

Office of INSPECTOR GENERAL

Audit Report

*Review of Personnel Management
Functions and Activities*

Report No. IG-06-90



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UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

September 21, 1990

REVIEW OF PERSONNEL MANAGEMENT FUNCTIONS AND ACTIVITIES

This review was scheduled because over 70% of the Commission's appropriation is dedicated to personnel compensation and benefits annually but a comprehensive review had not been conducted of the Commission's personnel management functions and activities. In addition, a detailed review of the Commission's payroll procedures, a subsystem of personnel management, needed to be conducted to comply with federal regulations. The objectives of the review were to evaluate the Commission policies and practices applicable to personnel management in order to identify any areas of non-compliance with federal laws and regulations, and to recommend improvements to internal controls, or increased efficiency.

The review was conducted by Cotton & Company in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The auditors' findings fell into three broad categories: personnel-involving the employment of an individual, payroll-involving the overall agency process, and time and attendance-reporting the time worked and absences for an employee. The results of their review are presented as an Attachment to this report.

The auditors found that the system of internal accounting control was sufficient to meet the objectives of the personnel system insofar as those objectives pertain to the prevention or detection of material errors or irregularities. They identified several conditions, discussed on pages 10 and 11 of the report, where internal controls could be improved.

The auditors also found certain conditions in the system of internal accounting control related to time and attendance and payroll processing that were material weaknesses. In these conditions, the specific control procedures, of the degree of compliance with them, were not sufficient to achieve a specific internal control objective; that is, errors or irregularities could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. This is consistent with guidance for the Federal Managers' Financial Integrity Act

which defines, in part, a material weakness as a violation of statutory or regulatory requirements or conditions which significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds.

The findings concerning time and attendance, which are discussed on pages 5 to 8, include the following: time sheets did not accurately reflect actual time charges and sometimes were not properly signed by supervisors and/or employees; supporting documentation was not always maintained for court and military leave; overtime was frequently not properly documented, authorized or reported; and compensatory time and credit hours were not properly recorded or controlled. Findings on the payroll process, which are discussed on pages 8 and 9 of the report, include lack of supporting documentation, inadequate separation of duties, and a need for improved policies and procedures and more coordination with the payroll processing center. Other conditions that warrant management's attention are discussed on pages 10 and 11 for personnel, 11 to 13 for time and attendance and pages 13 and 14 for payroll processing.

Recommendations are presented on pages 15 through 17 of the report related to the findings and on pages 19 through 21 regarding the other conditions. We recommend that the Director of Administration implement these recommendations, giving priority to the findings which are material weaknesses.

The Director of Administration agreed with some but not all of the recommendations. For those recommendations with which he agreed, he has already implemented or has plans to implement corrective action. The Director disagreed with several recommendations concerning payroll and time and attendance procedures. We concur with his comments in one instance but believe that the other recommendations are reasonable and necessary for adequate control over payroll and time and attendance. The Director's comments on recommendation with which he disagreed and our responses are presented on pages 17 through 19, 21 and 22 of the report. The Director's comments are presented in their entirety as an Appendix to the report.



Jane E. Altenhofen
Inspector General

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"Report on the Internal Control Review of USITC's Personnel and Payroll Systems"
- Appendix** - Office of Administration's Response to the April 27, 1990, Draft Audit on the Review of ITC Personnel and Payroll Systems

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April 27, 1990

Ms. Jane E. Altenhofen
Inspector General
U. S. International Trade Commission
500 E Street, NW
Washington, DC 20436

Dear Ms. Altenhofen:

We conducted a study and evaluation of the United States International Trade Commission's (ITC) personnel and payroll systems' internal controls in effect as of April 27, 1990. Our study and evaluation was limited to controls pertaining to:

- Processing Requests for Personnel Action (SF-52), Notifications of Personnel Action (SF-50), and the various payroll withholding and deduction documents that affect the computation of earnings and deductions.
- Accounting for and disposing of authorized deductions from employees' gross pay.
- Maintaining and retaining payroll files and related documents.
- Preparing adequate and reliable individual pay records (gross computation, deductions by type and amount, and net pay).
- Interacting the payroll function with the general ledger and personnel systems and reconciling common data elements among systems.

We also reviewed the delegated examining process used to fill international trade analyst positions within ITC.

Our review was performed in accordance with guidelines and standards established by the American Institute of Certified Public Accountants; Office of Management and Budget; Department of Treasury; and U.S. General Accounting Office. Our review was more limited than would be necessary to express an opinion on ITC's system of internal control taken as a whole.

ITC's management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions and program management activities are executed in accordance with management's authorization and, where appropriate, recorded properly to permit the preparation of financial reports in accordance with generally accepted accounting principles and agency policies and procedures.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate as a result of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The specific control objectives associated with the ITC personnel system are as follows:

- Personnel procedures were established and are maintained in accordance with laws, regulations, and management policy.
- Personnel records are adequately safeguarded.
- Appointments, changes, and terminations are properly authorized.
- Personnel management plans and programs for hiring and recruiting are developed and implemented with a goal of maintaining a highly competitive, effective, and representative workforce.
- Policies and procedures for hiring and using experts and consultants are established and implemented.
- Access to and maintenance of personnel records, forms, and processing procedures are permitted only as authorized.
- The appraisal and evaluation system provides data for decisions on promotions, awards, and within-grade increases.

The specific control objectives associated with the ITC payroll system are as follows:

- The payroll system operates in accordance with Federal policy.
- Payroll data are adequately safeguarded.

- Appropriate authority and documentation exists for all payments.
- Payroll disbursements are made only for services rendered and are based on a properly approved attendance record.
- Timely, accurate, and complete records of time charges, leave, and other balances are maintained.
- Payroll procedures are economical and efficient and provide for recording and distributing payments promptly and accurately to the appropriate accounts.
- Gross and net payroll amounts and payroll deductions are correct.
- The ITC Office of Finance and Budget develops and executes systematic reviews of payroll operations and T&A activities.

Our review, made for the limited purposes described in the first paragraph of this report, would not necessarily disclose all material weaknesses in ITC's internal control system. Accordingly, we do not express an opinion on ITC's internal control system taken as a whole. However, based on our study and evaluation of the specific personnel system control objectives listed above, the system of internal accounting control in effect at April 27, 1990, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to personnel system data.

Based on our study and evaluation of the specific payroll system control objectives listed above and because of the material weaknesses we identified, the system of internal accounting control in effect at April 27, 1990, was not sufficient to meet those objectives. Our study and evaluation disclosed conditions that, in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to payroll system data may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. These conditions are described in the Findings and Other Conditions sections of the accompanying report.

In addition, generally accepted Government auditing standards require tests of the audited organization's compliance with applicable laws and regulations. Compliance with laws and regulations applicable to the personnel and payroll processes is the responsibility of ITC's management. In connection with the study and evaluation referred to above, we performed tests of compliance with certain provisions of the laws and regulations identified in the Methodology section of the accompanying report.

Ms. Jane E. Altenhofen
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Our tests of compliance disclosed the material instances of noncompliance described in the Audit Results section of the report. Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in statutes or regulations that cause us to conclude that the aggregation of the misstatements resulting from these failures or violations is material in relation to personnel and payroll system data.

Our test results indicate that, for the items tested, ITC did not comply in all material respects with the provisions of applicable laws and regulations. Because of the material instances of noncompliance identified in the transactions tested, we cannot conclude that ITC complied, in all material respects, with the above provisions for the items not tested.

We conducted fieldwork in Washington, DC, from March 8 to April 27, 1990.

We discussed the results of our review with the Director, Office of Administration; the Director, Office of Personnel; the Director, Office of Finance and Budget; and other headquarters personnel responsible for the policy direction and overall management for the processes we reviewed. The Commission's formal written response is included in its entirety as an appendix to the report. Commission comments have been incorporated into the report, as appropriate.

The accompanying report describes our study and evaluation's objectives, scope, and methodology and the resultant findings and other conditions, conclusions, and recommendations. It is intended solely for ITC's information and use and should not be used for any other purpose.

Very truly yours,

COTTON & COMPANY

By: Kevin P. McFadden
Kevin P. McFadden, CPA

Enclosure

**REPORT ON THE
INTERNAL CONTROL REVIEW OF THE
UNITED STATES
INTERNATIONAL TRADE COMMISSION'S
PERSONNEL AND PAYROLL SYSTEMS**

Prepared by:

**Cotton & Company
Certified Public Accountants
Alexandria, Virginia**

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REPORT ON THE INTERNAL CONTROL REVIEW OF THE
UNITED STATES INTERNATIONAL TRADE COMMISSION
PERSONNEL/PAYROLL SYSTEM

PART I: INTRODUCTION

In this part, we discuss study background, objectives, scope, and methodology.

BACKGROUND

The United States International Trade Commission (ITC) is an independent Federal agency with six commissioners, a staff of about 500, and Fiscal Year (FY) 1989 and 1990 budgets of \$35,958,000 and \$38,477,000, respectively. Approximately 65 percent of ITC's appropriation is for personnel compensation and benefits (\$23,314,000 and \$25,727,000 for FYs 1989 and 1990, respectively).

The General Services Administration's (GSA) National Payroll Center in Kansas City, Missouri, processes ITC's payroll using Time and Attendance (T&A) forms and other supporting documentation submitted by ITC. GSA issues the payroll checks and produces the employees' Pay and Leave Statements and provides reports for ITC's management. ITC generally follows the policies and procedures contained in the time and attendance manual issued by GSA.

Information from ITC's personnel system is entered into ITC's payroll system. The personnel system establishes who is to receive pay, the rate or salary level, and cash awards.

Biweekly T&A forms are prepared by clerks designated within each office, approved by supervisors, and forwarded to the ITC Office of Finance and Budget (OFB). OFB performs control checks on the forms and transmits them to the GSA National Payroll Center.

OBJECTIVES

We conducted this study and evaluation of the ITC personnel and payroll internal control systems to: (1) evaluate the adequacy and effectiveness of internal controls and procedures, (2) statistically test the accuracy and validity of payroll system data, and (3) determine compliance with applicable laws, regulations, and guidelines.

The specific objectives for this engagement were to determine:

- The controls that exist throughout the personnel and payroll systems, including computer systems controls, and evaluate the effectiveness of such controls.

- If controls are adequate with respect to ITC personnel who have access to personnel records and, specifically, to official personnel files, and if payroll data are adequately safeguarded.
- If ITC's personnel recordkeeping procedures and activities conform with the Office of Personnel Management (OPM), ITC, and other directives, including those related to:
 - Hiring and processing new employees.
 - Managing employee benefits, including leave.
 - Effecting within-grade increases.
 - Effecting career promotions.
 - Developing performance plans and evaluations as they relate to merit pay, quality step increases, and performance and incentive awards.
 - Effecting terminations.
- If ITC's payroll procedures and activities including the T&A system, as supported by its personnel system, conform with ITC, U.S. General Accounting Office (GAO), and other directives, including those related to:
 - Keeping time records, including those for compensatory time, overtime, and alternative work schedules.
 - Keeping complete records of reimbursable and nonreimbursable time.
 - Using accurate and timely data from the personnel management system in calculating the payroll.
 - Adequately safeguarding payroll data.
 - Effecting payroll disbursements only for services rendered and for those based on a properly approved attendance record.
 - Processing an accurate payroll in a timely manner.
- If ITC's role as a delegated examining office for international trade analyst positions is being carried out in accordance with OPM directives.

SCOPE

We conducted our review at ITC headquarters in Washington, D.C., between March 8 and April 27, 1990. The review focused on the payroll system and the

two main systems--personnel and time and attendance--that provide data to the payroll system for the purpose of providing current data on all elements that impact ITC's pay and allowance system.

We met with representatives of OFB regarding:

- Processing payrolls.
- Maintaining payroll files.
- Retaining payroll documents.
- Effecting changes received from the personnel system.
- OFB's role and responsibilities.

We also met with representatives of the Office of Personnel regarding its overall activities and responsibilities for:

- Effecting employee terminations.
- Maintaining documentation in Official Personnel Files (OPF) to support payroll deductions and leave balances.
- Processing personnel action forms and transmitting them into the payroll calculation process.
- Taking infrequent and unusual personnel actions.
- Carrying out its delegated examining authority for international trade analyst positions.

We also interviewed selected T&A clerks to determine procedures for:

- Completing T&A forms.
- Signing in and out.
- Maintaining documentation to support T&A entries.
- Keeping records for overtime, compensatory time, credit hours, and various types of leave.

METHODOLOGY

We gathered data for our review using structured interviews, questionnaires, sample tests of payroll data and analyzing documents and reports identified as providing the appropriate input to the systems reviewed.

We randomly selected 50 employees (approximately 10 percent of ITC's staff) from the payroll for the biweekly period ending March 24, 1990, verified the calculation of the net pay and deductions for each, and traced the entries on the consolidated payroll report (CPR), provided by the GSA National Payroll Center, to supporting documentation.

We reviewed delegated examining authority case files, verified that selected applicants were the best qualified, and reviewed reimbursable detail cases to ensure that ITC was being properly reimbursed.

The major guidelines and operating regulations we used to determine the adequacy of internal controls and procedures and to assess the degree of ITC's compliance with the relevant requirements were:

- *GAO Manual For Guidance of Federal Agencies*, Title 2 (Accounting) and Title 6 (Pay, Leave, and Allowances).
- *GSA Payroll Operations Timekeepers Handbook*.
- *GSA Time and Attendance Handbook* (Chapter 14 - Premium Pay).
- *GAO's Standards for Internal Controls in the Federal Government* (1983).
- *Federal Personnel Manual* 337 (Subchapter 3).
- ITC Policy Directives:
 - 4400 Absence and Leave
 - 4304 Compensatory Time and Overtime
 - 2201 Time, Attendance, and Payroll Service
- ITC OFB Standard Operating Procedures.
- Collective Bargaining Agreement between ITC and the American Federation of Government Employees (effective March 23, 1989).
- Department of State (DOS) and ITC agreement of October 16, 1989, regarding reimbursable detail of an ITC employee to DOS.

This audit was conducted in accordance with the Comptroller General's *Government Auditing Standards* (1988 revision).

REPORT ON THE AUDIT OF THE
UNITED STATES INTERNATIONAL TRADE COMMISSION
PERSONNEL/PAYROLL SYSTEM

PART II: AUDIT RESULTS

FINDINGS

We noted certain conditions in the system of internal accounting control related to T&A and payroll processing that we consider material weaknesses. A weakness in internal accounting control is a condition in which the specific control procedures, or the degree of compliance with them, are not sufficient to achieve a specific control objective; that is, errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. A weakness is material if the condition results in more than relatively low risk of such errors or irregularities in amounts that would be material in relation to payroll system data. These conditions are discussed in the following sections.

Time and Attendance

The objective of a T&A system is to ensure that the time worked and employee absences are accurately recorded and reported for purposes of computing pay, leave, and allowances.

Controls over ITC's time and attendance system can be improved in the areas described below. Certain of these conditions could result in improper salary payments and other T&A abuse:

1. Of the 47 T&A forms sampled, 4 did not contain evidence of supervisory approval. Subsequent to discussing this issue with ITC management, we were provided with copies of T&A forms that contained supervisor signatures for these four employees. We were informed that three of these T&A forms were obtained from the GSA National Payroll Center and one from within ITC headquarters. Documentation on pay, leave, and allowances must be maintained to support all computations of gross pay and made readily available for operational and audit needs (GAO Manual, Title 6, Chapter 4, paragraph 4.2.B.3). Fully complete copies of all T&A forms, which should include all required items such as approvals and certifications, should be maintained at ITC headquarters. These completed forms are needed for operational and audit needs and to accommodate the possible occurrence of the T&A forms being damaged or destroyed en route to the National Payroll Center in Kansas City, Missouri.
2. Of the 47 employees sampled, 6 did not always initial the T&A form indicating the dates and times leave was taken. In addition, 25 employees did not always sign or initial their T&A forms to verify accuracy of entries as required (GAO Manual, Title 6, Chapter 3, Paragraph 3.2.G). Without such certification, employees cannot be accountable for the accuracy of time worked and leave taken.

3. Court leave was taken, but required supporting documentation (court orders and record of attendance) was not always on file. Documentation must be maintained to support entitlement to leave taken (GAO Manual, Title 6, Chapter 6, Paragraph 6-3.C.2).
4. Military leave was granted, but required supporting documentation (SF71 requesting leave and record of attendance) was not always on file. To apply for military leave, an employee submits an SF71 to his or her supervisor and, upon returning, should submit a certification of military attendance from a supervisor (GSA Payroll Operations Timekeeper Handbook, Chapter 6, Paragraph 6.e).
5. Overtime was not properly documented, authorized, and reported using GSA form 544 (Request, Approval and Reporting Overtime). We noted the following discrepancies:
 - Justifications were vague or missing.
 - Dates the overtime was requested, approved, and certified as being worked were not always entered on the overtime form.
 - Some forms were not signed by an approving official before overtime was worked.
 - One reporting official used a rubber signature stamp.
 - The reporting official's certification of overtime worked was missing on 25 T&A forms in one unit and on 2 forms from another unit.
 - T&A forms did not support a total of 1,392 overtime hours worked by 3 employees.
 - One employee certified his own hours.
 - The signature for one approving official was printed and varied in appearance among forms.

Documents supporting overtime generally must be approved by an authorized official before the overtime is worked. After the time is worked, the supervisor must indicate on the overtime approval form the amount of overtime worked (GAO Manual, Title 6, Chapter 3, Paragraph 3.2.D.7.b). Overtime justifications must state the conditions necessitating overtime [GSA Payroll Operations Timekeeper Handbook, Chapter 7, Paragraph 2.b.(1)]. Without appropriate controls, excessive and unsupported overtime and improper salary payments could exist.

6. GSA Form 544 does not have space to enter the date overtime is scheduled or is worked. This prevents a determination that appropriate approval procedures were followed. Overtime must be approved in writing before the hours are worked whenever feasible [GAO Manual Title 6, Chapter 3, Paragraph 3.2.D.7.b.(1)]. Failure to obtain prior approval may result in

an employee working overtime which is later disapproved. Also, the GSA form does not have space to enter actual daily overtime start and end times (GAO Manual, Title 6, Chapter 3, Paragraph 3.2.C.2). The absence of this information restricts management's ability to properly evaluate the appropriateness of overtime charges. Failure to indicate when the overtime is worked does not provide management with sufficient information to verify all aspects of the overtime situation.

7. Compensatory time for one of the seven offices reviewed is kept "on-the-cuff". Sixteen employees within that office had balances ranging from 2 to 184 hours. Compensatory time, which is time off granted in lieu of paid overtime, must be properly recorded. T&A reports must include the amount of compensatory time earned and used (GAO Manual, Title 6, Chapter 3, Paragraph 3.2.E.2.e and f). The failure to enter leave balances does not ensure that all leave is properly recorded when earned and used.
8. Four of seven T&A clerks interviewed maintain their own T&A records. Such a practice is inconsistent with the concepts of appropriate internal controls as they relate to the separation of duties (GAO Manual, Title 6, Chapter 3, Paragraph 3.2.F.1). The failure to separate T&A recording and reporting provides the opportunity for improper entries into the record.
9. The GSA payroll system does not provide for the accumulation of credit hours, nor has ITC provided a system to account for these hours.¹ As a result, credit hours earned and used are kept "on-the-cuff." The main objective of a T&A system is to ensure that the time worked and employee absences are accurately recorded and reported for purposes of computing pay, leave, and allowances (GAO Manual, Title 6, Chapter 3, Paragraph 3.1). The failure to officially account for credit hours does not ensure that all leave is properly recorded when earned and used.
10. Credit hour balances exceeded the maximum legal limit of 24 credit hours in some cases. Ten of 11 employees within one division had credit-hour leave balances in excess of 24 hours. The range of credit hours kept "on-the-cuff" for these employees was 28 to 103.5 hours. Balances in excess of 24 hours violate Public Law 97-221, Paragraph 6126(a). When credit hours are not part of an official record, ITC management is not in a position to monitor its use.
11. Actual time charges were not always accurately reported on T&A forms. For example:
 - Two employees took court leave, but their T&A forms showed them as being on duty.
 - Leave taken on the last Friday of the pay period (after the T&A forms were processed) was reported on the next pay period's T&A forms.

¹ Credit hours are hours within the employee's work schedule in excess of his or her basic work requirement; the employee elects to work these hours, with supervisory approval, to vary the length of a work day or week.

- Overtime hours worked in one pay period were erroneously reported in the next.
- Overtime hours worked after T&A forms were turned in was reported in the next pay period.
- When "on-the-cuff" compensatory time and restored leave were used, employees were shown on duty.
- An employee taking 24 hours of union training was reported as performing his regular duty. His T&A form should have reflected him as being in a training status for this 24-hour period. Another ITC time reporting system reported this employee's time as administrative leave instead of training for union-related purposes.

Employee signatures or initials and supervisor approvals on T&A forms should certify the accuracy of the time charges (GAO Manual, Title 6, Chapter 3, Paragraph 3.2.G and 3.2.D). If changes are later required, an amended T&A form should be submitted (GAO Manual, Title 6, Chapter 3, Paragraph 3.2.D.8).

Payroll

The objectives of a payroll system are to ensure:

- Prompt, accurate payment to all persons entitled to be paid.
- Prompt accounting for and disposition of all authorized deductions from gross pay.
- Adequate control over, retention of, and disposition of all payroll-related documents.
- Prompt preparation of adequate and reliable payroll records.
- Adequate control over all phases of pay, leave, and allowances.
- Effective interaction of the payroll function with the general ledger, personnel, and cost accounting functions, with provision for reconciling common data elements among separate systems.

Controls over the ITC payroll system can be improved in the following areas:

1. Of 50 employees sampled, no supporting documentation was available for 15 employees who had their pay reduced because of charity deductions, and for 7 employees who had their pay reduced for union dues. In addition, no documentation was available for savings and bond deductions before 1987. Each agency must maintain documentation supporting payroll

deductions (GAO Manual, Title 6, Chapter 5, Paragraph 5.2.B). Failure to do so does not ensure the accuracy of payroll deductions.

2. Timekeepers were permitted to deliver T&A forms to OFB at the end of the pay period and to pick up payroll checks, which violates the internal control concept of separation of duties (GAO Manual, Title 6, Chapter 2, Paragraph 2.2.E.1.b). This situation, coupled with a system that requires the T&A form to be completed in pencil, provides the opportunity for a payroll clerk to change a T&A form after approval and receive the check after processing.
3. ITC does not maintain required certifications from GSA stating that the GSA payroll system meets all legal and GAO Manual, Title 6, requirements (GAO Manual, Title 6, Chapter 2, Paragraph 2.1.B). Agency heads are responsible for payroll operations. Without appropriate certifications from GSA that the system complies with all legal requirements, ITC cannot ensure that it is meeting all legal obligations.
4. ITC has stated in directive No. 2201 (Time, Attendance, and Payroll Services) that it follows GSA payroll procedures; discussions with OFB management indicated, however, that ITC has chosen not to comply with certain of these procedures. These instances are not reflected in the ITC directives. This results in timekeepers not being provided current policy and procedures on all aspects of T&A management. ITC policy must be clearly written and state the exceptions to the GSA Payroll Operations Timekeeper Handbook (GAO Manual, Title 6, Chapter 2, Paragraph 2.2.A.1).
5. OFB does not receive adequate payroll reports from GSA to evaluate the effectiveness of the payroll process. OFB does not receive reports of changes in payroll items from one pay period to the next, and listings of errors that were discovered during payroll processing. As a result, necessary management oversight and testing of payroll operations is not possible. Agencies must establish appropriate internal controls over payroll operations to help ensure that payroll documents processed are correct, complete, accurate, and properly authorized (GAO Manual, Title 6, Chapter 2, Paragraph 2.2.E).
6. OFB does not perform test procedures to verify that the dollar amount of the payroll is correct, and that individual employee payroll records are properly calculated. Agencies must establish appropriate internal controls over payroll operations to ensure that payroll documents are correct, complete, and accurate (GAO Manual, Title 6, Chapter 2, Paragraph 2.2.E). The absence of this testing does not provide ITC with information on the accuracy and completeness of the payroll prepared by GSA.

OTHER CONDITIONS

We noted certain conditions in the system of internal accounting control that we do not individually consider material weaknesses, but we think warrant management's attention. These are discussed in the following sections.

Because of the cumulative effect when taken collectively with the matters in the Findings section, however, we consider the matters described in the Time and Attendance and Payroll sections material weaknesses.

Personnel

The personnel cycle begins when a person is hired and ends when a person is terminated or retired. Specific functions include recruiting, selecting, hiring, assigning, evaluating, promoting, terminating, retiring, maintaining personnel records and appropriate statistics, and interfacing with the payroll cycle and other employee organizations. In addition, the personnel cycle includes special programs for the handicapped, equal employment opportunity, adverse actions, grievances, awards, and employee benefits. The personnel system is the source of many documents supporting the amount of pay and deductions from pay. A strong interface must exist between the personnel and payroll systems to ensure prompt, accurate payroll system updating.

Controls over ITC's personnel system can be improved in the following areas:

1. The Office of Personnel performs various analyses of personnel data and systems throughout the year to respond to requests and to carry out its overall personnel management responsibility. It has not, however, established a system for personnel management evaluation covering all aspects of personnel management to ensure adherence to applicable personnel laws, regulations, policies, and guidelines as required by the Office of Personnel Management [Federal Personnel Manual 273, Subchapter 3, Paragraph 3-1b(2)]. This system should provide for periodic and cyclical reviews of all personnel functions.
2. One ITC employee was detailed to another Federal Government agency on a reimbursable basis. The other agency was billed quarterly for the employee's salary and benefits. The invoice ITC prepared to cover the January through March 1990 period was incorrect. It did not include salary adjustments for a quality step increase and a within-grade increase the employee received at the end of December 1989. (Note: OFB corrected the invoice after the audit team brought the situation to its attention. It also corrected the last invoice for the period April 1 to April 30, 1990, which was being prepared, but had not been processed, when we brought the situation to its attention. The total invoice increase was \$720.38). The DOS-ITC agreement provides for reimbursement of the actual salary plus benefits. The payroll system must be designed to interact efficiently and practically with other related systems, such as the personnel system, to aid in prompt updating of information such as salary increases (GAO Manual Title 6, Chapter 2, Paragraph 2.2.D). Failure to interface the personnel and payroll systems could result in the reimbursement of incorrect amounts.
3. ITC has not established a policy concerning the number of continuous hours an employee can work without taking a meal break. The absence of such a policy can permit employees to be paid while participating in a

normal meal activity. We observed situations where an employee would record overtime for all hours between stated arrival and departure times amounting to a 7- to 8-hour period without reflecting a meal break.

A collective bargaining agreement between ITC and the American Federation of Government Employees (effective March 23, 1989) established the concept of meal breaks, and permitted such breaks, contingent on overtime hours worked. This agreement states that "Employees who are required to work overtime in excess of four (4) hours shall be allowed a one-half hour meal period without compensation." This agreement, which does not extend to all ITC employees, does not require a meal break but does permit one.

Time and Attendance

1. Of the 15 employees who had restored leave, one was not approved by the Director of Personnel, as required, and the National Payroll Center was not provided with appropriate documentation. The leave was not entered into any official record but was maintained "on-the-cuff". Such a practice is inconsistent with the appropriate internal controls as they relate to approval and recording of restored leave (GAO Manual, Title 6, Chapter 6, Paragraph 6.3.C.2, and GSA Payroll Operations Timekeeper Handbook, Chapter 6, Paragraph 7). This situation could lead to abuse of leave restoration and improper entries on T&A forms when restored leave is used.
2. The 14 employees who had restored leave did not prepare a plan for approved restored leave use. Once restored leave is approved and a restored annual leave account is established at the National Payroll Center, the employee and supervisor must establish a schedule to ensure that the leave is taken within the 2-year use limitation (GSA Payroll Operations Timekeeper Handbook, Chapter 6, Paragraph 7.e). No employee with restored leave had a leave usage schedule on file. Without the usage schedule, the restored leave may not receive the appropriate emphasis.
3. Six employees from five organizational units appear to have worked an excessive amount of overtime. Overtime of 50 hours or more was claimed in a single biweekly pay period in 13 instances. One of the employees reported 84 hours of overtime over the normal 80 hours in the pay period; 63 of these 84 overtime hours were recorded in one week. On several of these days, the employee reported a total of 16 hours as duty time. Further, this same employee reported 55 overtime hours in the previous pay period. An employee is not to be authorized overtime for 30 hours or more during 3 consecutive pay periods without prior written detailed justification from the employee's supervisor [GSA Payroll Operations Timekeeper Handbook, Chapter 5, Paragraph 2.a.(3)]. The Director of OFB stated that this GSA provision is not followed. We found no exception to this provision in ITC directives. Office directors reporting directly to the Commissioners have the authority to approve overtime requests not exceeding 16 hours in a pay period per person per project (ITC Directive

No. 4304). We were unable to determine the number of projects involved in this use of overtime.

During a recent audit, GAO reported on the overtime use in one ITC office. Our review results showed that overtime paid per ITC employee in FY 1989 ranged from less than 1 percent to 35.1 percent of the base pay. ITC records for FY 1989 showed that 45.5 percent of total ITC overtime costs was paid for employees in the office to which GAO referred, with 59.6 percent of that cost for one branch. Through March 24, 1990, 30.9 percent of ITC's overtime costs for FY 1990 was for the employees of the office referred to above, with 81 percent of that cost for the same branch. Based on the GAO report (which used 1985 records as its source) and our observations, the overtime situation in this one office has remained the same. Such large amounts of overtime provide opportunities for T&A and payroll system abuses.

4. One office requested, approved, and reported overtime for an employee from another office to work on one of its projects. The individual requesting the overtime likely did not have knowledge of the actual hours worked. Also, the employee's branch chief did not have a copy of the GSA Form 544, yet allowed the work and certified the employee's T&A form. GAO Manual, Title 6 [Chapter 3, Paragraph 3.2.D.7.b.(2)] specifies that if the person approving the overtime does not have actual knowledge of the time worked, then the cognizant supervisor should sign the overtime form. The above situation could result in the branch chief authorizing and certifying payment of unapproved and possibly unworked overtime. GAO *Standards for Internal Controls in the Federal Government* requires ready availability of written documentation to support all pertinent aspects of transactions.
5. We noted that 28 of 35 timekeepers were not designated in writing (GSA Payroll Operations Timekeeper Handbook, Chapter 2, Paragraph 2). Formal designation clarifies responsibilities and provides authority for performance.
6. One GS-14 routinely requests 10 hours of compensatory time per pay period and usually earns at least 8 hours. For Calendar Year 1989 through April 21, 1990 (a total of 34 pay periods), this staff member earned at least 8 hours of compensatory in each of 27 pay periods. The employee used 211 hours of this compensatory time during the same period. This appears to be an abuse of the compensatory time concept. In addition, we observed that the employee ended the 1989 leave year with a compensatory leave balance of 43 hours. The employee earned 8 hours of compensatory leave in the first pay period of the 1990 leave year, which should yield a 51-hour balance. The Form 873 (Annual Attendance Record), however, reflects a 59-hour balance, an 8-hour overstatement.
7. One division permitted its staff to be compensated for up to 2 days of administrative leave, while new modular furniture was delivered and installed. All 27 members in this division at the time the furniture was installed are shown as taking some administrative leave during the pay period involved. The administrative leave taken per staff member ranged

from 8 to 18 hours with 23 staff members taking 16 or more hours. We think that if an option to perform this work on a weekend did not exist, alternative work locations should have been identified for the 2-day period for the employees involved. The unproductive salary costs related to this management action amounted to \$7,044. The ITC directive on excused absences (No. 4408) states three criteria for group dismissals: hazardous weather, emergency situations, and public interest activities. The above situation does not meet the established criteria. Failure to follow this directive could result in the improper authorization of administrative leave.

8. The Activity Reporting System (ARS) does not always reflect the same employee leave data as the payroll and T&A systems. We used the ARS reports to identify our sample for testing different leave categories. This is an internal system that provides a record of hours by project and leave category for each ITC employee. In some cases, the ARS leave data were correct and, in others, the leave data in the T&A and payroll records were correct. Some offices indicated that different personnel were responsible for the inputs into each system, and no attempt was made to compare the systems. The ARS and the T&A systems should report the same data to provide consistent information for analysis and control activities.

Payroll

1. We noted administrative errors in the Pay and Leave Statements for four of the six commissioners whose payroll information we reviewed. Commissioners' pay is manually prepared at the National Payroll Center. Errors involved Thrift Savings Plan rates not shown, the Government's contribution to the thrift savings plan not shown, and Civil Service Retirement System amounts improperly reflected in the Federal Employees Retirement System block. These errors did not affect the net pay for these individuals. Agencies must establish appropriate internal controls over payroll operations to ensure that payroll documents processed are correct, complete, and accurate (GAO Manual, Title 6, Chapter 2, Paragraph 2.2.E).
2. OFB has not conducted required quarterly meetings with timekeepers since February 1989. The purpose of the quarterly meetings is to emphasize the importance of following GSA and ITC regulations and to keep the timekeepers current on policy and procedure changes that affect the payroll process (ITC Finance Division Standard Operating Procedures (SOP), Section V, Part F, Paragraph 4). The failure to conduct these quarterly meetings does not ensure that the timekeepers are kept informed about system changes that affect their duties.
3. OFB has not audited the Supervisory Time and Attendance Certificates since April 1989. The Finance Division SOPs require such an audit by an accounting technician at least twice a month [Section V, Part F, Paragraph 5] to determine if timekeepers comply with payroll procedures set forth by GSA and ITC. Failure to provide periodic oversight could prevent timely identification and correction of timekeeper records.

4. We noted numerous discrepancies in timesheets, which indicates that OFB may not be giving an appropriate amount of time and attention to reviewing timesheets as required by the Finance Division SOPs (Section V, Part B, Paragraph 2). Payroll procedures should allow sufficient time and staff resources to ensure that timesheets are properly prepared before being sent to the National Payroll Center.

CONCLUSIONS

Our conclusions follow.

Personnel

The personnel system appears adequate except for the three weaknesses noted in the Other Conditions section. ITC has not established a system for personnel management evaluation to provide for periodic reviews of personnel functions; incorrect, outdated salary information was used to request reimbursement for an employee detailed to another Federal agency; and, it has not established a policy concerning the number of continuous hours an employee can work without taking a meal break.

Time and Attendance

The scope of our review of the T&A system and related internal controls was restricted to the manner in which the T&A system supports the payroll system. Our review of the T&A system was expanded beyond what we originally anticipated, because of the material weaknesses we observed and the lack of internal controls in certain significant areas.

As a result of the number and types of material weaknesses we observed (listed in the Findings and Other Conditions sections), we cannot conclude that all T&A information is appropriately recorded. We believe that significant changes must be implemented to have the T&A system meet the requirements of the GAO Manual, Title 6, Pay, Leave, and Allowances, and GAO's *Standards for Internal Controls in the Federal Government*.

Payroll

Certain significant areas of internal control must be strengthened to ensure that the system meets all GAO requirements. During our review, we noted no instances of incorrect payroll amounts. However, we are not confident that the T&A system properly records all entries impacting the payroll process.

RECOMMENDATIONS RELATED TO THE FINDINGS

Our recommendations to strengthen ITC's internal controls related to the Findings section are presented below. These recommendations parallel the findings in Part II.

Time and Attendance

1. The OFB director should assign sufficient staff resources and allow sufficient time to verify the accuracy and completeness of T&A forms before they are sent to the National Payroll Center. Forms should be sent only if they:
 - Have been signed or initialed by the employee.
 - Indicate dates and times leave is taken or overtime or compensatory time is recorded.
 - Are supported by appropriate supplemental documentation when required.
2. The T&A certifying officials should be instructed by the OFB director to review supporting documentation for court leave and military leave prior to approving the T&A forms that show these types of leave.
3. ITC should strengthen internal controls to ensure that overtime is authorized only when necessary and that it is properly documented. The written justification should indicate the project to which the overtime applies and why overtime is required.
4. The OFB director should either design a new overtime form for use in lieu of the GSA form 544 or require additional information on the GSA form 544 to indicate the date overtime is scheduled and the date and time it is actually worked.
5. All compensatory time earned and used should be reported on the T&A forms.
6. T&A clerks should not be allowed to maintain their own T&A forms, except in unusual cases (see GAO Manual, Title 6, Chapter 3, Paragraph 3.2.F.1. a through d).

7. The OFB director should request that GSA modify its forms to provide for accounting and reporting of credit hours. If GSA can not accommodate this request, consideration should be given to developing an in-house reporting system to properly reflect credit hours.
8. The OFB director should take necessary action to have all credit hour balances reduced to the legal limit of 24 hours. Controls should be instituted by the OFB director to prevent the accumulation of credit hours in excess of the legal limit of 24 hours.
9. To improve the overall accuracy and appropriateness of the T&A process, the OFB director should develop a manual for timekeepers. This manual should contain current policies and procedures. The OFB director should provide for timekeeper training to support the understanding and use of the manual. The manual and any related instructions should comply with the GAO Manual, Title 6, Pay, Leave, and Allowances, and the GAO *Standards for Internal Controls in the Federal Government*. The OFB director should periodically test the application of the policies and procedures to ensure compliance.

The importance of recording actual time worked and leave taken and following the procedures for amending previously submitted T&A forms should be stressed. All employees and supervisors should be reminded that they should certify only those T&A forms that are accurate.

10. The Director of the Office of Administration should require an internal control review of the entire T&A process to determine if additional weaknesses exist in areas not included in our review's scope. We also recommend that the Federal Manager's Financial Integrity Act process be expanded to require that ITC managers annually test the effectiveness of the T&A process to determine if the appropriate policies and procedures are being carried out.

Payroll

1. OFB should maintain a copy of supporting documentation for all payroll deductions. In lieu of providing similar copies to the National Payroll Center, the OFB director should consider providing the center with an authorized listing of deductions.
2. The OFB director should:
 - Instruct that someone other than the organizational units' T&A clerks forward the T&A records and any adjustment cards to OFB.
 - Obtain certification from GSA that states whether the GSA payroll system meets all legal and Title 6 requirements.

- Update ITC policy directive No. 2201 to identify any GSA procedures that ITC does not follow.
 - Determine the availability of GSA management reports, select and establish requirements for applicable reports, and establish a program to provide oversight and testing of payroll operations.
 - Establish test procedures to verify that the payroll dollar amount is correct and that individual employee payroll records are properly calculated.
3. The OFB director and the Chief of the Finance Division should visit the National Payroll Center to observe how the ITC payroll is processed, determine availability of management reports, and discuss the controls and verification procedures used and the possibility of improvements to GSA forms and software.

COMMISSION COMMENTS

The Office of Administration (Office) responded to the recommendation for each finding and other condition we identified. Its complete comments are included as an appendix to the report. The Office agreed with most of our recommendations; however, it partially or totally disagreed with certain recommendations. For those situations, we cited the section to which the recommendation applied, summarized the disagreement, and provided our observations. The Office has initiated many improvements on its personnel, T&A, and payroll processes in response to our discussions and recommendations.

Time and Attendance

1. The Office agreed with the first and third portions of Recommendation 1 and that a need exists for supporting documentation for overtime and compensatory time. It disagreed with our view that the T&A forms should indicate dates and times leave is taken when overtime or compensatory time is recorded.

The GAO Manual (Title 6, Chapter 3, Paragraph 3.2.B) requires that an accurate record of the times an employee works and is absent must be recorded daily. This manual also requires that T&A forms, supporting documents, or computer files of T&A data must be maintained to show daily starting and ending times for regular time worked and for time worked for which premium pay would be given, and for compensatory time earned and used (GAO Manual, Title 6, Chapter 3, Paragraph 3.2.C.1, 2, and 3). The most appropriate means of recording overtime and compensatory time is to record this information on the T&A form and reflect the dates and times the overtime and compensatory time was worked.

In addition, by having this information on the T&A form, the employee certifies the accuracy of the time recorded as being worked for overtime and compensatory time purposes. It also provides an audit trail for

verification by using other controls, such as serial sign-in/sign-out registers in the employee's unit and at the guard station.

2. The Office agreed with Recommendation 3, but stated that the GAO Manual section cited did not address overtime justification.

We did not refer to the GAO Manual as a basis for requiring overtime justification. We referred to the *GSA Payroll Operations Timekeeper Handbook*, Chapter 7, Paragraph 2.b.(1), as a basis for the requirement for overtime justification.

3. The Office disagreed with Recommendation 4 that the overtime form should reflect actual times and dates that overtime is worked.

We think that reflecting this data on the overtime form provides a cross-check to the T&A form and other supporting data, such as sign-in/sign-out records, and results in a more appropriate certification process by the approving official. Without the information as to when the overtime was worked, ITC management cannot determine if its policies requiring prior approval for overtime are being followed.

4. The Office partially agreed with Recommendation 6; they agreed that when there are primary and alternate timekeepers, they should maintain each other's T&A forms. The Office states that, as a general rule, T&A clerks should not maintain their own T&A forms; however, it is appropriate under certain situations to make exceptions.

Based on the observations we made during our review and the weaknesses we identified, we think that, except in the most unusual situations, no ITC employee should maintain his or her own T&A record.

Payroll

1. The Office disagreed with Recommendation 1 that OFB should maintain a copy of supporting documentation for all payroll deductions. It disagreed on the basis that the GSA National Payroll Center, which processes ITC's payroll, is responsible for maintaining information on payroll deductions, not the Commission.

We agree that the GSA National Payroll Center needs appropriate payroll deduction information to process the ITC payroll. We do not agree, however, that the sole responsibility for maintaining supporting documentation for payroll deductions rests with GSA. Agencies are to ensure that payroll disbursements are accurately and appropriately computed and transmitted by periodically testing and validating the various computational procedures involved and by reconciling total net pay and deductions disbursed with detailed employee records (GAO Manual, Title 6, Chapter 7, paragraph 7.2.C.1 and 8). Without copies of authorized deductions, OFB cannot effectively carry out its responsibilities for reconciling the net pay and deductions disbursed with detailed ITC employee records. (See Payroll, Finding 6, page 9.)

In addition, GAO's *Standards for Internal Controls in the Federal Government* requires that the documentation of transactions or other significant events should be complete and accurate and should facilitate tracing the transaction through to completion. To comply with this standard, GAO requires that the documentation of transactions and other significant events be purposeful and useful to managers in controlling their operations and to auditors and others involved in analyzing operations.

2. The Office agreed with 4 of the 5 points of Recommendation 2. They did not agree, however, that ITC policy directive No. 2201 should be updated, because they agreed with a previous recommendation (Time and Attendance, No. 9, page 16) that the OFB director should develop a manual for timekeepers that would contain current policies and procedures.

We agree that the proper development of a timekeeper's manual, which will contain current policies and procedures, will accomplish the purpose of this recommendation.

RECOMMENDATIONS REGARDING OTHER CONDITIONS

Our recommendations regarding the matters described in the Other Conditions section are presented below.

Personnel

1. The Director of Personnel should establish a system for personnel management evaluation that incorporates all aspects of ITC's personnel activities. This evaluation system should provide for periodic and cyclical reviews of such activities as position management, staffing, recruiting, personnel processing, training, and equal employment opportunity. The results of these evaluations should be provided to the Director of the Office of Administration.
2. The Official Personnel Folder (OPF) for each employee detailed on a reimbursable basis should be appropriately noted to ensure that OFB is notified immediately of any personnel actions affecting pay amounts.
3. ITC management should extend the concept expressed in the collective bargaining agreement and require all ITC staff to take a meal break after a stated number of hours of work. This requirement should include regular hours as well as overtime. Such a policy will help to prevent abuse of the T&A system and assist ITC management in its oversight of the T&A program.

Time and Attendance

1. All directors, division chiefs, and others in supervisory positions should be notified by the OFB director of the proper procedures for restoring and using restored leave. The OFB director should take action

to identify all "on-the-cuff" restored leave and in consultation with the Director of Personnel, determine if the leave should be entered into official records or forfeited.

2. The OFB director should instruct all employees who have an officially established restored leave balance to develop a schedule for restored leave usage with an appropriate supervisor. A copy of the schedule should be provided to the National Payroll Center.
3. ITC should strengthen internal controls over the use of overtime. A policy should establish the maximum hours of overtime that may be worked per individual, per day and pay period, and the maximum continuous hours (normal and overtime) that can be worked without a meal break.

The Director of the Office of Administration should evaluate the overtime situation in ITC to determine if overtime is being used in a prudent and efficient manner. He should also explore all reasonable alternatives to overtime, including improved scheduling, and ensure that adequate approval, monitoring, and audit procedures are in place to avoid overtime abuses.

4. Certification of overtime hours worked should be made only by authorized officials or supervisors with knowledge of actual time worked. Officials certifying T&A forms should review supporting documentation before approval.
5. The OFB director should instruct all ITC units to designate timekeepers in writing. The designations should be on file in OFB and should be periodically reviewed to ensure that they are current.
6. ITC management should review the compensatory time policies and procedures and take appropriate corrective action. For the error noted on one employee's Form 873 (Annual Attendance Record), the OFB director and the employee's supervisory and timekeeper should review the form for accuracy and make the necessary adjustments.
7. The Director of the Office of Administration should emphasize to all ITC managers the appropriate use of administrative leave and the importance of periodically reviewing the biweekly Supervisors Time and Attendance Certification Report to monitor the use of administrative leave.
8. The OFB director should instruct those who provide leave data to the ARS to ensure that such data are consistent with the leave data reported in the T&A system. Also, the OFB director should regularly compare the information between the two systems and reconcile any differences to ensure the accuracy of both systems.

Payroll

1. A key OFB person should test a sample of the Pay and Leave Statements for the commissioners each month to ensure the accuracy of all entries and related calculations.

2. The OFM director should:

- Reinststate quarterly timekeeper meetings for the purpose of keeping timekeepers informed of the types of weaknesses OFB observes in the T&A forms and to inform them of changes in policies and procedures.
- Establish a schedule and ensure that audits of the Supervisory Time and Attendance Certificates are undertaken periodically of all ITC units.
- Review payroll procedures to determine if adequate time and staff resources are available to ensure accuracy and completeness of T&A forms before they are sent to the National Payroll Center.

COMMISSION COMMENTS

As previously mentioned, the Office responded to the recommendation for each finding we identified. For the instances where there was partial or total disagreement with our recommendation, we cited the section to which the recommendation applied, summarized their disagreement, and provided our observations.

Time and Attendance

1. The Office disagreed with Recommendation 2 that the OFB director should instruct all employees who have an officially established restored leave balance to develop a schedule for restored leave usage. The disagreement was based on a Commission directive that includes detailed procedures for requesting and using annual leave, which it stated is also applicable to the use of restored leave. The Office stated, however, that during September 1990, the Director of Administration will again remind staff of the procedures for restoring leave and the period of its availability. Employees will not be asked to provide a schedule for restored leave usage required by the GSA handbook., as they believe it is discretionary and not necessary.

The directive the Office cited does state the policy for requesting and using annual leave and for the restoration of forfeited leave. The ITC directive does not, however, state that a leave usage schedule for restored leave is to be prepared as is required by the *GSA Payroll Operations Timekeeper Handbook* [Chapter 6, Paragraph 7.e.(1)].

The Office's acceptance of our previous recommendation (No. 9, page 16) should eliminate the disparity that currently exists between the GSA Handbook requirement and the Office's view that a schedule for restored leave usage is not necessary.

2. For Recommendation 3, the Office stated that it will strengthen controls by requiring a justification and supporting documentation for overtime, but it is reluctant to establish a limit on overtime.

We continue to recommend that ITC establish a maximum number of overtime hours an employee may work per day and per pay period. Without such a limitation, an employee's productivity over time could possibly be affected. The Office did not address our recommendation on establishing a policy on the maximum number of continuous hours that can be worked without a meal break. We continue to think that it would be beneficial to establish the maximum number of continuous hours (normal and overtime) that can be worked without a meal break. We recommend this policy for productivity, safety, and health reasons.

3. The Office disagreed with Recommendation 8 and stated that the ARS and the T&A systems do not allow for reconciliation.

We think that because the two independent systems basically record the same data--both account for direct and indirect time--the data in the systems are capable of reconciliation. Even though the systems are independent of each other, ITC management should be concerned when two systems that purport to reflect the same data do not. This disparity can raise the question of accuracy in either or both systems. We encourage the continued consideration that is being given to merge the ARS and the T&A systems and we agree that the transfer of the accounting system in FY 1991 is of prime importance.

U.S. INTERNATIONAL TRADE COMMISSION

**Office of Administration's Response to the April 27, 1990, Draft Audit Report
On The Review of ITC Personnel and Payroll Systems**

Audit Recommendations Based on "Material" Findings

Time and Attendance

Recommendation 1—

The OFB director should assign sufficient staff resources and allow sufficient time to verify the accuracy and completeness of T&A forms before they are sent to the National Payroll Center. Forms should be sent only if they:

- o Have been signed or initialed by the employee.
- o Indicate dates and times leave is taken or overtime or compensatory time is recorded.
- o Are supported by appropriate supplemental documentation when required.

AGREE WITH THE FIRST AND THIRD BULLETS. We will continue to assure that adequate staff is assigned to review the accuracy and completeness of T&A forms. In addition, time and attendance processing procedures will be reviewed and revised as appropriate. These areas will be stressed with timekeepers during quarterly timekeeper meetings and with supervisory staff subsequent to Finance and Budget reviews of the Annual Attendance Records.

Estimated completion date - January 31, 1991.

DISAGREE WITH THE SECOND BULLET. Title 6 of the GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES requires that supporting data for overtime and compensatory time be maintained for time and attendance purposes, however, it does not require the dates and times to be on the time and attendance form. However, we do agree that at a minimum there is the need for supporting documentation. As the T & A Handbook and the overtime directive are revised, we will discuss with the supervisors the option of requiring this information to be included on the T & A form in lieu of the supporting documentation. This will be stressed in the revised overtime directive, the revised Time and Attendance Handbook, and with timekeepers during quarterly timekeeper meetings and with supervisory staff subsequent to Finance and Budget reviews of the Annual Attendance Records.

Recommendation 2—

The T&A certifying officials should be instructed by the OFB director to review supporting documentation for court leave and military leave prior to approving the T&A forms that show these types of leave.

AGREE. The OFB director reminded Office Directors and Time and Attendance Clerks by memorandum, on May 21, 1990, that

"For court leave, copies of court orders and records of attendance must accompany the Time and Attendance Record submitted to the Office of Finance and Budget. Originals should also be maintained by the appropriate timekeepers;

For military leave, copies of military orders and the Application for Leave must accompany the Time and Attendance Record submitted to the Office of Finance and Budget. Originals should be maintained by the appropriate timekeepers;"

Estimated completion date - Completed.

Recommendation 3—

ITC should strengthen internal controls to ensure that overtime is authorized only when necessary and that it is properly documented. The written justification should indicate the project to which the overtime applies and why overtime is required.

AGREE . Revision of Directive 4304, Compensatory Time And Overtime, was initiated in February 1990. Completion of this revision was delayed to assure that recommendations resulting from the review of personnel management functions begun in March 1990, could be considered for inclusion. In addition, management and labor relations issues raised must be resolved prior to implementation of this directive. It should be noted that the GAO Manual section cited in the audit findings does not discuss overtime justification. A requirement for a justification describing the reason for the overtime or compensatory time is a discretionary policy decision. We intend to include the requirement for justification in the revised directive.

Estimated completion date - January 31, 1991.

Recommendation 4—

The OFB director should either design a new overtime form for use in lieu of the GSA form 544 or require additional information on the GSA form 544 to indicate the date overtime is scheduled and the date and time it is actually worked.

DISAGREE. The requirement of Title 6 of the GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES regarding overtime and compensatory time is that it must be approved in writing, before the hours are worked whenever feasible and, when not feasible, as soon after the work has been performed as possible. After the time has been worked the supervisor who has knowledge that the time has been worked must sign the overtime form. Therefore, while actual times and dates are not required for the overtime form, they are required as supporting data for time and attendance purposes. As stated in recommendation 1 we agree that there is a need for supporting documentation, and intend to include this requirement in the revised directive.

Recommendation 5—

All compensatory time earned and used should be reported on the T&A forms.

AGREE. Meetings will be scheduled with senior managers to discuss their individual requirements and concerns, and to assure compliance, subsequent to the establishment of a Commission policy on compensatory time. This area will also be stressed with timekeepers during quarterly timekeeper meetings and with supervisory staff subsequent to Finance and Budget reviews of the Annual Attendance Records.

Estimated completion date - January 31, 1991

Recommendation 6—

T&A clerks should not be allowed to maintain their own T&A forms, except in unusual cases (see GAO Manual, Title 6, Chapter 3, Paragraph 3.2.F.1. a through d).

PARTIALLY AGREE. Where there is both a primary and alternate timekeeper in an office, the alternate should maintain the primary timekeeper's time and attendance forms. However, where it is not practical to have an alternate timekeeper, Title 6, of the GAO **POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES** provides agencies with the authority to implement appropriate management policy. This includes situations where the employee keeping their own time is the timekeeper and the basis for recording the hours worked is the supervisors' observation (see highlighted sections below). As a general rule we feel that the T & A clerk should not maintain their own time and attendance form. It is appropriate under certain situations to make exceptions. In these situations it is the supervisor's responsibility to be aware of the employees absence and is responsible for verifying the accuracy of the completed T & A form.

Title 6, Chapter 3, Paragraph 3.2.F.1. a through d) of the GAO **POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES** states, in part, "Employees may not maintain their own time and attendance recordings except in certain circumstances. In these cases, an official authorized by the head of an agency (or designee) must grant advance authority in writing, and agencies must effect the controls in section 3.2.B of this chapter. The situations in which employees may maintain their own time and attendance recordings, where impractical to do otherwise, are when

- a. the employee is the timekeeper;
- b. employees work flexible hours outside the hours of the timekeeper and supervisor,
- c. an employee working alone at a remote site, and
- d. employees are based at but frequently away from the location of their supervisors and timekeepers during working hours."

Title 6, Chapter 3, Paragraph 3.2.B. of the GAO **POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES** states, in part, "Because most federal civilian employees are paid on an hourly basis and charged leave on that basis, an accurate record of the times an employee works and is absent must be recorded daily. Primary basis for recording are set forth below.

1. Basis for recording the time and attendance of most employees are:

- a. The supervisor's or timekeeper's observation and recording of employees' hours worked;
- b. Time clocks or other automated timekeeping devices, where not prohibited by law.
- c. Serial sign-in/sign-out sheets"

Recommendation 7—

The OFB director should request that GSA modify its forms to provide for accounting and reporting of credit hours. If GSA cannot accommodate this request, consideration should be given to developing an in-house reporting system to properly reflect credit hours.

AGREE. The GSA National Payroll Center cannot, at the present time, maintain both compensatory time and credit hours in their payroll system. The OFB director reminded Office Directors and Time and Attendance Clerks by memorandum, on May 21, 1990, that

"Employees on an alternative work schedule do not accumulate more than 24 credit hours for carryover from one biweekly pay period to the next;" and

"Compensatory time and credit hours are recorded separately on the attached ITC Form 122, Annual Attendance Record. The ITC Form 122 replaces the GSA Form 873. Time and Attendance Clerks should contact the Finance Division to pick up an appropriate supply of forms; ..."

Estimated completion date - Completed.

Recommendation 8—

The OFB director should take necessary action to have all credit hour balances reduced to the legal limit of 24 hours. Controls should be instituted by the OFB director to prevent the accumulation of credit hours in excess of the legal limit of 24 hours.

AGREE. The requirement in the second sentence has been completed. The OFB director reminded Office Directors and Time and Attendance Clerks by memorandum, on May 21, 1990, that

"Employees on an alternative work schedule do not accumulate more than 24 credit hours for carryover from one biweekly pay period to the next;" and

"Compensatory time and credit hours are recorded separately on the attached ITC Form 122, Annual Attendance Record. The ITC Form 122 replaces the GSA Form 873. Time and Attendance Clerks should contact the Finance Division to pick up an appropriate supply of forms; ..."

Appropriate action will be taken to reduce current excess credit hour balances to the legal limit.

Estimated completion date - January 31, 1991.

Recommendation 9—

To improve the overall accuracy and appropriateness of the T&A process, the OFB director should develop a manual for timekeepers. This manual should contain current policies and procedures. The OFB director should provide for timekeeper training to support the understanding and use of the manual. The manual and any related instructions should comply with the GAO Manual, Title 6, Pay, Leave, and Allowances, and the GAO Standards for Internal Controls in the Federal Government. The OFB director should periodically test the application of the policies and procedures to ensure compliance.

The importance of recording actual time worked and leave taken and following the procedures for amending previously submitted T&A forms should be stressed. All employees and supervisors should be reminded that they should certify only those T&A forms that are accurate.

AGREE. A revised time and attendance manual will be provided to all Commission timekeepers and supervisors, together with appropriate training, in conjunction with implementation of the new GSA payroll system. In addition, time and attendance processing procedures will be reviewed and revised as appropriate. A protracted completion date for the manual has been established since it is possible that negotiations with our Unions over changes to working conditions may be lengthy.

Estimated completion date for the revised manual - September 30, 1991.

Recommendation 10—

The Director of the Office of Administration should require an internal control review of the entire T&A process to determine if additional weaknesses exist in areas not included in our review's scope. We also recommend that the Federal Manager's Financial Integrity Act process be expanded to require that ITC managers annually test the effectiveness of the T&A process to determine if the appropriate policies and procedures are being carried out.

AGREE. The Federal Manager's Financial Integrity Act process will be reviewed and appropriately expanded to include the entire time and attendance process.

Estimated completion date - September 30, 1991.

Payroll

Recommendation 1—

OFB should maintain a copy of supporting documentation for all payroll deductions. In lieu of providing similar copies to the National Payroll Center, the OFB director should consider providing the center with an authorized listing of deductions.

DISAGREE. Title 6, Chapter 5, of the GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES which discusses payroll deductions, states, in part, that "payroll system objective for deductions are that they must be properly authorized, adequately documented, and paid when due in the amount authorized." It appears that the emphasis is on payroll system, as it goes on to explain the "order of withholding precedence for deduction," such as retirement, income tax, garnishments for alimony and child support, bankruptcy payments, IRS tax levies, etc., all of which are GSA's responsibility since the payroll system is under the direct control of the GSA National Payroll Center, not the Commission.

In addition, the National Payroll Center requires that it receives original payroll deduction authorizations, and that it is their legal responsibility to insure that all deductions they place into their payroll system, are properly authorized, collected in accordance with applicable law, and paid out correctly and timely. While the Commission does maintain some records on some employee deductions, it is provided as a service to our employees, and not to meet the legal requirements of operating a payroll system.

Recommendation 2—

The OFB director should:

- o Instruct that someone other than the organizational units' T&A clerks forward the T&A records and any adjustment cards to OFB.

AGREE. Time and attendance procedures which will address the above procedures will be developed on an interim basis, and included in the timekeepers manual (i.e. while manual is being developed).

Estimated completion date - October 31, 1990.

The OFB director should:

- o Obtain certification from GSA that states whether the GSA payroll system meets all legal and Title 6 requirements.

AGREE. This information was discussed and requested of GSA during the OFB director's visit on June 21, 1990. We were informed that prior audits were performed, by both GSA's Inspector General and an independent accounting firm under contract. We will follow-up as appropriate.

Estimate completion date - December 31, 1990.

The OFB director should:

- o Update ITC policy directive No. 2201 to identify any GSA procedures that ITC does not follow.

DISAGREE. Recommendation number 9 above, which we agreed with, was to "improve the overall accuracy and appropriateness of the T&A process, the OFB director should develop a manual for timekeepers." Therefore, Directive 2201 will be cancelled and replaced by the timekeepers manual. This manual will contain current policies and procedures.

The OFB director should:

- o Determine the availability of GSA management reports, select and establish requirements for applicable reports, and establish a program to provide oversight and testing of payroll operations.

AGREE. This information was requested of GSA during the OFB director's visit on June 21, 1990. The Offices of Finance and Budget and Personnel will review the available information and follow-up as appropriate in establishing a program to test the accuracy of the payroll system.

Estimated completion date - December 31, 1990.

The OFB director should:

- o Establish test procedures to verify that the payroll dollar amount is correct and that individual employee payroll records are properly calculated.

AGREE. Information was requested of GSA during the OFB director's visit on June 21, 1990. The Offices of Finance and Budget and Personnel will review the available information and recommend appropriate verification procedures.

Estimated completion date - December 31, 1990.

Recommendation 3—

The OFB director and the Chief of the Finance Division should visit the National Payroll Center to observe how the ITC payroll is processed, determine availability of management reports, and discuss the controls and verification procedures used and the possibility of improvements to GSA forms and software.

AGREE. On June 21, 1990, the Director, Office of Finance and Budget, Chief, Budget Division, and Inspector General visited the National Payroll Center to observe how the ITC payroll is processed, determine availability of management reports, and discuss the controls and verification procedures used and the possibility of improvements to GSA forms and software. Results of this meeting will be incorporated in any revised payroll procedures adopted by the Commission. Additional visits including the Chief, Finance Division and her staff will be planned in late 1991, when the Commission is scheduled to be implemented onto GSA's new payroll system.

Estimated completion date - Initial visits completed. Periodic visits by the appropriate staff will be made in the future.

The Following Are Non-Material ("Other Conditions") Audit Recommendations

Personnel

Recommendation 1—

The Director of Personnel should establish a system for personnel management evaluation that incorporates all aspects of ITC's personnel activities. This evaluation system should provide for periodic and cyclical reviews of such activities as position management, staffing, recruiting, personnel processing, training, and equal employment opportunity. The results of these evaluations should be provided to the Director of the Office of Administration.

AGREE. A personnel management evaluation system which provides for periodic and cyclical reviews of such activities as position management, staffing, recruitment, personnel processing, training, and equal employment opportunity can be developed. Such a system would have to be issued as an ITC Directive.

Since the objectives of an agency personnel management evaluation program are to promote compliance with governing laws, rules, and regulations and to support agency mission accomplishments through positive influence on management decision-making in the general area of workforce management, the system can be complex and impact all of our organizational components. Because of this, we will have to carefully develop the personnel management evaluation program in order to fully assess the processes and procedures which should be included in the system. Additionally, we are advised that the U.S. Office of Personnel Management currently is in the process of revising its Federal Personnel Manual guidance concerning agency personnel management evaluation programs. Mandatory provisions contained in these materials, of course, will have to be incorporated into our PME program.

Estimated completion date - six months following issuance of OPM guidance, approximately June 30, 1991.

Recommendation 2—

The OPF for each employee detailed on a reimbursable basis should be appropriately noted to ensure that OFB is notified immediately of any personnel actions affecting pay amounts.

AGREE. An operating procedure has been established to implement new controls to ensure proper reimbursement to the Commission whenever Commission employees are detailed to other agencies under reimbursable arrangements. (Reference: Director of Personnel's memorandum to staff dated May 4, 1990).

Estimated completion date - Completed.

Recommendation 3—

ITC management should extend the concept expressed in the collective bargaining agreement and require all ITC staff to take a meal break after a stated number of hours of work. This requirement should include regular hours as well as overtime. Such a policy will help to prevent abuse of the T&A system and assist ITC management in its oversight of the T&A program.

AGREE. ITC management will take action to extend the concept expressed in the collective bargaining agreement concerning a meal break requirement as outlined above. However, since this requirement is not mandated by Federal law or by government-wide rule or regulation and because it involves a condition of employment, ITC management will have to consult with AFGE Local 2211 and with Graphic Arts International Local 98L before such changes can be implemented.

Estimated completion date - January 31, 1991.

Time and Attendance

Recommendation 1—

All directors, division chiefs, and others in supervisory positions should be notified by the OFB director of the proper procedures for restoring and using restored leave. The OFB director should take action to identify all "on-the-cuff" restored leave and in consultation with the Director of Personnel, determine if the leave should be entered into official records or forfeited.

AGREE. The Commission issued detailed procedures to properly document, request and use restored annual leave in August, 1982 (Directive 4402), and issues detailed reminders of these procedures well before the end of each leave year through an Administrative Notice. Office Directors, Division Chiefs, others in a supervisory capacity, and all timekeepers will be reminded of these procedures during the quarterly timekeepers meetings and reviews of annual attendance records.

During September, 1990, the Director of Administration will again remind staff of the procedures for restoring leave and the period of its availability.

Estimated completion date - December 31, 1990.

Recommendation 2—

The OFB director should instruct all employees who have an officially established restored leave balance to develop a schedule for restored leave usage with an appropriate supervisor. A copy of the schedule should be provided to the National Payroll Center.

DISAGREE. Commission Directive 4402 already includes detailed procedures for requesting and using annual leave. This procedure is also applicable to the use of restored leave. During September, 1990, the Director of Administration will again remind staff of the procedures for restoring leave, and the period of its availability.

Guidance for the scheduling of restored leave will be included in the new time and attendance manual to reinforce the provisions of Directive 4402. We do recognize that the GSA manual recommends we provide a schedule for restored leave usage, but it is a discretionary item and do not feel it is necessary.

Recommendation 3—

ITC should strengthen internal controls over the use of overtime. A policy should establish the maximum hours of overtime that may be worked per individual, per day and pay period, and the maximum continuous hours (normal and overtime) that can be worked without a meal break.

The Director of the Office of Administration should evaluate the overtime situation in ITC to determine if overtime is being used in a prudent and efficient manner. He should also explore all reasonable alternatives to overtime, including improved scheduling, and ensure that adequate approval, monitoring, and audit procedures are in place to avoid overtime abuse.

PARTIALLY AGREE. Revision of Directive 4304, Compensatory Time And Overtime, was initiated in February 1990. Completion of this revision was delayed to assure that recommendations resulting from this review of personnel management functions begun in March 1990, could be considered for inclusion. In addition, management and labor relations issues raised must be resolved prior to revising this directive. As indicated in recommendation 1 (Time and Attendance) we will strengthen our controls by including the requirement for overtime justification and supporting documentation. However, due to the nature of the Commission's work we are reluctant to establish a limit on overtime.

Estimated completion date - January 31, 1991 to explore possible alternatives.

Recommendation 4—

Certification of overtime hours worked should be made only by authorized officials or supervisors with knowledge of actual time worked. Officials certifying T&A forms should review supporting documentation before approval.

AGREE. Interim guidance will be provided to timekeepers during quarterly timekeeper meetings and to supervisory staff subsequent to Finance and Budget reviews of the Annual Attendance Records. Complete procedures will be included in the new time and attendance handbook.

Estimated completion date - October 31, 1990.

Recommendation 5—

The OFB director should instruct all ITC units to designate timekeepers in writing. The designations should be on file in OFB and should be periodically reviewed to ensure that they are current.

AGREE. The OFB director requested Office Directors to update our time and attendance authority file by memorandum, on May 21, 1990. These designations will be reviewed and updated on a continuing basis.

Estimated completion date - Completed.

Recommendation 6—

ITC management should review the compensatory time policies and procedures and take appropriate corrective action. For the error noted on one employee's Form 873 (Annual Attendance Record), the OFB director and the employee's supervisory and timekeeper should review the form for accuracy and make the necessary adjustments.

AGREE. Revision of Directive 4304, Compensatory Time And Overtime, was initiated in February 1990. Completion of this revision was delayed to assure that recommendations resulting from the review of personnel management functions begun in March 1990, could be considered for inclusion. In addition, management and labor relations issues raised must be resolved prior to implementation of this directive.

These areas will be stressed with timekeepers during quarterly timekeeper meetings and with supervisory staff subsequent to Finance and Budget reviews of the Annual Attendance Records.

Estimated completion date - January 31, 1991.

Recommendation 7--

The Director of the Office of Administration should emphasize to all ITC managers the appropriate use of administrative leave and the importance of periodically reviewing the biweekly Supervisors Time and Attendance Certification Report to monitor the use of administrative leave.

AGREE. A memorandum will be issued.

Estimated completion date - September 30, 1990.

Recommendation 8--

The OFB director should instruct those who provide leave data to the ARS to ensure that such data are consistent with the leave data reported in the T&A system. Also, the OFB director should regularly compare the information between the two systems and reconcile any differences to ensure the accuracy of both systems.

DISAGREE. The Activity Reporting System is an independent employee based workload distribution system utilized to monitor the use of agency resources for budget formulation, justification and execution purposes. Data is submitted independently of other systems, summarized, and reports are provided for program and resource management purposes. The T & A system provided by GSA cannot be modified. The Activity Reporting System and the T & A systems do not allow for reconciliation. The Activity Reporting System is currently under review in conjunction with agency management needs for fiscal year 1991 operations. Further consideration will be given to merge these systems if the decision is made in the future to transfer the payroll system to the Department of Interior's Reclamation Center. Our immediate concern is to complete the migration of the accounting system to the Reclamation Center.

Payroll

Recommendation 1—

A key OFB person should test a sample of the Pay and Leave Statements for the commissioners each month to ensure the accuracy of all entries and related calculations.

AGREE. As a result of legal restrictions, the Commissioners must be paid monthly or semimonthly, and therefore cannot be included in the GSA automated payroll system. Their pay checks and earnings statements are prepared manually by the National Payroll Center.

We will continue the budget execution review procedure of checking each Commissioners earnings statement from "gross to net" that has been in effect for some time. In addition, this responsibility will be expanded to also insure manually typed in amounts appear in the correct areas on the earnings statement.

Estimated completion date - On-going.

Recommendation 2—

The OFB director should:

- o Reinstatement of quarterly timekeeper meetings for the purpose of keeping timekeepers informed of the types of weaknesses OFB observes in the T&A forms and to inform them of changes in policies and procedures.
- o Establish a schedule and ensure that audits of the Supervisory Time and Attendance Certificates are undertaken periodically of all ITC units.
- o Review payroll procedures to determine if adequate time and staff resources are available to ensure accuracy and completeness of T&A forms before they are sent to the National Payroll Center.

AGREE.

- o Quarterly timekeeper meetings will be reinstated — with the next one to be planned for October - December, 1990.
- o Reviews of Annual Attendance Records will be reinstated on a quarterly basis — with the next one to be planned for October - December, 1990.
- o We will continue to assure that adequate staff is assigned to review the accuracy and completeness of T&A forms. In addition, time and attendance processing procedures will be reviewed and revised as appropriate.

Estimated completion date - On-going, beginning first quarter FY 1991.

