program Handbook or award nomination forms to reflect the changes in the guidance memorandum.

Without ensuring that procedures are updated and consistent, the agency could risk receiving invalid or delayed awards submissions, thus eliminating an employee from consideration for an award.

Though we did not issue a recommendation for the agency to update MS 662 Program Handbook, we believe having consistency in communicating required procedures would reduce errors or delays for awards submissions.

QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

During the audit, we identified questioned costs and funds to be put to better use.

Questioned Costs

Recommendation number	Description	Amount
2	Uncollected Salary Overpayments Related to Locality Rate Errors	\$1,550
3	Retroactive locality payments for three underpaid individuals	\$4,383
12	Retroactive compensation for delayed within grade increases	\$13,011
13	Unallowable Within Grade Increase	\$3,880
22	Unsupported documentation for two unusual charges	\$135,612
24	Unallowable Hazard Payment	\$710
24	Agency Health Benefits Payment to Separated Employee	\$569
27	Uncollected salary overpayments related to retirement calculation errors	\$48,501
28	Overpayments related to employees' contribution for retirement	\$153,738
30	Overpayments related to the agency's contribution for retirement	\$33,217
30	Underpayments related to the agency's contribution for retirement	\$79,473

Funds to be put to better use

Recommendation number	Description	Amount
7	Collection of advance payments	\$18,000

The Inspector General Act of 1978, as amended, defines funds to be put to better use and questioned costs as follows:

- **Questioned costs** are costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement or document governing expenditure of funds; a finding that, at the time of the audit, such cost is not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.
- **Funds to be put to better use** are funds that could be used more efficiently if management took actions to implement and complete the recommendation.

LIST OF RECOMMENDATIONS

We recommend:

1. That the Peace Corps develop mitigating strategies for deficiencies in National Finance Center systems while completing the Human Resource Management risk register.
2. That the Chief Human Capital Officer ensure approximately \$1,550 in salary overpayments due to incorrect locality rates are resolved by issuing Administrative Billings and Collections bills and/or request waiver approvals from the Chief Financial Officer.
3. That Chief Human Capital Officer issue retroactive locality payments to the three underpaid individuals for approximately \$4,383.
4. That Chief Human Capital Officer and Office of Chief Financial Officer establish a process to review and reconcile retroactive adjustments to ensure that the correct amounts are reflected in the payroll transactions.
5. That the Chief Human Capital Officer ensures that human resource management staff are trained to research errors that need retroactive adjustments.
6. That the Chief Human Capital Officer ensures that the standard operating procedures for Position Management System Online are updated to include the review of duty station codes when employees are promoted.
7. That the Chief Human Capital Officer ensures that the salary advance for \$18,000 is collected.
8. That the Chief Human Capital Officer ensure Human Resource Management staff are trained on the policies and procedures for advance payments and collections.
9. That the Senior Policy Committee and Office of Chief Financial Officer update the waiver process to allow for increased transparency in the approval process timeline, require that waiver justifications have accurate waiver amounts, and document how the bill was ultimately resolved.
10. That Office of Chief Financial Officer develop a report to track payroll bills, collections, and waivers to properly account for improper payments for payroll transactions.
11. That the Chief Financial Officer and Office of General Counsel determine a resolution for the 18 unauthorized waivers.
12. That the Chief Human Capital Officer ensure employees receive appropriate retroactive compensation for delayed within grade increases totaling approximately \$13,011.
13. That the Chief Human Capital Officer ensure that the employee is billed, or a Chief Financial Officer approved waiver is processed for the within grade salary overpayments totaling approximately \$3,880.
14. That the Chief Human Capital Officer ensure that staff are trained to review suspense reports to detect errors and administer timely corrective action.

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15. That the Chief Human Capital Officer establish and implement procedures to detect and prevent clerical errors from on-boarding, processing re-assignments, and multiple personnel actions that could affect other areas such as within grade increases.
16. That Chief Human Capital Officer ensure that the Peace Corps policy is implemented to retain pertinent records, such as recruitment actions, whenever human resource systems are changed or updated.
17. That Office of Chief Financial Officer develop reports using data received from payroll files to assist with resolving discrepancies such as employee's names, social security numbers, pay period covered dates, and individual transaction amounts.
18. That Office of Chief Financial Officer ensure journal vouchers are timely processed to be included in the monthly reconciliation process.
19. That Office of Chief Financial Officer establish and implement a process to review, reconcile, and resolve discrepancies identified during the three-way reconciliation process between National Finance Center reports, Treasury, and the general ledger.
20. That Office of Chief Financial Officer document the monitoring process in a standard operating procedure that records the process and assigns accountability for reconciling, recording and correcting errors during the monthly reconciliation.
21. That Office of Chief Financial Officer and Chief Human Capital Officer develop and implement a process to track all unresolved errors, investigate, and record corrective actions.
22. That Chief Human Capital Officer and Office of Chief Financial Officer reconcile charges totaling approximately \$135,612 with National Finance Center to determine if the two payments (\$97,780 and \$37,832) were allowable and request a correction if they are unallowable.
23. That the Office of Chief Financial Officer develop and implement a process to reconcile variances in employees' payroll to detect unusual transactions
24. That Chief Human Capital Officer and Office of Chief Financial Officer bill, request CFO approval to waive, or collect the unallowable payments hazard pay totaling \$710 and health benefits paid by the agency for \$569.
25. That the Chief Human Capital Officer develop checks lists or frequently asked questions that could assist new staff or supervisors when assessing the appropriate retirement rates and categories.
26. That the Chief Human Capital Officer ensure the incorrect retirement categories are changed and retroactively adjusted for 35 employees.
27. That the Chief Human Capital Officer ensure approximately \$48,501 in salary overpayments for retirement are resolved by issuing Administrative Billing and Collection bills and/or requesting waiver approvals from the Chief Financial Officer.
28. That the Chief Human Capital Officer ensure employees that were over charged approximately \$153,738 in retirement deductions receive refunds.

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29. That the Chief Human Capital Officer review the accuracy of the refunds already issued to employees and make necessary corrections.
30. That the Chief Human Capital Officer and Office of Chief Financial Officer ensure agency contribution rates were accurately adjusted to reflect retroactive corrections for approximately \$79,473 in underpayments and \$33,217 in overpayments.

APPENDIX A: SCOPE AND METHODOLOGY

SCOPE

OIG conducted this audit between July 2020 and June 2022 while working in a telework environment. The scope of our audit included auditing samples of U.S. direct hire salary, benefit payments, ABCO bills, collections, waivers, and the associated supporting documentation that the National Finance Center and the Peace Corps processed between January 1, 2019, through September 30, 2021.

During our audit, we noted that the agency did not obtain and retain detailed financial records for payroll transactions which included ABCO bills and waivers. Therefore, we relied on data provided by NFC, after performing due diligence as noted below. We experienced excessive delays in receiving reports from NFC which caused significant delays in completing the audit.

We reviewed the following subject areas: (1) Report Reconciliation; (2) Locality Pay; (3) Health Benefits; (4) Retirement Payments; (5) Within Grade Increases; (6) Merit Awards; (7) Promotions; (8) Severance Pay; (9) Advance Pay; (10) Cash Awards; (11) Lump Sum Payments; (12) Waiver Process; and (13) Risk Assessment. However, locality payments, within grade increases, and promotions were not assessed for experts and consultants, senior foreign service employees, and interns (administratively determined).

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards, 2018 revision. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Throughout the audit, auditors were aware of the possibility or existence of fraud, waste, or misuse significant to the audit objectives and conducted procedures designed to obtain reasonable assurance of detecting any such fraud as deemed appropriate.

METHODOLOGY

Our audit methodology consisted of reviews of employee records, NFC and Peace Corps payroll reports, journal vouchers and supporting documentation. We reviewed records from HR Entry, Processing, Inquiry, and Collection (EPIC) system and NFC's reporting center. To obtain background information on the agency's internal control process, we reviewed policies relating to the Peace Corps' financial and administrative operations such as the Peace Corps Manual, OPM's Civil Service Retirement and Federal Employees' Retirement System Handbook for Personnel and Payroll Offices, and standard operating procedures. Further, we conducted interviews with Peace Corps staff. Additionally, we performed the following tasks:

- Obtained an understanding of any regulatory criteria related to the agency's responsibility to report risk assessments.

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- Assessed the controls in place to detect, prevent, and correct errors.
- Reviewed prior audit reports and investigations that related to USDH salary and benefit payments.
- Reconciled the NFC’s staging detail report and Earnings and Leave Report to OCFO’s payroll files (main and baby files and journal vouchers).
- Reviewed supporting documentation for samples selected by the audit team.

The total transactions included in the staging detail files consisted of approximately 1,681,427 payroll transactions. Below is the breakdown of the methodology for each category:

<p>Report Reconciliation:</p> <p>Staging detail reports from CY 2019 – September 2021 consisted of 1,681,427 payroll transactions which include ABCO transactions.</p> <p>The earning and leave report from CY 2019 – September 2021 consisted of 1,324,020 payroll transactions.</p>	<p>We compared NFC’s bi-weekly staging details reports to OCFO’s main and baby files, and journal vouchers. For variances, we contacted OCFO for explanation and supporting documentation.</p> <p>In addition, we compared the NFC staging detail reports to the earnings and leave reports.</p> <p>For variances, we contacted HRM and OCFO to for further explanation. We were informed that the earnings and leave statements do not have all the transactions that were processed by payroll. It excludes the benefits paid on behalf the agency as well as special payments and corrections processed outside of the earnings and leave statements. However, the staging detail file contains all transactions processed on behalf of the Peace Corps.</p>
<p>Locality Pay: Total number of salary payments included on the earnings and leave report equaled 71,047 for 1,472 total employees. We only reviewed 62,468 salary payments for 1,338 foreign service personnel.</p>	<p>We reviewed the employee’s duty station and compared the salaries on the earnings and leave reports against and the State Department’s Foreign Service Salary Tables from 2018-2021. Experts and Consultants do not receive locality pay. In addition, senior foreign service employees have a separate salary range.</p> <p>For employees with incorrect locality, we reviewed ABCO reports as well as earnings and leave statements for retroactive adjustments, collections, waivers.</p>
<p>Health Benefits: The total number of health benefits payments included on the earnings and leave report equaled 64,761 for 1,257 employees.</p> <p>Note: all employees are not required to have health benefits through Peace Corps. Some employee may have health benefits from other sources.</p>	<p>We used the staffing pattern reports to determine employees start and separation date. We reviewed all employees that had health benefit deduction gaps based on their employee status. We also reviewed the earnings and leave report to verify collections and ABCO reports to determine if generated bills were adjusted, collected in cash, or waived.</p>

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<p>Retirement Payments: The population size for retirement payments on the earnings and leave statement were 1,407. We reviewed retirement plans for 1,396 employees. We only reviewed agency contribution payments in the staging detail report for the 82 employees that we determined to be in incorrect retirement plans.</p>	<p>We reviewed the earnings and leave reports for employee retirement deductions and the staging detail files for the agency contribution payments. We calculated the retirement contribution percentages and compared it against the Service Computation Dates (SCD) retirement dates to determine if employees were in the correct retirement category. We received explanations from HRM regarding our retirement plan discrepancies. For errors resulting from errors in incorrect retirement plan set-up we reviewed NFC ABCO report for billing information and waivers. For refunds, we received supporting documentation from HRM.</p>
<p>Within Grade Increase: The earnings and leave report contained 62,468 salary payments for 1,338 foreign service personnel.</p>	<p>We judgmentally sampled 25 WGIs where the employee remained at the same step for 30 or more pay periods. In addition, we selected an additional 8 transactions with unusual increases or decreases to the step that were identified in the Merit testing.</p> <p>We interviewed HRM to gain an understanding of the WGI process. In addition, we accessed NFC's EPIC system to review personnel actions processed by HRM and the suspense reports. We also reviewed earnings and leave statements and ABCO bills for WGI corrections.</p>
<p>Merit Awards: 109 step increases occurred twice within a year.</p>	<p>We used EPIC to research all 109 increases identified in the earnings and leave report that were not related to WGIs. We judgmentally tested 12 Merit awards samples and identified other unusual step increases in the WGI testing. We obtained supporting documentation from HRM and reviewed Peace Corps guidance related to merit increases.</p>
<p>Promotions: Judgmentally sampled 25 out of 62,468 salary payments for foreign service personnel.</p>	<p>Our sample selection was based on employees that received multiple promotions throughout the scope of the audit. We reviewed SF-50s, SF-52s, vacancy announcements, and interviewed HRM.</p>
<p>Severance Pay: The staging detail file contained 23 transactions for severance pay relating to 3 employees.</p>	<p>We reviewed the validity of the three employee's severance payments disbursed during the audit period. We verified the severance eligibility with OPM guidance, HRM and OGC.</p>
<p>Advance Pay: Total advance payment transactions included in the staging detail file equaled 308 for 20 employees.</p>	<p>We reviewed the staging detail report for advance payments separating out the collections and disbursements for 20 employees. We reviewed the advance payments to ensure collections were initiated. We also determined whether the payments exceeded the max advancement amount and if the employees were eligible for salary advances. We followed up with HRM for uncollected advances.</p>
<p>Cash Awards: The staging detail file included 1,528 cash award payments.</p>	<p>We sampled 29 cash awards payments. Our sample was based on transactions over \$10,000, unusual dollar amounts, individuals that received 5 awards within the scope as well as individuals that received cash awards after separating from the agency.</p>

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	We reviewed Peace Corps guidance, the award nomination forms, SF-50s, approval documentation and the Employee Labor Relations award tracker.
Lump Sum Payments: Total lump sum payments included in the earnings and leave report equaled 283	We used IDEA software to generate a random sample of 25 lump sum payments in addition to 22 judgmentally sampled payments. Payments were made based on leave balances therefore we compared the leave balance from the lump sum payment to the leave balance from the prior pay period. We reviewed NFC notifications regarding lump sum payment adjustments.
Waiver: NFC's ABCO report consisted of 454 bills and 43 waivers.	Reviewed MS 778 and interviewed the OCFO, OGC and HRM regarding their waiver process. In addition, we used the NFC ABCO report to identify total bills and waivers. All 43 waivers identified in the ABCO report were submitted to OCFO for supporting documentation for waiver approvals or denials.
Risk Assessment: No risk assessment for Human Resource Management	Interviewed HRM and OCFO regarding the risk assessment for human resources. We also relied on the communication received from the agency on our report for FY 2021 Management Challenges.

APPENDIX B: USE OF COMPUTER PROCESSED DATA

The Government Accountability Office’s “Assessing the Reliability of Computer-Processed Data” defines reliability to mean that data applicable for the audit purpose and are sufficiently complete and accurate.

During our audit, we relied on data extracted from the National Finance Center’s financial system. We compared reports provided by the National Finance Center to the payroll files used by Peace Corps’ Office of the Chief Financial Officer. In the methodology section, we outlined the reconciliation process with the NFC reports to Peace Corps’ financial system data and underlying source documentation. The discrepancies between the NFC data resulted in findings and recommendations. We did not test to ensure that the universe of data provided to us for billings and collections was complete.

Additionally, our office uses independent auditors to annually audit the agency’s financial statements. These auditors have determined that the Peace Corps financial statements were free from material misstatements and our auditors did not identify any material weaknesses in internal controls surrounding the financial statements. Therefore, in our professional judgement, we determined that the data was sufficiently reliable for the purposes of this report.

APPENDIX C: LIST OF ACRONYMS

HRM	The Office of Human Resource Management
NFC	National Finance Center
OCFO	The Office of Financial Officer
AFR	The Office of Accounting and Financial Reporting
ERM	Enterprise Risk Management
OPM	The Office of Personnel Management
FY	Fiscal Year
OMB	The Office of Management and Budget
ABCO	Administrative Billings and Collections
CAPS	Corrective Action Plan
GAO	Government Accountability Office
OIG	Office of Inspector General
SSAE	Statement on Standards for Attestation Engagements
PMSO	Position Management System Online
MS	Manual Section
FERS	Federal Employee Retirement System
CSRS	Civil Service Retirement System
FERS RAE	FERS Revised Annuity Employees
FERS FRAE	FERS Further Revised Annuity Employees
WGI	Within Grade Increase
MSI	Merit Step Increase
USDH	United States Direct Hire
TREASURY	United States Department of Treasury
SSC	Human Resources Shared Service Center
EPIC	Human Resources Entry, Processing, Inquiry, and Collection
SCD	Service Computation Dates

APPENDIX D: CRITERIA USED TO SUPPORT ISSUES IN THE REPORT

FEDERAL REQUIREMENTS

OMB CIRCULAR A-123, MANagements RESPONSIBILITY FOR ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL

Office of Management and Budget (OMB) Circular No. A-123 requires agencies to integrate risk management and internal control functions. The Circular also establishes an assessment process based on the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (known as the Green Book) that management must implement in order to properly assess and improve internal controls over operations, reporting, and compliance. The primary compliance indicators that management must consider when implementing OMB Circular No. A-123, include:

- Management is responsible for the establishment of a governance structure to effectively implement, direct and oversee implementation of the Circular and all the provisions of a robust process of risk management and internal control.
- Implementation of the Circular should leverage existing offices or functions within the organization that currently monitor risks and the effectiveness of the organization's internal control.
- Agencies should develop a maturity model approach to the adoption of an ERM framework. For FY 2016, Agencies are encouraged to develop an approach to implement ERM. For FY 2017 and thereafter Agencies must continuously build risk identification capabilities into the framework to identify new or emerging risks, and/or changes in existing risks (See Section II.C. for additional details).
- Management must evaluate the effectiveness of internal controls annually using GAO's *Standards for Internal Control in the Federal Government*. (The Green Book)

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

General Records Schedule 2.1: Employee Acquisition Records—Item 051

Job vacancy case files. Case files an agency creates when posting and filling competitive job vacancies. Also known as case examining, competitive examination, or merit case files. Includes job announcement. Temporary. Destroy 2 years after termination of register. Disposition Authority.DAA-GRS-2017-0011-0002

STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT

The Government Accountability Office (GAO)'s *Standards for Internal Control in the Federal Government* (GAO-14-704G)

Principle 7—Identify, Analyze, and Respond to Risks

7.01 Management should identify, analyze, and respond to risks related to achieving the defined objectives.

Principle 10—Design Control Activities

10.01 Management should design control activities to achieve objectives and respond to risk

10.04 Control activities can be either preventive or detective. The main difference between preventive and detective control activities is the timing of a control activity within an entity's operations. A preventive control activity prevents an entity from failing to achieve an objective or address a risk. A detective control activity discovers when an entity is not achieving an objective or addressing a risk before the entity's operation has concluded and corrects the actions so that the entity achieves the objective or addresses the risk.

10.05 Management evaluates the purpose of the control activity as well as the effect a deficiency would have on the entity in achieving its objectives. If the control activity is for a significant purpose or the impact of a deficiency would be significant to achieving the entity's objectives, management may design both preventive and detective control activities.

Principle 16- Perform Monitoring Activities

16.05 Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.

Principle 17—Evaluate Issues and Remediate Deficiencies

17.05 Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis. Management evaluates issues identified through monitoring activities or reported by personnel to determine whether any of the issues rise to the level of an internal control deficiency. Internal control deficiencies require further evaluation and remediation by management. An internal control deficiency can be in the design, implementation, or operating effectiveness of the internal control and its related process. Management determines from the type of internal control deficiency the appropriate corrective actions to remediate the internal control deficiency on a timely basis...

17.06 Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. These corrective actions include resolution of audit findings...

5 CODE OF FEDERAL REGULATIONS PART 531 SUBPART F LOCALITY-BASED COMPARABILITY PAYMENTS

§ 531.601 Purpose.

This subpart contains Office of Personnel Management (OPM) regulations implementing 5 U.S.C. 5304, which authorizes locality payments in defined geographic areas for GS employees

and other categories of employees to whom locality payments are extended. These regulations must be read together with 5 U.S.C. 5304.

§ 531.603 Locality pay areas.

- (a) Locality rates of pay under this subpart shall be payable to employees whose official worksites are located in the locality pay areas listed in paragraph (b) of this section.

§ 531.605 Determining an employee's official worksite.

- (a)(1) Except as otherwise provided in this section, the official worksite is the location of an employee's position of record where the employee regularly performs his or her duties.

CIVIL SERVICE RETIREMENT AND FEDERAL EMPLOYEES' RETIREMENT SYSTEM HANDBOOK FOR PERSONNEL AND PAYROLL OFFICES

Section 1B1.1-2 Civil Service Retirement System

- A. Type of System: The Civil Service Retirement System (CSRS) is a defined benefit, contributory retirement system. Employees share in the expense of the annuities to which they may become entitled.
- C. Contributions: CSRS-covered employees contribute 7, 7.5 or 8 percent of pay to CSRS. While they generally pay no Social Security, survivor, and disability (OASDI) taxes, they must pay the Medicare tax (currently 1.45 percent of pay). The employing agency matches the employee's CSRS contributions.

Section 1B1.1-3 Federal Employees Retirement System

- A. General: The Federal Employees Retirement System (FERS) is a three-tiered plan consisting of Social Security, a basic FERS annuity, and the Thrift Savings Plan (TSP).
- C. Basic FERS Annuity: The basic FERS annuity is based on the employee's length of service and the "high-3" average pay. For most employees, the formula for computing the annual annuity is 1 percent of average pay for each year of creditable service.

Public Law 112-96, Section 5001, the "Middle Class Tax Relief and Job Creation Act of 2012," established the FERS-Revised Annuity Employee (FERS-RAE). In general, employees hired after December 31, 2012, who were not excluded from FERS coverage became subject to FERS-RAE coverage and pay higher employee contributions for the FERS basic benefit than employees subject to the original FERS coverage.

Section 401 of the "Bipartisan Budget Act of 2013," signed into law by the President on December 26, 2013, created another class of FERS coverage, the FERS-Further Revised Annuity Employee (FERS-FRAE). In general, employees hired after December 31, 2013, who were not excluded from FERS coverage became subject to FERS-FRAE coverage and pay higher employee contributions for the basic benefit than FERS or FERS-RAE employees.

- D. Contributions:

- Most employees covered by FERS currently contribute 0.8% of pay to FERS for the basic benefit.
- Most employees covered by FERS-RAE currently contribute 3.1% of pay to FERS-RAE for the basic benefit.
- Most employees covered by FERS-FRAE currently contribute 4.4% of pay to FERS-FRAE for the basic benefit.

Section 30B2.1-1 Employee Deductions

D. Law Enforcement Officers and Firefighters

Under FERS, OPM has delegated authority to agencies to approve positions as law enforcement officer or firefighter positions. Thus, agency decisions govern when additional deductions apply. As under CSRS, any employee in an approved position is subject to the special deduction rate, even if the employee will not qualify for special benefits. Also, the CSRS rules for deductions from employees on detail apply under FERS.

*Law Enforcement Officers contribute an additional .5% of pay to the Federal Employees Retirement System (FERS).

Section 30B2.1-2 Agency Contributions

A. Amount of Contributions

The employing agency contribution to the Retirement Fund is an amount equal to:

- (Applicable Normal Cost Percentage Less the Employee Deduction Rate) multiplied by (Basic Pay)

Note: The agency is responsible for paying the entire normal cost (including both agency and employee share) to the Retirement Fund. See table in section 30C1.1-1.

Part 30B3 Adjustment of Errors Section 30B3.1-1 Correction of Errors

A. Underpayments: When it is determined that an agency has paid less than the correct total amount of the normal cost for any or all of its current or past employees, the agency must pay the total additional amount to the Retirement Fund.

PEACE CORPS REQUIREMENTS

PEACE CORPS MANUAL SECTION (MS)

Human Resource Council Charter and By-Laws

Mission:

The Human Resource Council (“Council”) is responsible for:

PEACE CORPS OFFICE OF INSPECTOR GENERAL

- (a) Serving as staff forum for discussion and recommendations with respect to human resource matters.
- (b) Approving the Office of Human Resources (“HR”) procedures pursuant to delegations of authority from the Senior Policy Committee (“SPC”) and making policy recommendations to HR.

Membership:

- (a) The members of Council shall consist of the Chair of the Council, who shall be the Chief Human Capital Officer (“CHCO”) of HR, and management representatives (FP-2 or higher)...

Meetings of Council:

- (b) Purpose: The purpose of the Council is to partner with cross-functional Peace Corps stakeholders in enhancing HR’s contributions to Peace Corps mission and strategic plan. Pursuant to delegations from the SPC, the Council may consider and approve procedures implementing HR policies.

Duties and Responsibilities:

- (c) The Council shall serve as a forum for discussion of new HR programs and allow for brainstorming and decision-making on implementation of such programs.
- (d) The Council shall promptly report to the SPC regarding HR procedures it has revised or approved and its recommendations with respect to policy changes.

MS 128 Office of the Chief Financial Officer: Organization, Mission, and Functions

4.1 Office of the Chief Financial Officer

The mission of the Office of the Chief Financial Officer (OCFO) is to coordinate Peace Corps’ overall resource management and provide the financial planning, oversight, and internal controls necessary to ensure that Peace Corps achieves its domestic and overseas goals while operating in a fiscally sound manner. OCFO is responsible for ensuring accurate, up-to-date, and uniform Agency financial policies in the Agency’s manuals, bulletin and other publications; coordinate efforts to establish and maintain effective internal controls in the Agency’s operations; and ensure continuous improvement in the financial and performance reporting by ensuring the accuracy of program data and meeting internal and external audit finding deliverables.

4.2 Office of Accounting and Financial Reporting

The mission of the Office of Accounting and Financial Reporting (AFR) is to provide prompt, accurate financial and analytical services to the users of the Agency’s financial data and manage the timely and accurate submission of the financial statements and other financial reports to the Department of Treasury (Treasury), the Office of Management and Budget (OMB) and other Federal agencies.

MS 603 Direct Hire Position Classification, Section 3.0 Position Classification

The objectives of the position classification system are:

- (a) Implements the principle of equal pay for substantially equal work;
- (b) Recognizes that variations in ranges of basic pay for different employees should be proportionate to substantial differences in the difficulty, responsibility, and qualification requirements of the work they perform; and
- (c) Facilitates human resource management in areas such as compensation, recruitment, selection, promotion, and training of employees.

MS 603 Direct Hire Position Classification, Section 3.2 General Schedule

While the Peace Corps does not classify General Schedule positions which are covered under the provisions of Title 5 of the US Code, it normally follows the classification criteria contained in the Office of Personnel Management Position Classification Standards...

MS 620 Direct Hire Merit Selection and Promotion, Section 9.2 Notification of Selection

- (d) OHR shall maintain a record of the recruitment action for a period of 3 years from the selection date in accordance with the documentation requirements in MS 620 *Direct Hire Merit Selection and Promotion Procedures*.

MS 620 Direct Hire Merit Selection and Promotion, Section 11.1 Types of Promotions

- (a) Career Ladder Promotion: The range of a career ladder for a position is stated in the vacancy announcement. To be eligible for a career ladder promotion, there must be a supervisory determination that the employee demonstrates the ability to perform at the next higher grade (i.e., FP-5 to FP-4, or FP-3 to FP-2) and that there exists enough work at that grade level. Time in Grade for all career ladder promotions is one year.

MS 778 Waiver of Claims for Erroneous Payments, Section 5.0 Standards for Waiving

The Peace Corps may waive claims in whole or in part arising out of an erroneous payment of pay or allowances when collection of erroneous payment by the Agency would be against equity and good conscience and not in the best interest of the United States.

Generally, this standard is met by a finding that the erroneous payment was caused by an administrative error, and there is no evidence that the erroneous payment occurred through fraud, misrepresentation, fault, or lack of good faith on the part of the claimant or any other person having an interest in obtaining a waiver of the claim. "Good faith" may be assumed absent any evidence to the contrary and if a reasonable person under the circumstances involved would not have been aware of the error.

MS 778 Waiver of Claims for Erroneous Payments, Section 6.4 Waiver Decision

The CFO shall review the application for waiver and the report and determine either to:

- (a) Waive the claim in whole or in part and record the date and the reasons for the waiver; or
- (b) Refuse to waive the claim and record the date and the reason for refusal.

The CFO will then prepare a decision memorandum and submit it with the application and report to the Office of General Counsel for legal clearance.

MS 622 Direct Hire Within-Grade Salary Increases

4.0 Definitions

- (i) Within-Grade Increase (WGI) means periodic increase in an employee's Rate of Basic Pay from one step of the grade of his or her position to the next higher step of that grade.

5.2.1 Entitlement to WGI

An employee paid at less than the top step of his or her grade shall be advanced to the next higher step of that grade upon meeting the three following requirements:

- (a) The employee must have completed the required Waiting Period;
- (b) The employee must not have received an Equivalent Increase during the Waiting Period; and
- (c) The employee's performance must be at an Acceptable Level of Competence, as determined by the employee's supervisor and reviewing official.

5.2.2.1 Full or Part-Time Employees

For employees with scheduled tours of duty, the Waiting Periods are as follows:

- (a) For advancement to steps 2 through 10, the Waiting Period is 52 calendar weeks.
- (b) For advancement to steps 11 through 14, the Waiting Period is 104 calendar weeks.

5.2.6.3 Corrective Action

A WGI which was delayed solely by administrative error, delay, or oversight will be processed, once the error has been identified, retroactive to the effective date that would have applied had there not been such administrative error, delay, or oversight. A successful reconsideration of a negative determination will also be processed retroactive to the effective date that would have applied had a positive determination been made initially.

MS 662 (Peace Corps Incentive Awards Program Handbook), Section 3.1.3 Procedures for the Director's Distinguished Service Award

(c) STEP 3: Once the nominating supervisor's A Delegate (Associate Director (or equivalent) or Regional Director level or higher) has reviewed the DDSA proposal, the A Delegate shall determine whether to recommend the proposal for approval or rejection.

- (1) If the nominating supervisor's A Delegate recommends to approve the DDSA proposal and it includes a Meritorious Step Increase or Cash Award, the award proposal must be submitted to the Office of the Chief Financial Officer (OCFO) for the appropriate budget official's signature. Please also refer to section 4.0 for additional information on Meritorious Step Increases.

OTHER GUIDANCE

DOMESTIC FINANCIAL MANAGEMENT HANDBOOK

Chapter 4.4 Types of Interagency Agreements:

An Interagency Agreement (IAA) is a written agreement entered between two federal agencies (each referred to as a Federal Program Agency (FPA)), which specifies the goods to be furnished or tasks to be accomplished by one agency (servicing agency) in support of another (requesting agency).

DEPARTMENT OF STATE STANDARDIZED REGULATIONS

852 Advance Pay:

- a. The head of an agency or designee may provide for the advance payment of up to three months pay:
 1. To or for the account of a United States citizen employee as defined in Section 040i proceeding or upon his or her arrival at a post of assignment in a foreign area;
 2. To or for the account of a United States citizen employee as defined in section 040i when the employee or an eligible family member residing in the foreign area suffers a medical emergency as defined by the head of agency or designee; and
 3. To or for the account of an employee as defined in section 040j when the employee is located outside the country of employment pursuant to United States Government authorization and suffers a medical emergency.

855 Funds Available on Reimbursable Basis—Funds availability to an agency for payment of pay to or for the accounts of employees of the agency are available on a reimbursable basis for payment of pay to or for the accounts of employees of another agency under this chapter.

APPENDIX E: AGENCY RESPONSE TO THE PRELIMINARY REPORT



MEMORANDUM

To: Joaquin Ferrao, Acting Inspector General

Through: Emily Haimowitz, Chief Compliance Officer

From: James Wilson, Chief Human Capital Officer

JAMES WILSON Digitally signed by JAMES WILSON

Date: 2022.11.15 04:51:19 -

05'00'

Signature

VIQUAR AHMAD Digitally signed by VIQUAR AHMAD

Viquar Ahmad, Chief Financial
Officer

Date:

2022.11.15 08:43:06 -05'00'

Signature

Date: November 14, 2022

CC: Carol Spahn, Chief Executive Officer
Thomas Peng, Deputy Chief Executive Officer
Lauren Stephens, Chief of Staff
Carl Sosebee, Senior Advisor to the Director
Colleen Wallace, Acting General Counsel
Judith Leonhardt, Assistant Inspector General for Audits
Allison Blotzer, Deputy Chief Financial Officer
Paul Shea, Senior Advisor, Office of Chief Financial Officer
Mia Dye, Expert, Financial Policy and Compliance
Victoria Rubinstein, Division Chief, Quality Control & Compliance, OHR
Stephanie Harris, Division Chief, Payroll and Benefits, OHR
Katie Downes-Angus, Compliance Accountability Officer
Gregory Yeich, Compliance Officer

Subject: Agency Response to the Preliminary Audit Report on The Peace Corps' Management of Payroll and Benefits for U.S. Direct Hires (Project No. 20-AUD-05)

Thank you for the opportunity to respond to this preliminary audit report from the Office of Inspector General (OIG). Enclosed please find the agency's response to the recommendations made by the Inspector General as outlined in the OIG's Preliminary Audit Report on The Peace Corps' Management of Payroll and Benefits for U.S. Direct Hires (Project No. 20-AUD-05) sent to the agency on September 20, 2022.

The Office of Human Resources (OHR) and the Office of the Chief Financial Officer (OCFO) prioritize the accuracy of its payroll and benefits work. The agency has developed and implemented several processes to ensure staff's payroll and benefits are made accurately and timely. The agency will continue reviewing and improving its processes to mitigate future errors when possible.

Recommendation 1

That the Peace Corps develop mitigating strategies for deficiencies in National Finance Center systems while completing the Office of Human Resources risk register.

Concur

Response: At the end of Fiscal Year 2022, the Peace Corps completed the development of risk registers for all agency offices, including OHR. As part of this agency-wide effort, OHR's risk register was completed in July 2022. OHR will review its risk register to ensure it includes recently identified risks and any necessary plans for managing and monitoring the risk to mitigate deficiencies, as needed.

Documents to be Submitted:

- OHR's Risk Register
- Narrative Explanation of Risk Registers

Status and Timeline for Completion: November 2022

Recommendation 2

That the Chief Human Capital Officer ensure approximately \$1,550 in salary overpayments due to incorrect locality rates are resolved by issuing Administrative Billings and Collections bills and/or request waiver approvals from the Chief Financial Officer.

Concur

Response: OHR will review salary overpayments due to incorrect locality rates and verify whether corrections have been processed through NFC transactions. If corrections were not processed, OHR, the Office of Chief Financial Officer (OCFO), and Office of the General Counsel (OGC) will determine if formal waiver(s) should be issued from the Chief Financial Officer (CFO) or if collection action should be initiated.

Documents to be Submitted:

- Payroll corrections, if applicable
- Initial waiver determination from OHR, subsequent waiver determination from OCFO and OGC, if required
- Approved waiver decision memo, if required
- Issued bill of collection, if required x
- Resolution for bill of collection, if required

Status and Timeline for Completion: March 2023

Recommendation 3

That the Chief Human Capital Officer issue retroactive locality payments to the three underpaid individuals for approximately \$4,383.

Concur

Response: OHR will review the locality underpayments for the individuals identified. OHR will verify if reimbursements have been processed through an NFC transaction. If reimbursements were not processed, the agency will apply due diligence to ensure these individuals receive reimbursement.

Documents to be Submitted:

- Earnings and Leave Statements displaying the net adjustments for each individuals, if applicable
- Reimbursements or voucher for retroactive locality payments, if applicable

Status and Timeline for Completion: March 2023

Recommendation 4

That the Chief Human Capital Officer and Office of Chief Financial Officer establish a process to review and reconcile retroactive adjustments to ensure that the correct amounts are reflected in the payroll transactions.

Concur

Response: OHR and OCFO will collaborate on the development of a process to review and reconcile retroactive adjustments, including a list of identified processing errors. On a monthly basis, OHR will provide OCFO with the list of identified processing errors related to retroactive adjustments. OCFO will review the list from OHR to ensure the retroactive adjustments are accurately reflected in OCFO's General Ledger postings.

Documents to be Submitted:

- List of Processing Errors
- OHR Retroactive Adjustment SOP
- Updated Payroll Cycle Memo

Status and Timeline for Completion: March 2023

Recommendation 5

That the Chief Human Capital Officer ensures that human resources management staff are trained to research errors that need retroactive adjustments.

Concur

Response: Beginning in Quarter 3 (Q3) of Fiscal Year (FY) 2023, Q3 OHR's Payroll and Benefits (PB) team will conduct mandatory "Lunch-and-Learns" trainings for all relevant OHR staff on researching errors that require retroactive adjustments. These trainings will be held on a quarterly basis, and for onboarding new staff as needed.

Documents to be Submitted:

- Lunch-and-learn training presentations
- Attendee list from lunch-and-learn training
- Annual plan for lunch-and-learn sessions

Status and Timeline for Completion: July 2023

Recommendation 6

That the Chief Human Capital Officer ensures that the standard operating procedures for Position Management System Online are updated to include the review of duty station codes when employees are promoted.

Concur

Response: Currently, OHR is considering an Inter-Agency Agreement (IAA) to utilize a new Position Management System Online. In the interim, OHR will conduct an audit of a sample of data to ensure that employees are in the correct duty station.

Documents to be Submitted:

- Finalized IAA, if applicable
- Summary report of the results of the sampled data of employee duty stations

Status and Timeline for Completion: June 2024

Recommendation 7

That the Chief Human Capital Officer ensures that the salary advance for \$18,000 is collected.

Concur

Response: At the beginning of Pay Period (PP) 10 in Calendar Year (CY) 2022, OHR came to an agreement with the employee at the center of this recommendation to repay the salary advance of \$18,000 through payroll deductions. The employee began repayment through payroll deductions beginning with PP 10 in CY 2022 and will continue repayment via payroll deductions until the salary advance is fully paid off. The agreement with the employee states the salary advance will be paid off over the course of 18 pay periods.

Documents to be Submitted:

- Approved Repayment Agreement
- Earnings and Leave Statements for employee

Status and Timeline for Completion: February 2023

Recommendation 8

That the Chief Human Capital Officer ensure Office of Human Resources staff are trained on the policies and procedures for advance payments and collections.

Concur

Response: The OHR Payroll and Benefits (PB) team acknowledges the repayment of one individual employee's salary advance was not properly collected during the scope of the OIG's review. To address the intent of the OIG's finding, all staff of the PB team will meet to review OHR's existing standard operating procedures on salary advances to ensure proper procedures are followed moving forward.

Documents to be Submitted:

- Meeting agenda
- Meeting training presentation, if applicable
- Meeting attendee list

Status and Timeline for Completion: March 2023

Recommendation 9

That the Senior Policy Committee and Office of Chief Financial Officer update the waiver process to allow for increased transparency in the approval process timeline, require that waiver justifications have accurate waiver amounts, and document how the bill was ultimately resolved.

Concur

Response: The OCFO will draft revisions to relevant Peace Corps (PC) Manual Sections, including MS 777 and MS 778, pertaining to waiver authority and specific waiver policy for payroll transactions. Those revisions will go through the Agency’s formal policymaking process for approval, which begins with the consideration of the Senior Policy Committee. If approved through the Agency’s policymaking process, the revisions will be promulgated into the Peace Corps Manual. The OCFO will prepare waiver procedures in support of the policy revisions. The procedures will be contained in the Domestic Financial Management Handbook.

Documents to be Submitted:

- Updated Relevant PC Manual Section(s)
- Updated OCFO SOP (Collections & Waivers)
- Updated Relevant Domestic Financial Management Handbook (DFMH) Section(s)
- Updated Payroll Cycle Memo

Status and Timeline for Completion: October 2023

Recommendation 10

That Office of Chief Financial Officer develop a report to track payroll bills, collections, and waivers to properly account for improper payments for payroll transactions.

Concur

Response: The OCFO and OHR will collaborate to develop a report to track payroll bills, collections, and waivers to properly account for improper payments for payroll transactions. On a monthly basis, OCFO will analyze the report to account for improper payments in payroll transactions, such as errors, advance salary payments, collections activity, and the current advance/receivable balance. The OCFO will verify balances are accurately reflected in Odyssey.

Documents to be Submitted:

- Improper Payment for Payroll Transactions Report
- Updated OCFO SOP (Collections & Waivers)
- Updated OCFO SOP (Improper Payments)

Status and Timeline for Completion: December 2023

Recommendation 11

That the Chief Financial Officer and Office of General Counsel determine a resolution for the 18 unauthorized waivers.

Concur

Response: The OHR, OCFO and OGC will review the 18 unauthorized waivers. Following the review, the OCFO and OGC will determine if formal waivers should be issued from the CFO or if collection actions should be initiated.

Documents to be Submitted:

- Approved waivers, if required
- Determination by OCFO and GC, if applicable
- Issued bill of collection, if required
- Resolution of bill of collection, if required

Status and Timeline for Completion: April 2023

Recommendation 12

That the Chief Human Capital Officer ensure employees receive appropriate retroactive compensation for delayed within grade increases totaling approximately \$13,011.

Concur

Response: OHR will review the delayed within grade increases identified. OHR will verify if reimbursements have been processed through NFC transactions. If reimbursements were not processed, the agency will apply due diligence to ensure these individuals receive reimbursement.

Documents to be Submitted:

- Earnings and Leave Statements displaying the net adjustments for each individuals, if applicable
- Reimbursements or voucher for delayed within grade increases, if applicable

Status and Timeline for Completion: March 2023

Recommendation 13

That the Chief Human Capital Officer ensure that the employee is billed, or a Chief Financial Officer approved waiver is processed for the within grade salary overpayments totaling approximately \$3,880.

Concur

Response: OHR will review within grade salary overpayments of the employee identified and verify corrections have been processed through NFC transactions. If corrections were not processed, OHR, OCFO, and OGC will determine if formal waiver(s) should be issued from the Chief Financial Officer or if collection action should be initiated.

Documents to be Submitted:

- Payroll corrections, if applicable
- Initial waiver determination from OHR, subsequent waiver determination from OCFO and GC, if required
- Approved waiver decision memo, if required
- Issued bill of collection, if required
- Resolution for bill of collection, if required

Status and Timeline for Completion: March 2023

Recommendation 14

That the Chief Human Capital Officer ensure that staff are trained to review suspense reports to detect errors and administer timely corrective action.

Concur

Response: Beginning in Q3 of FY23, OHR’s PB team will conduct mandatory “Lunch-and-Learn” trainings for all relevant OHR staff on reviewing suspense reports to detect errors and administer corrective actions. The trainings will be held on a quarterly basis, and for onboarding new staff as needed.

Documents to be Submitted:

- Lunch-and-learn training presentations
- Attendee list from lunch-and-learn training
- Annual plan for lunch-and-learn sessions

Status and Timeline for Completion: March 2023

Recommendation 15

That the Chief Human Capital Officer establish and implement procedures to detect and prevent clerical errors from on-boarding, processing re-assignments, and multiple personnel actions that could affect other areas such as within grade increases.

Concur

Response: OHR’s Staffing and Recruitment will review and revise their SOP(s) to further detect and prevent clerical errors from (1) employee onboarding, (2) processing reassignments, and (3) other personnel actions, where necessary. The SOP(s) will be distributed to necessary OHR staff through email and mandatory training will be provided through a future “Lunch-and-Learn” conducted by OHR.

Documents to be Submitted:

- Updated OHR SOP(s) (Personnel Actions)
- Email disseminating updated SOP(s) to staff
- Lunch-and-learn training presentations
- Attendee list from initial lunch-and-learn training

Status and Timeline for Completion: December 2023

Recommendation 16

That Chief Human Capital Officer ensure that the Peace Corps policy is implemented to retain pertinent records, such as recruitment actions, whenever human resource systems are changed or updated.

Concur

Response: OHR is completing its records plan with the Records Management office in the Office of Management, which includes a records retention schedule. This OHR records plan will be consistent with the Agency's records management policy, Peace Corps Manual Section 892 *Records Management* and with government-wide records retention standards and requirements.

Documents to be Submitted:

- Updated Records Plan
- Email communicating Records Plan to appropriate OHR staff

Status and Timeline for Completion: March 2023

Recommendation 17

That Office of Chief Financial Officer develop reports using data received from payroll files to assist with resolving discrepancies such as employee's names, social security numbers, pay period covered dates, and individual transaction amounts.

Concur

Response: The OCFO will review and update existing Odyssey payroll reports to determine the additional information that can be added to enhance error identification and resolution. OHR will use the updated Odyssey payroll report to ensure accurate reconciliation.

Documents to be Submitted:

- Improved Odyssey Payroll Detail and Reconciliation Report
- Updated Payroll Cycle Memo

Status and Timeline for Completion: December 2023

Recommendation 18

That Office of Chief Financial Officer ensure journal vouchers are timely processed to be included in the monthly reconciliation process.

Concur

Response: The OCFO will update the Payroll SOP and Payroll Cycle Memo to reflect new report elements and additional reconciliation procedures, including timely processing of journal vouchers.

Documents to be Submitted:

- Updated Payroll Cycle Memo
- Updated OCFO Payroll SOP
- Update to OCFO Month-end close calendar

Status and Timeline for Completion: December 2023

Recommendation 19

That Office of Chief Financial Officer establish and implement a process to review, reconcile, and resolve discrepancies identified during the three-way reconciliation process between National Finance Center reports, Treasury, and the general ledger.

Concur

Response: The OCFO will update the Payroll SOP and Payroll Cycle Memo to reflect new report elements and additional reconciliation procedures. If identified discrepancies are not resolved by month end, the discrepancies will be tracked by OCFO separately as action items to resolve in the subsequent month.

Documents to be Submitted:

- Updated Payroll Cycle Memo
- Updated OCFO Payroll SOP
- Update to OCFO Month-end close calendar

Status and Timeline for Completion: December 2023

Recommendation 20

That Office of Chief Financial Officer document the monitoring process in a standard operating procedure that records the process and assigns accountability for reconciling, recording and correcting errors during the monthly reconciliation.

Concur

Response: The OCFO will update the Payroll SOP and Payroll Cycle Memo to reflect new report elements, roles/responsibilities, and additional reconciliation procedures. If identified

discrepancies are not resolved by month end, the discrepancies will be tracked by OCFO separately as action items to resolve in the subsequent month.

Documents to be Submitted:

- Updated Payroll Cycle Memo
- Updated OCFO Payroll SOP
- Update to OCFO Month-end close calendar

Status and Timeline for Completion: December 2023

Recommendation 21

That Office of Chief Financial Officer and Chief Human Capital Officer develop and implement a process to track all unresolved errors, investigate, and record corrective actions.

Concur

Response: The OCFO and OHR will develop and implement a process that tracks unresolved errors, as well as investigates errors and records corrective actions. This process will reflect new report elements and additional reconciliation procedures. If identified discrepancies are not resolved by month end, the discrepancies will be tracked by OCFO separately as action items to resolve in the subsequent month.

Documents to be Submitted:

- Updated Payroll Cycle Memo

Status and Timeline for Completion: December 2023

Recommendation 22

That Chief Human Capital Officer and Office of Chief Financial Officer reconcile charges totaling approximately \$135,612 with National Finance Center to determine if the two payments (\$97,780 and \$37,832) were allowable and request a correction if they are unallowable.

Concur

Response: The OCFO, OHR, and OGC will determine if the two payments were allowable and take appropriate corrective action if they were not allowable.

Documents to be Submitted:

- Initial determination from OHR, subsequent determination from OCFO and GC, if required
- Documentation for reconciled allowable charges, as appropriate
- Documentation for correction(s) for any unallowable charges, if necessary

Status and Timeline for Completion: July 2023

Recommendation 23

That the Office of Chief Financial Officer develop and implement a process to reconcile variances in employees' payroll to detect unusual transactions.

Concur

Response: The OCFO and OHR will develop and implement a methodology and reporting mechanism to identify payroll variances. On a monthly basis, OHR will provide OCFO with a list of identified processing errors or unusual transactions related to variances in employees' payroll. The OCFO will determine if the processing errors or unusual transactions are accurately reflected in the OCFO General Ledger postings.

Documents to be Submitted:

- OCFO and OHR methodology and reporting mechanism
- Updated Payroll Cycle Memo
- Updated OCFO Payroll SOP

Status and Timeline for Completion: December 2023

Recommendation 24

That Chief Human Capital Officer and Office of Chief Financial Officer bill, request CFO approval to waive, or collect the unallowable payments hazard pay totaling \$710 and health benefits paid by the agency for \$569.

Concur

Response: The employees referenced in this recommendation were separated from the agency in 2014 and 2016. OHR will review the unallowable payments for hazard pay and health benefits and verify whether corrections have been processed through NFC transactions. If corrections were not processed, OHR, OCFO, and OGC will determine if formal waiver(s) should be issued from the CFO or if collection action should be initiated.

Documents to be Submitted:

- Payroll corrections, if applicable
- Initial waiver determination from OHR, subsequent waiver determination from OCFO and GC, if required
- Approved waiver decision memo, if required
- Issued bill of collection, if required
- Resolution for bill of collection, if required

Status and Timeline for Completion: March 2023

Recommendation 25

That the Chief Human Capital Officer develop check lists or frequently asked questions that could assist new staff or supervisors when assessing the appropriate retirement rates and categories.

Concur

Response: OHR will provide a retirement rate and category checklist to HR specialists to assist them with determining the appropriate retirement tiers.

Documents Submitted:

- Retirement Determination Coverage Tables
- Retirement Checklist
- Email communicating the checklist to HR Specialists

Status and Timeline for Completion: January 2023

Recommendation 26

That the Chief Human Capital Officer ensure the incorrect retirement categories are changed and retroactively adjusted for 35 employees.

Concur

Response: OHR has changed and retroactively adjusted the retirement categories for 33 of the 35 employees. OHR has submitted waivers for the two remaining employees and is awaiting decision on these waivers.

Documents Submitted:

- Documentation supporting that retirement categories for 33 employees have been changed and retroactively adjusted
- Approved waivers for remaining two employees

Status and Timeline for Completion: January 2023

Recommendation 27

That the Chief Human Capital Officer ensure approximately \$48,501 in salary overpayments for retirement are resolved by issuing Administrative Billing and Collection bills and/or requesting waiver approvals from the Chief Financial Officer.

Concur

Response: OHR will review the salary overpayments for retirement and verify whether corrections have been processed through NFC transactions. If corrections were not processed, OHR, OCFO, and OGC will determine if formal waiver(s) should be issued from the CFO or if collection action should be initiated.

Documents to be Submitted:

- Payroll corrections, if applicable
- Initial waiver determination from OHR, subsequent waiver determination from OCFO and GC, if required
- Approved waiver decision memo, if required
- Issued bill of collection, if required
- Resolution for bill of collection, if required

Status and Timeline for Completion: June 2023

Recommendation 28

That the Chief Human Capital Officer ensure employees that were over charged approximately \$153,738 in retirement deductions receive refunds.

Concur

Response: OHR will review over charges in retirement deductions for the individuals identified. OHR will verify if reimbursements have been processed through NFC transaction. If reimbursements were not processed, the agency will apply due diligence to ensure these individuals receive reimbursement.

Documents to be Submitted:

- Earnings and Leave Statements displaying the net adjustments for each individual, if applicable
- Reimbursements or voucher for retroactive locality payments, if applicable

Status and Timeline for Completion: June 2023

Recommendation 29

That the Chief Human Capital Officer review the accuracy of the refunds already issued to employees and make necessary corrections.

Concur

Response: OHR is confident in the process it used to ensure the accuracy of refunds. However, in an abundance of caution, OHR will review the ten refunds issued for accuracy and issue additional refunds, as needed.

Documents to be Submitted:

- Accuracy analysis of issued refunds
- Documentation for additional refunds, as needed

Status and Timeline for Completion: June 2023

Recommendation 30

That the Chief Human Capital Officer and Office of Chief Financial Officer ensure agency contribution rates were accurately adjusted to reflect retroactive corrections for approximately \$79,473 in underpayments and \$33,217 in overpayments.

Concur

Response: OCFO and OHR will review agency contribution rates and adjust as needed to reflect retroactive corrections. OCFO, OHR and GC will determine if formal waiver(s) should be issued from the CFO or if collection actions should be initiated.

Documents to be Submitted:

- Initial waiver determination from OHR or subsequent waiver determination from OCFO and GC, if required
- Approved waiver decision memo, if required
- Issued Bill of Collection, if required
- Resolution for Bill of Collection, if required

Status and Timeline for Completion: June 2023

APPENDIX F: OIG RESPONSE TO AGENCY COMMENTS

Management concurred with all 30 recommendations. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. We will close recommendation number 1 based on evidence of corrective actions that address the recommendation. The other 29 recommendations remain open pending a copy of documentation listed in the agency's response.

We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities. However, when we feel it is warranted, we may conduct a follow-up review to confirm that action has been taken and to evaluate the impact.

APPENDIX G: AUDIT COMPLETION AND OIG CONTACT

AUDIT COMPLETION

This audit was conducted under the direction of Assistant Inspector General for Audit Judy Leonhardt by Lead Auditors Renita Davis and Hal Nanavati; Senior Auditors John Onyeaku and A'Daris McNeese; and Program Analyst Sam Blurton



OIG CONTACT

If you wish to comment on the quality or usefulness of this report to help us strengthen our product, please contact Assistant Inspector General for Audit Judy Leonhardt at jleonhardt@peacecorpsoig.gov or 202.692.2914.

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