



## OFFICE OF INSPECTOR GENERAL

### MEMORANDUM

**DATE:** December 5, 2005

**TO:** Chairman

**FROM:** Inspector General

**SUBJECT:** Report on Audit of the Federal Communications Commission's Payroll Management and Financial Controls

We have conducted an audit of the Commission's payroll management and financial controls as part of our annual audit plan. We initiated this audit to review and test the payroll process at the FCC.

The primary objective of the audit was to determine and report on compliance with applicable laws and regulations and policies and procedures. Specific audit objectives included:

- Documenting our understanding of all phases of the payroll process and key internal controls over payroll and related areas;
- Testing key controls in operation and ensure transactions recorded in the payroll system are supported by appropriate pay-affecting documents and that costs are charged to the right program;
- Determining whether clear and distinct separation of duties are in place throughout all phases of the process;
- Performing separate tests on leave and earnings data;
- Assessing the risk of errors or other problems in recording, reviewing and reconciling payroll transactions; and
- Performing other testing as necessary.

For each audit finding, we assigned a control risk level classified as one of the following: High, Moderate, or Low consistent with GAO/PCIE's *Financial Audit Manual* (FAM) definitions. These risk levels are defined as follows:

**Low Risk:** Existing controls will prevent or detect any aggregate misstatements that could occur in the management assertion in excess of design materiality.

**Moderate Risk:** Existing controls will more likely than not prevent or detect any aggregate misstatements that could occur in the management assertion in excess of

design materiality.

**High Risk:** Existing controls will more unlikely than likely prevent or detect any aggregate misstatements that could occur in the management assertion in excess of design materiality.

Overall, we determined FCC is not in substantial compliance with established policies and procedures, and lacks effective monitoring activities to ensure compliance with applicable laws and regulations. Even though we noted several observations relating to personnel and payroll process that we consider as positive, we identified several non-compliances with FCC policies and procedures and compiled them into fourteen (14) reportable conditions. We assigned a control risk level of "High" to one (1) and "Moderate" to thirteen (13) of the reportable conditions. We also made recommendations for improvement for each condition.

Our audit was planned to include steps to provide reasonable assurance that material instances of noncompliance, which directly relate to the payroll process, are detected and reported. In accordance with the definitions in the GAO Policy titled *Assessing Compliance with Applicable Laws and Regulations*, most of the exceptions noted were mainly attributed to "Errors" defined as "Unintentional non-compliance with applicable laws and regulations and/or misstatement or omissions of amounts or disclosures in financial statements".

In their November 3, 2005 response to the audit findings, FCC management agreed with twelve (12) and partially agreed with two (2) of the findings. We consider management's responses to be adequate.

We would also like to thank FCC management and staff for the courtesy and cooperation extended to the audit team. Should you or your staff have any questions, please contact Steven Rickrode, Assistant Inspector General for Audit, or me at (202) 418-0470.



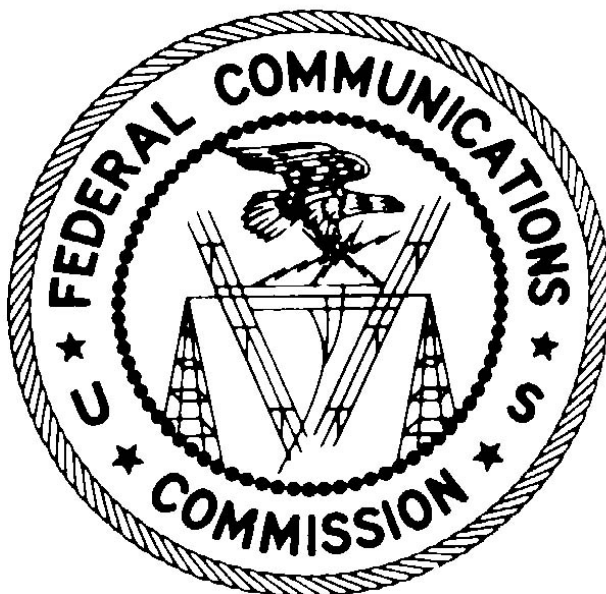
H. Walker Feaster III

cc: Chief of Staff  
Managing Director  
Chief Human Capital Officer  
PERM

Attachment

# **FEDERAL COMMUNICATIONS COMMISSION**

**OFFICE OF INSPECTOR GENERAL**



Report on Audit of the Federal Communications Commission  
Payroll Management & Financial Controls

Audit Report No. 04-AUD-10-22

December 5, 2005

Report on Audit of the Federal Communications Commission  
Payroll Management & Financial Controls

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## **EXECUTIVE SUMMARY**

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- Documenting our understanding of all phases of the payroll process and key internal controls over payroll and related areas;
- Testing key controls in operation and ensure transactions recorded in the payroll system are supported by appropriate pay-affecting documents and that costs are charged to the right program;
- Determining whether clear and distinct separation of duties are in place throughout all phases of the process;
- Performing separate tests on leave and earnings data;
- Assessing the risk of errors or other problems in recording, reviewing and reconciling payroll transactions; and
- Performing other testing as necessary.

Overall, we determined FCC is not in substantial compliance with established policies and procedures, and lacks effective monitoring activities to ensure compliance with applicable laws and regulations. Even though we noted several observations relating to personnel and payroll process that we consider as positive, we identified several non-compliances with FCC policies and procedures and compiled them into fourteen (14) reportable conditions. We assigned a control risk level of "High" to one (1) and "Moderate" to thirteen (13) of the reportable conditions. We also made recommendations for improvement for each condition.

In their November 3, 2005 response to the audit findings, FCC management agreed with twelve (12) and partially agreed with two (2) of the findings. We consider management's responses to be adequate.

Our audit was planned to include steps to provide reasonable assurance that material instances of noncompliance, which directly relate to the payroll process, are detected and reported. In accordance with the definitions in the GAO Policy titled *Assessing Compliance with Applicable Laws and Regulations*, most of the exceptions noted were mainly attributed to "Errors" defined as "Unintentional non-compliance with applicable laws and regulations and/or misstatement or omissions of amounts or disclosures in financial statements".

## **BACKGROUND**

In its survey of the Commission's Flexible Workplace Schedule Time and Attendance (T&A) reporting in fiscal year 2004, the Federal Communications Commission (FCC) Office of Inspector General (OIG) determined that an audit of the FCC's payroll management and financial controls should be performed.

The survey was the preliminary audit work done before an audit and was not an audit conducted in accordance with Government Auditing Standards (i.e., GAO “Yellow Book” standards). The purpose of the survey was to gather general working information on important aspects of an entity, activity or program, and to determine the nature and extent of any subsequent audit effort. This included testing the Flexible Work Schedule policies and procedures, and FCC employees’ compliance with those procedures. The survey results noted discrepancies with the Commission’s time reporting policies and procedures, and numerous instances of employee non-compliance with the FCC’s Flexible Workplace policies. Accordingly, the OIG determined that an examination of the Commission’s payroll management and financial controls was warranted.

As of February 28, 2005, FCC’s fiscal year (FY) to date payroll costs amounted to \$91.24 million or a monthly average of \$18.24 million with 1,945 total employees. In FY 2004, monthly payroll costs amounted to \$18.58 million, (\$223 million for the year) or 81.6% of the total salaries and expense appropriation. The payroll process therefore is a significant aspect of FCC operations.

The Human Resources Management (HRM) Division of the FCC is headed by an Associate Managing Director who is responsible for the overall direction of Commission programs related to management of human resources, administration of personnel management, maintenance of payroll and personnel record systems, and employee assistance. The division has four service centers: Recruitment and Staffing Service Center, Payroll and Benefits Service Center, Labor Relations and Performance Management Service Center, and Learning and Development Service Center. Only two of the service centers, the Recruitment and Staffing Services Center, and the Payroll and Benefits Center generate activities that significantly impact the payroll process and net costs. Other units involved in the payroll process include FCC’s Financial Systems Operations Group (FSOG), the National Finance Center (NFC), who prepares and pays salaries on behalf of FCC, and the National Business Center, who ensures payroll transactions are recorded in FCC’s general ledger system, Federal Financial System (FFS).

In fiscal year 2003, the internal control report<sup>1</sup> upgraded all prior payroll findings to reportable conditions from previous management letter comment classifications. Under standards issued by the American Institute of Certified Public Accountants (AICPA), reportable conditions are matters coming to the auditor’s attention relating to significant deficiencies in the design or operation of internal control that, in their judgment, could adversely affect the agency’s ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. This condition was repeated in the fiscal year 2004 internal control report. FCC management indicated that a number of initiatives have been implemented by management to address the findings, including: contracting the services of an outside contractor to conduct audits for all FCC employees identified with leave discrepancies and performing periodic reconciliations between the systems. In addition, management stated that HRM reviews bi-weekly error reports and works with timekeepers, employees, and supervisors to immediately correct errors that occur after the audits are performed.

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<sup>1</sup> OIG Audit Report No. 03-AUD-05-07, *Report on the Federal Communications Commission Fiscal Year 2003 Financial Statements*, dated December 19, 2003.

HRM has implemented a number of policies and procedures to facilitate the achievement of division goals and objectives. Some of the major policies and procedures documented in various manuals are: the *FCC Employee Handbook*; *Guide to Processing Personnel Actions*; *Supervisor's Handbook on Administering Leave and Alternative Work Schedules*; *Procedures for Processing Payroll Rejects*; *Pay, Leave, T&A Manual*; and *FCC Personnel Manual-Disciplinary Actions*. Also, as a Federal agency, FCC is required to comply with various laws and regulations, circulars and guidelines issued by the Office of Management and Budget, the General Accounting Office (GAO), and the Office of Personnel Management (OPM). Some of the payroll related laws and regulations the FCC is expected to comply with are as follows:

- Civil Service Reform Act of 1978, as amended;
- Fair Labor Standards Act of 1938;
- Civil Service Retirement Act of 1930;
- Federal Employees Health Benefits Act of 1959;
- Federal Employees Group Life Insurance Act of 1980;
- Federal Employees Compensation Act; and
- Pay and Allowance System for Civilian Employees.

In addition, the Joint Financial Management Improvement Program (JFMIP) on federal financial management systems provided minimum standards for a human resources and payroll system. Based on an interview with HRM management, with the exception of the payroll process handled by NFC, the above JFMIP System Requirement for HRM has not been fully implemented. Additionally, there is no current directive to fully implement JFMIP at FCC.

Our audit tests were designed to comply with auditing standards generally accepted in the United States of America and the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## **AUDIT OBJECTIVE AND SCOPE**

OIG contracted with Clifton Gunderson LLP (CG) to document, review and test the payroll process at the FCC. The primary objective of the audit was to determine and report on compliance with applicable laws and regulations and policies and procedures. The specific objectives of the audit as outlined in the task order were to:

1. Document a complete understanding of all phases of the payroll process (including ancillary areas such as leave, taxes, etc.). This understanding should include a review of all existing documentation, reports, etc. and should include required steps from all parties including employees, supervisors, human resources and accounting personnel.
2. Document key internal controls over payroll and related areas.
3. Test key controls in operation and ensure transactions recorded in the payroll system are supported by appropriate pay-affecting documents and that costs are charged to the right program. Also, determine whether clear and distinct separation of duties is in place throughout all phases of the process.

4. Perform separate testing on leave and earnings data, paying particular attention to differences between internal and external sources.
5. Assess the risk of errors or other problems in recording, reviewing and reconciling payroll transactions and performing other testing as necessary.

## AUDIT METHODOLOGY

We conducted interviews with appropriate management personnel in HRM to obtain and document our understanding of the FCC's payroll process phases. In addition, we designed questionnaires relating to management and operation controls and system functionalities. We obtained management responses to the questionnaires in order to confirm compliance with related policies or procedures, laws and regulations, and guidance. We also performed risk assessments by assessing the following internal control interrelated components: control environment; control activities; information and communication; and monitoring, as applicable to HRM.

Based on our understanding of the processes, we identified and documented key internal controls over payroll for each phase. We reviewed the policies and procedures manual and designed our audit tests to verify FCC's compliance with key aspects of the implemented policies and procedures, circulars, and guidelines, as well as applicable laws and regulations. We selected samples from each phase to test compliance and effectiveness of identified key controls. In selecting our sample size for testing, we used CG's sampling control form and determined a sample size of 12 that was applied to each phase. Accordingly, our actual sample size ranged from 5 to 24 items, depending on the nature and type of controls tested within each phase.

We initially communicated to HRM the results of our audit as exceptions and responses received were reviewed to determine their validity as findings. For each finding, in addition to the standard components (such as criteria, condition, effect, and cause as defined in Generally Accepted Government Auditing Standards), we assigned a control risk level classified as one of the following: High, Moderate, or Low consistent with GAO/PCIE's *Financial Audit Manual* (FAM) definitions. These risk levels are defined as follow:

- Low Risk:** Existing controls will prevent or detect any aggregate misstatements that could occur in the management assertion in excess of design materiality.
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- High Risk:** Existing controls will more unlikely than likely prevent or detect any aggregate misstatements that could occur in the management assertion in excess of design materiality.

## AUDIT OBSERVATIONS



Overall, we determined FCC is not in substantial compliance with established policies and procedures, and lacks effective monitoring activities to ensure compliance with applicable laws and regulations. Our audit was planned to include steps to provide reasonable assurance that material instances of noncompliance, which directly relate to the payroll process, are detected and reported. In accordance with the definitions in the GAO Policy titled *Assessing Compliance with Applicable Laws and Regulations*, most of the exceptions noted were mainly attributed to “Errors” defined as “Unintentional non-compliance with applicable laws and regulations and/or misstatement or omissions of amounts or disclosures in financial statements”.

During the audit we noted the following observations relating to personnel and payroll process, which we consider to be positive:

1. The HRM Division operates with the following four centers with each being headed by a Chief: Recruitment and Staffing Service Center, Payroll and Benefits Service Center, Labor Relations and Performance Management Service Center, and Learning and Development Service Center. The specific responsibilities for each center are documented in Performance Evaluations and Records Management’s (PERM’s) functional statements and organizational charts located on FCC’s intranet site.
2. Official Personnel Folders (OPFs) are maintained for all employees as required by OPM.
3. There are policies and procedures manuals for all major personnel and payroll activities. However, most of the manuals have not been updated in a long time. HRM is currently in the process of reviewing the FCC personnel manual and updating documents.
4. Leave audits are now being regularly performed by timekeepers on employee balances that appear on the Leave and Error Report.
5. Procedures for authorizing and processing personnel actions are effectively documented and properly administered.
6. Time and Attendance (T&A) audits are conducted for all separating employees to determine accurate figures for leave balances including annual leave and credit hours used for lump sum computations. In addition, HRM generates TA 2004 report, *Report of All Hours Transmitted*, every pay period. These reports are submitted to the Assistant Bureau Chief for Management, who circulates the report to supervisors to review and report any timekeeping discrepancies to HRM.

Based in inquiry with HRM, FCC finalized implementation of STAR 4.0 in May 2005, pay period 9. STAR 4.0 is a Web-based system used by agencies to prepare, print and transmit T&A reports to NFC for processing. As indicated in the STAR 4.0 manual, because it is a real-time Web-based application, accounting information is validated through the Management Accounting Structure Code System (MASC) as timekeepers enter each line on the T&A. This helps eliminate errors which result in fewer corrected T&As. In addition, the MASC is used to maintain a detailed record for each employee at a specific T&A contact

point. The record contains information relating to the employee's pay plan, work schedule, and other pertinent employee data needed for T&A reporting.

7. The NFC system is integrated into the FFS which minimizes manual intervention.
8. Payroll transactions, including benefits and deductions, are properly classified by object class, recorded, and posted to the respective general ledger accounts. Also, reconciliations are performed on a monthly basis.
9. System ability to generate separated employee reports (CULP99) from the NFC system and missing T&A reports (CULP0013) simultaneously on the Tuesday and Wednesday of the first week of the following pay period facilitates the identification of potential errors to the payroll file.
10. The Financial Systems Operations Group (FSOG) systems accountant researches rejected transactions in FFS due to incorrect project codes in a timely manner to enable posting of payroll transactions.
11. The FSOG systems accountant reconciles NFC payroll data to FFS every pay period by verifying that the NFC Interface Balance Sheet (NFC provided) amounts agree with the FFS totals generated by the FOCUS programs.

However, we identified several non-compliances with FCC policies and procedures. We compiled these exceptions into the following 14 conditions (details are provided in Appendix 1):

1. Poor controls over termination of separated employees' network access;
2. Errors in completing cost accounting worksheets;
3. Errors in completing and certifying T&A reports;
4. Errors in documentation and authorization of leave taken;
5. Lack of a completed HRM vulnerability assessment;
6. Inadequate controls over correcting invalid project codes;
7. Errors in documenting and authorizing overtime, and paid/compensatory time in lieu of paid overtime;
8. Reported credit hours lacked supporting documentation;
9. Lack of documentation to support leave hours donated by outside agency employees under the leave transfer program;
10. Lack of supporting documentation for compressed work schedules (CWS);

11. Lack of supporting documentation for leave without official pay (LWOP);
12. Lack of documentation for the approval of negative leave;
13. Improper approval to participate in the flexible workplace program; and
14. Ineffective monitoring of leave balances in excess of the allowable leave thresholds.

On November 3, 2005, FCC management provided their formal management comments to the findings detailed in the September 28, 2005 draft audit report. FCC management agreed with twelve (12) findings and partially agreed with two (2) findings. FCC's formal management comments, in their entirety, are provided with this report as Appendix 3. Refer to Appendix 3 for management's detailed responses. We consider management's responses to be adequate.

Our audit of Payroll and Management Financial Controls focused mainly on the following control types: Compliance, Financial, and Operational Controls. These controls are defined as follows:

**Compliance Controls:** A process effected by management and other personnel, designed to provide reasonable assurance that transactions are executed in accordance with: (i) laws governing the use of budgetary authority and other laws and regulations that could have a direct and material effect on the entities financial statements or required supplemental stewardship information; and (ii) any other laws and regulations and government-wide policies identified in OMB audit guidance.

**Financial Controls:** The financial controls provide reasonable assurance that financial events are recorded and reported accurately, timely, and completely in accordance with management assertions. Such controls could prevent or detect material misstatement in financial statement assertions.

**Operational Controls:** Operational controls are management policies and procedures designed to carry out organizational objectives, such as planning, productivity, programmatic, quality, and effectiveness objectives. Operation controls provide reasonable assurance that an organization effectively and efficiently meets its goals.

Overall, we assessed a control risk of “low risk,” “moderate risk,” or “high risk” for each identified finding.

Finding	Control Objective Area	Condition	Risk Levels
PMFC-1	Network Access Control (Management) of Separated Employees	Network accounts of separated employees were not disabled on a timely basis. In fiscal year 2005, our review of the user properties printout for six (6) separated employees showed an average accounts disabling period of 6.5 weeks.	Moderate
PMFC-2	Completion of Cost Accounting Worksheet	Proper completion of the cost accounting worksheet (CAW) as the basis for generating a T&A report was not being enforced. Specifically, we noted, (i) instances of missing CAW, (ii) absence of employees' initials, and (iii) recorded hours on CAWs not agreeing with Form A-489, <i>Time &amp; Attendance (T&amp;A) Report</i> .	Moderate
PMFC-3	Certification of T&A Report	Certification of the T&A reports by supervisors, a significant task in the payroll process, does not meet established criteria for T&A certification. We noted 42% of T&A reports audited lacked one or all of the following required control actions: employee's signature, timekeeper's initials and supervisor's signature.	Moderate
PMFC-4	Leave Authorization and Documentation	Implemented guide for administering different leave types was not strictly enforced. Significant deficiencies noted include: recorded leave not supported by Form SF-71, <i>Request for Leave or Approved Absence</i> , leave date precedes the approved date on the SF-71; and reported hours on T&As were different from hours on Leave and Earnings Statement (LES).	High
PMFC-5	Vulnerability Assessment	As of April 15, 2005, HRM had not performed a vulnerability assessment to identify any of its service centers' or programs'	Moderate

Finding	Control Objective Area	Condition	Risk Levels
		susceptibility to the following: waste, loss, unauthorized use, or misappropriation of funds; resources, property, or other assets; conflict of interest; errors in reports and information; illegal or unethical acts; or other improper activities.	
PMFC-6	Invalid Project Codes Correction	FSOG generates invalid project code reports from FFS and posts corrections to project code E0200 regardless of the correct project code the employee should have charged. In addition, correction by employee or timekeeper is not performed in a timely manner.	Moderate
PMFC-7	Authorization for Paid Overtime and Comp Time in Lieu of Paid Overtime	Form A-42, <i>FCC Authorization for Paid Overtime</i> and Form A-43, <i>FCC Authorization for Compensatory Time in Lieu of Paid Overtime</i> , were not properly completed and authorized by responsible officials in several instances.	Moderate
PMFC-8	Authorization and Documentation of Credit Hours Earned	Credit hours reported on T&As were not always supported by a Form 385, <i>Notice of Credit Hours Earned</i> .	Moderate
PMFC-9	Authorization of Donated Leave Hours	Leave donors from outside agencies do not always provide a copy of approval of their leave hours by their agency. Also FCC Form 100 <i>Leave Transfer Program – Request to Donate Annual Leave, Part B</i> , required from outside agency donors was not completed.	Moderate
PMFC-10	Proper Supporting Documentation for Compressed Work Schedule	No documentation exists to support two employees listed as having Compressed Work Schedules (CWS) based on the List of Employees by their Alternate Work Schedule as of February 16, 2005.	Moderate
PMFC-11	Proper Supporting Documentation for Leave Without Pay (LWOP)	Our audit identified that LWOP reported on T&A reports for seven employees on four different pay	Moderate

Appendix 1  
Summary of Findings

Finding	Control Objective Area	Condition	Risk Levels
		periods does not have supporting approved documentation.	
PMFC-12	Proper Supporting Documentation for the Approval of Negative Leave	FCC could not provide the supporting documents or explanations for employees with a negative leave balance as of March 29, 2005.	Moderate
PMFC-13	Approval to Participate in Flexible Workplace Program	Four employees were listed as participants in the Flexible Workplace Program. The Request and Agreement to Participate in the Flexible Workplace Program had not been properly signed by the designated union official for two of the employees while the last page of the said agreement was not available for the other two employees.	Moderate
PMFC-14	Monitoring of leave balances in excess of allowable threshold.	We identified annual leave balances of some employees in excess of allowable maximum leave carry over balances.	Moderate

## **FINDING PMFC-1**

### **Poor Controls over Termination of Separated Employees Network Access**

#### **Condition:**

Network accounts of separated employees were not disabled on a timely basis. Our examination of the separated employee's report showing dates when their respective network accounts were disabled indicate that it took between two to seven weeks to complete disabling the accounts of six separated employees.

#### **Criteria:**

1. FCC Directive 1479.2, *Computer Security Program*, section 8.4 requires the Bureau/Office Assistant for Management to submit an email to the sign out group announcing a user's intended departure date.
2. Per FCC Directive, 1479.2 pg. 28, "...routine audits of computer systems will ensure that only authorized users have access to the system/information; appropriate levels of access have been authorized and are maintained; and that previously authorized users of a system no longer requiring access are purged."
3. The United States Office of Management and Budget (OMB) Circular No. A-130, *Management of Federal Information Resources*, Appendix III, Security of Federal Automated Information Resources, states:

"Personnel Controls. It has long been recognized that the greatest harm has come from authorized individuals engaged in improper activities, whether intentional or accidental. In every general support system, a number of technical, operational, and management controls are used to prevent and detect harm. Such controls include individual accountability, "least privilege", and separation of duties."

4. GAO's *Standards for Internal Control in the Federal Government* indicates that access to resources and records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration. Further it states that transactions and events should be accurately and timely recorded.

#### **Cause:**

Based on discussions with FCC Information Technology Center (ITC) Customer Care Team management, sign-out procedures were circumvented. This resulted in delays in getting separating employee notifications to the front office.

#### **Effect:**

- (1) Allowing separated employee access to the network violates FCC Directive 1479.2. (2) Access to the network, after separation facilitates the potential to perform unauthorized transactions and enhances ones' capability to commit fraud.



**Recommendation:**

Management should implement procedures to ensure that network accounts of separating employees are finalized before the effective date of separation.

**FINDING PMFC-2**  
**Errors in Completing Cost Accounting Worksheets**

**Condition:**

FCC requirements were not followed when completing the cost accounting worksheet (CAW) required for generating T&A reports. Specifically, we examined 24 CAWs attached to employees' T&A reports and noted the following:

- Five instances of missing CAWs; and
- Ten instances where employee initials and dates were missing on the CAWs.

**Criteria:**

*FCC Supplementary Guidance on T&A Reporting* states: "Each employee is required to complete and submit his or her FCC T&A/CAW together with all supporting documentation to the Timekeeper no later than noon on the last Thursday of the pay period. The employee is responsible for reviewing the CAW for accuracy and completeness. Once the employee has verified the CAW is complete, he/she should initial and date the CAW and submit it to the Timekeeper for entry."

**Cause:**

Based on discussion with HRM management, oversight by respective employees was cited as the primary cause for these deficiencies.

**Effect:**

- Non compliance with FCC implemented policies and procedures;
- Consistent non-compliances may suggest inefficient management which can result in paying unnecessary employee benefits and taxes; and
- Increase potential for unscrupulous people to inflate hours worked without being detected by management.

**Recommendation:**

Management should implement procedures to require compliance with the management policies procedures contained in *FCC Supplementary Guidance on T&A Reporting*.

**FINDING PMFC-3**  
**Errors in Completing and Certifying T&A Reports**

**Condition:**

Completion of T&A reports with their certification by supervisors, a significant task in the payroll process, does not meet established guidelines for certifying T&A reports. Specifically, we noted the following during our examination of 24 T&A reports:

- Eight instances where T&A reports were not initialed by the employee, or a “employee unavailable” stamp was not used on the T&A report when the employee was not available to initial their T&A report;
- Six instances where the timekeeper’s initials were missing on the T&A report; and
- Seven instances where employees’ supervisors did not sign the T&A report.

**Criteria:**

1. FCC *Supplementary Guidance on T&A Reporting* states: (i) each employee is responsible for reviewing the accuracy of his or her own T&A report against their respective CAW and supporting documentation. Upon satisfactory review, the employee should sign the T&A report and return to the timekeeper; (ii) The timekeeper should verify the accuracy of the entry of each employees’ time by comparing the T&A against the employee’s CAW. Upon verification of the accuracy, the timekeeper should sign the T&A report and give to the employee for review; and (iii) In accordance with Part I, section 206, and Part V, Section 203 of the FCC *Pay, Leave, Time and Attendance Manual*, it is the responsibility of the supervisor to certify the accuracy of T&A reports for their employees.
2. Title 6, Chapter 5 of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies* states:
  - a. “The primary responsibility for authorizing and approving T&A transactions generally rests with employees' supervisors, who approve employees' T&A reports. Timekeepers and supervisors must be aware of the work time or absence of employees for whom they are responsible to ensure the reliability of T&A data. To the extent practical, changes to employees' normal work schedule should generally be approved prior to the change actually occurring”.
  - b. “All T&A reports and related supporting documents (such as overtime pay authorizations) must be reviewed and approved by an authorized official. Review and approval should be made by the official, normally the immediate supervisor, most knowledgeable of the time worked and absence of the employees involved. Approval of T&A reports and related documents should be based on personal observation, work output, timekeeper verification, checking data against other independent sources, reliance on other controls, or a combination of these methods”.

**Cause:**

Based on discussion with HRM management, oversight by respective employees, timekeepers, and supervisors were cited as the primary causes for these deficiencies.

**Effect:**

- Non compliance with FCC implemented policies and procedures;
- Consistent non-compliance may suggest inefficient management and inefficient management can result in unnecessary employees, benefits and taxes being paid;
- Management information may be inaccurate; and
- There is the possibility of the timekeeper recording employee hours worked that have not been properly authorized. Timesheet approved without the proper authorization and supervisors not detecting the error during their review will decrease the reliability of payroll records.

**Recommendations:**

1. FCC management should enforce time recording controls. To reduce the number of potential errors, timekeepers and supervisors should focus on the completeness and accuracy of time reported on the T&A reports before certifying a T&A report.
2. Management should implement procedures to enforce compliance with management policies procedures contained in FCC Supplementary Guidance on T&A Reporting.

**FINDING PMFC-4**  
**Errors in Documentation and Authorization of Leave Taken**

**Condition:**

The implemented guide for administering different leave types, which stipulates the authorization procedures and required supporting documentation were not strictly enforced. Specifically, during our audit we examined 24 T&A reports with leave hours and noted the following:

- Four instances of missing SF-71s;
- Four instances where the SF-71 was not authorized by employee's supervisor;
- Three instances where the leave date precedes the approved date on the SF-71;
- Six instances where the leave hours on the CAW was different from the hours reported on the T&A Statement; and
- Eight instances where the leave hours on the T&A report were different from the hours reported on the Leave and Earnings Statement.

**Criteria:**

1. *Handbook on Leave and Alternative Work Schedule*, Section 1 states:

“Request for Leave or Approved Absence, FCC Form 71, must be used for all requests to be excused from duty. Employee may not initial the T&A Report, nor any computer generated print out as a substitute for a correctly prepared and approved FCC Form 71.”

“If the absence is approved by the supervisor, the T&A Clerk will post the number of hours of absence to the T&A Report.”

“The Request for Leave or Approved Absences, FCC Form 71, must be attached to the original T&A report submitted to the payroll section at the end of the pay period, and maintained by the T&A Clerk.”

2. Title 6, Chapter 5 of *GAO Policy and Procedures Manual for Guidance of Federal Agencies* states: “Approval of leave must be made before the leave is taken when practical. If impractical, leave must be approved as soon as reasonably possible after taken.”

**Cause:**

Based on discussion with HRM management, oversight by respective employees and supervisors were cited as the primary causes for these deficiencies.

**Effect:**

Unapproved leave taken may not be recorded resulting in inaccurate leave balances.

**Recommendations:**

1. FCC management should enforce the controls surrounding leave authorization and recording, which is contained in the *Handbook on Leave and Alternative Work Schedule*.
2. To reduce the number of potential errors, timekeepers and supervisors should focus on the completeness and accuracy of time reported on the T&A reports with reference to the approved SF 71, before certifying a T&A report.

**FINDING PMFC-5**  
**Lack of Completed Vulnerability Assessment for HRM**

**Condition:**

HRM has not performed a vulnerability assessment for its service centers' activities or programs in order to identify their susceptibility to the following:

1. Waste, loss, unauthorized use, or misappropriation of funds, resources, property, or other assets;
2. A conflict of interest;
3. Errors in reports and information;
4. Illegal or unethical acts; or
5. Other improper activities.

PERM has issued an information guide on how a vulnerability assessment should be performed.

**Criteria:**

*GAO Standards for Internal Control in the Federal Government* states "Management needs to comprehensively identify risks and should consider all significant interactions between the entity and other parties as well as internal factors at both the entity-wide and activity level...once risks have been identified, they should be analyzed for possible effect".

**Cause:**

Per HRM management, FCC does not have a directive mandating bureaus and offices to perform vulnerability assessments on a regular basis.

**Effect:**

- Management may not be aware of the existence of potential vulnerabilities in their activities or programs.
- Program inefficiencies may not be identified and eliminated in a timely manner.

**Recommendation:**

Office of Managing Director should issue a directive requiring Bureaus and Offices to perform regular vulnerability assessments of their programs and activities that follow the guidelines issued by PERM.

**FINDING PMFC-6**  
**Inadequate Controls Over Correction of Invalid Project Codes**

**Condition:**

FSOG creates an invalid project code spreadsheet report listing the rejected transactions in FFS, which is sent to HRM. To eliminate payroll rejects in FFS, the rejected FFS transactions are posted to project code E0200 regardless of the project code the employee should have charged. It is the responsibility of HRM to notify the employee of the incorrect project code he/she used and to input the correct project code into the NFC system, using a correcting T&A report. Specifically, during our audit we examined 32 reported invalid codes and noted that 30 of the reported invalid project codes were not corrected in a timely manner. For instance an invalid code generated in pay period 25 was not corrected until pay period 2 of the following calendar year. Also, as of pay period 5, some invalid project codes have not been corrected from the previous fiscal year.

**Criteria:**

*GAO Standards for Internal Control in the Federal Government* states “transactions should be accurately recorded in a timely matter”. One of the activities used to accomplish this goal requires performing of reconciliations and putting controls in place to detect errors.

**Cause:**

Per the FCC’s Financial Services Operations Group (FSOG) and HRM management, this finding resulted primarily from:

1. Input errors by timekeepers when entering the employees time and use of incorrect project codes by the employee.
2. FCC does not have an established time frame for an employee to correct invalid time codes.

**Effect:**

Reported costs may be inaccurate and misleading, resulting in unreliable management information for analyzing costs and making informed decisions.

**Recommendation:**

- Enhance T&A System capabilities to reject incorrect codes when entered in the system.
- Management should issue guidance to establish timeframes for employees to correct invalid project code errors.



**FINDING PMFC-7**

**Errors in the Documentation and Authorization of Overtime Paid/Compensatory Time in Lieu of Paid Overtime**

**Condition:**

Completed Forms A-42, *Authorization for Overtime Paid*, and Form A-43, *Authorization for Compensatory Time in Lieu of Paid Overtime*, reported on the T&A reports did not meet established criteria based on the result of 24 items tested.

Our audit disclosed the following instances of non-compliance:

- Seven forms supporting Overtime/Comp time hours reported on the T&A report were missing;
- One incorrect form, Form A-43 was used instead of Form A-42;
- Five forms were not signed by the Assistant Bureau Chief (ABC) for Management;
- Three forms did not have the date signed by the ABC;
- One form did not have the date signed by the supervisor;
- Two forms did not have the date signed by the employee;
- Four forms indicated that the ABC signed for authorizing proposed dates after Overtime/Comp time was taken by the employee;
- Five forms indicated that supervisor signed for authorizing proposed dates after Overtime/Comp time was taken; and
- Two forms showed that the 'Proposed Days and Hours Worked' field (the left side of form) was not completed and signed.

**Criteria:**

1. 1 Part V, Section 100C, *FCC Pay, Leave, Time and Attendance Manual*, requires that where overtime has been required and approved in advance by a Bureau/Office Chief, Commissioner, or designee, for the employee to be compensated, form A-42 should be used to record and report all hours of compensatable overtime worked. This form should be attached to the T&A report and submitted to the Payroll Section.
2. The Instructions for Paid Overtime/Compensatory Time in Lieu Of Paid Overtime requires:
  - (A) Proposed Overtime/Compensatory Hours:
    - (i) Supervisor and employee must indicate the date and hours employee is estimated to work and sign the A-42/A-43.
    - (ii) Assistant Bureau Chief for Management must countersign before work begins.
  - (B) Overtime/Compensatory Hours Actually Worked:
    - (i) Supervisor and employee must document actual date and hours worked and sign the A-42/A-43.
    - (ii) Assistant Bureau Chief for Management must countersign.
3. Title 6, Chapter 5 of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies* states:

- (A) “Approval must be granted for overtime before the work has been performed when feasible and, when not feasible, as soon as possible after the work has been performed. Care must be taken to distinguish between regular overtime and irregular overtime or occasional overtime (or compensatory time in lieu of overtime, where allowed) in order for the agency to properly document and calculate an employee's overtime pay entitlements under title 5 of the U.S. Code (5 U.S.C. chapters 55 and 61) and the Fair Labor Standards Act (29 U.S.C. 201 et seq.)”.
- (B) “The official most knowledgeable of the time worked should approve any overtime or compensatory time. Care should be taken (1) to ensure that the overtime was approved, preferably in advance, and (2) that the amount and time of overtime (regular or irregular), credit hours, and compensatory time are accurately recorded”.

**Cause:**

HRM management cited the lack of appropriate oversight of respective employees and supervisors for these instances of non-compliance.

**Effect:**

- Unauthorized overtime may be paid without being detected.
- Weak controls may lead to an increase in the rate of irregularities and increase the potential for fraud.
- Consistent non-compliance with established policies and procedures may suggest inefficient management and which can result in unnecessary employee pay, benefits and taxes being paid.

**Recommendation:**

HRM should issue a memorandum to emphasize that timekeepers and supervisors must follow the documentation requirements contained in *FCC Pay, Leave, Time and Attendance Manual* for requesting, authorizing, and approving overtime paid/compensatory time in lieu of paid overtime.

**FINDING PMFC-8**  
**Reported Credit Hours Lacked Supporting Documentation**

**Condition:**

Form A-385, *Notice of Credit Hours Earned*, supporting credit hours reported on the T&A report for two employees could not be provided.

**Criteria:**

FCC requires its employees to complete a Form A-385 whenever credit hours are earned.

**Cause:**

HRM management cited the lack of appropriate oversight by the respective employees for the missing forms.

**Effect:**

- Unauthorized credit hours may be recorded without being detected.
- Lack of supporting documentation for official actions may indicate weak management, which may lead to overall low productivity.

**Recommendation:**

Management should develop procedures to enforce compliance with management policies and procedures contained in FCC Supplementary Guidance on T&A Reporting.

**FINDING PMFC-9**

**Lack of Documentation to Support Leave Hours Donated by Outside Agency Employees Under the Leave Transfer Program**

**Condition:**

- For three out of five employees examined, leave donors from outside the agency did not complete a Form FCC-100 Part B to accompany their agency's donation form.
- For two out of five employees examined, confirmation of donor's leave hours from outside the agency did not accompany Form FCC-100 Part B.

**Criteria:**

OPM requires agencies to complete a Form 630B *Request to Donate Annual Leave or Transfer of Donated Leave Hours* by an employee to a Leave recipient (outside agency).

**Cause:**

HRM management stated that policies and procedures were not effectively enforced by the Commission.

**Effect:**

- Leave hours may be successfully transferred by an employee who does not have outstanding leave hours; thereby the objective of the program may not be achieved;
- An outside agency employee with insufficient transferable hours may successfully transfer leave hours to an FCC recipient;
- Transferred hours may not have an audit trail; and
- Lack of supporting documentation for official actions may indicate inefficient management, which may lead to overall low productivity.

**Recommendation:**

Management should (i) enforce OPM guidelines to enhance effectiveness of the Leave Transfer Program, and (ii) implement programs to reduce unavailability of supporting documents.

**FINDING PMFC-10**

**Lack of Supporting Document for Compressed Work Schedules (CWS)**

**Condition:**

Two employees were listed as having CWS per List of Employees by their Alternate Work Schedule as of February 16, 2005. However, the date of request of each employee in the *Request for Change in Work Schedule or Tour of Duty* (Form A-354) indicated that the employees only had an approved Form A-354 dated April 11, 2005 and April 13, 2005.

**Criteria:**

1. Per FCC policy posted on the Intranet, employees must request a permanent change in tour of duty by completing FCC Form A-354, *Request for Change in Work Schedule or Tour of Duty*, and submitting it to the employee's supervisor. The employees should state why they want to change their tour of duty and when they wish this change to become effective. Employees may elect to switch between the flexible and compressed work schedules, or vice versa, but not more than once per year.
2. Per *Standards for Internal Control in the Federal Government*, control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records, which provide evidence of execution of these activities as well as appropriate documentation. Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.

**Cause:**

Per HRM management, form A-354s that had been completed by both employees a few years ago had been destroyed. The employees subsequently submitted new Form A-354s on April 11, 2005 and April 13, 2005, respectively.

**Effect:**

- Lack of documentation creates difficulty in monitoring whether employees are working during the time periods as specified in the Form A-354;
- Inconsistency in maintaining supporting documents and separating documents based on the purpose of use; and
- Leave taken without approving supporting documentation may indicate inefficient management, which leads to overall low productivity.

**Recommendations:**

1. FCC management should issue policies relating to the maintenance of supporting documents for monitoring purposes.
2. FCC management should also ensure that Form A-354s be maintained to monitor whether employees comply with the time period specified on the form.

**FINDING PMFC-11**

**Lack of Supporting Document for Leave Without Official Pay (LWOP)**

**Condition:**

Our audit identified that LWOP reported on T&A reports for seven employees on four different pay periods does not have supporting approving documents.

**Criteria:**

Per the FCC Employee Handbook, LWOP is an approved absence from duty in a non-pay status and supervisors may grant LWOP of up to 80 hours when the absence will benefit the individual without unnecessarily disrupting the organization.

**Cause:**

HRM management stated that there is no government-wide requirement to approve employees' LWOP.

**Effect:**

- Leave taken without obtaining approval would cause unnecessary disruption of work; and
- Leave taken without approving documentation may indicate inefficient management, which may lead to overall low productivity.

**Recommendation:**

FCC management should ensure that employees use leave with proper approvals. To reduce the risk relating to the disruption of work due to leave taken without proper approvals, an appropriate leave plan for the employee should be prepared, except in emergency situations.

**FINDING PMFC-12:  
Lack of Documentation for the Approval of Negative Leave**

**Condition:**

The annual leave balances of examined employees had negative balances as of March 29, 2005. FCC could not provide the supporting documents or explanations for the negative leave balances.

**Criteria:**

Per the handbook on leave and AWS for non-bargaining unit employees, annual leave is available for use at the beginning of the year in which it is to be earned. Since their entire annual leave accruals are available at the beginning of the leave year for non-bargaining unit employees, advanced annual leave is not applicable. Temporary employees may only be granted leave for the term of their appointment, which is within the leave year.

For bargaining unit employees, earned annual leave shall be granted only for the number of hours accrued through the pay period within which the leave is taken and the employees who wish to request advanced annual leave shall do so in writing. Normally, the completion of an *Application for Leave* (Standard Form 71) which states that advance leave is being requested would be sufficient to constitute a written request for advanced annual leave. Such requests should be approved provided:

- The amount of annual leave requested to be advanced to the employee does not exceed the amount of annual leave that will accrue to the employee during the current leave year;
- The employee will be able to earn the amount of annual leave advanced; and
- Work requirements of the organization to which the employee is assigned will allow the employee to be absent.

**Cause:**

HRM management indicated that employees were granted advanced annual leave.

**Effect:**

- Leave taken without obtaining approval could cause unnecessary disruption of work;
- There would be possibilities to abuse leave; and
- Leave taken without approving supporting documentation may indicate inefficient management, which leads to overall low productivity.

**Recommendations:**

FCC management should ensure that employees use leave with proper approval. To reduce the risk related to the disruption of work due to leave taken without a proper approval, FCC should implement procedures to provide supporting documents for the leave granted in advance to employees. They should also require that an appropriate leave plan be prepared by employees, except in emergency situations.



**FINDING PMFC-13:  
Improper Approval to Participate in the Flexible Workplace Program**

**Condition:**

Four employees were listed as participating in the Flexible Workplace Program (FWP). The *FCC Request and Agreement to Participate in the Flexible Workplace Program* document had not been properly signed by the designated union official for two employees while the last page of the said agreement was not available for the other two employees.

**Criteria:**

In terms of the *Request and Agreement to Participate in the Flexible Workplace Program*, an employee has to submit the duly completed form to the supervisor through a designated National Treasury Employees Union official. The employee has to sign the agreement with their supervisor and designated union official subsequently signing the same document.

**Cause:**

HRM management indicated that there is no requirement for employees on the flexible work schedule to complete a form in order to receive approval to participate in FWP.

**Effect:**

- Lack of documentation creates difficulty in monitoring where the employee is working under the FWP; and
- Lack of proper documentation creates difficulty/delay in decision making by the management.

**Recommendation:**

3. FCC management should also ensure that the *Request and Agreement to Participate in the Flexible Workplace Program* be maintained in order to monitor employee's compliance with the agreement.

**FINDING PMFC-14:  
Ineffective monitoring of leave balances in excess of allowable thresholds.**

**Condition:**

Our audit identified some employees carrying annual leave balances in excess of the maximum leave carry over balances as of end of pay period 1 (January 10, 2005). Management did not provide approved documentation to support leave balance in excess of approved limit.

**Criteria:**

Per the Employee Handbook, federal employees in the GS category are allowed to carryover annual leave up to a maximum of 240 hours while the maximum carry over for SES employees is 720 hours.

**Cause:**

HRM management stated that the leave ceiling for some executives is fixed in excess of the 720 hours.

**Effect:**

- Leave balances approved in excess of the maximum leave allowed may result in violation of policies;
- Potential for abuse of the leave process exists; and
- Leave taken without the supporting approving documentation may indicate inefficient management which could lead to overall low productivity.

**Recommendation:**

FCC management should strengthen procedures to ensure that employees' annual leave carry over is within the maximum limits.