

# Inspector General

United States  
Department of Defense



Foreign Allowances and Differentials Paid to DOD Civilian  
Employees Supporting Overseas Contingency Operations

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## Acronyms and Abbreviations

DCPDS	Defense Civilian Personnel Data System
DCPS	Defense Civilian Pay System
DFAS	Defense Finance and Accounting Service
DOD FMR	DOD Financial Management Regulation
DSSR	Department of State Standardized Regulations
DUSD(CPP)	Deputy Under Secretary of Defense for Civilian Personnel Policy
HRO	Human Resources Office
ODUSD(CPP)	Office of the Deputy Under Secretary of Defense for Civilian Personnel Policy
OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer



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August 17, 2010

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR PERSONNEL  
AND READINESS  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Foreign Allowances and Differentials Paid to DOD Civilian Employees  
Supporting Overseas Contingency Operations  
(Report No. D-2010-075)

We are providing this report for review and comment. We considered comments from the Defense Finance and Accounting Service when preparing the final report.

DOD Directive 7650.3 requires that all recommendations be resolved promptly. The comments of the Director, Standards and Compliance, Defense Finance and Accounting Service, were responsive. However, the Deputy Under Secretary of Defense for Civilian Personnel Policy, Office of the Under Secretary of Defense for Personnel and Readiness, did not respond to the draft report. Therefore, we request comments on Recommendations 1.a, 1.b, and 1.c by September 17, 2010.

Please provide comments that conform to the requirements of DOD Directive 7650.3. If possible, send management comments in electronic format (Adobe Acrobat file only) to [audlev@dodig.mil](mailto:audlev@dodig.mil). Copies of management comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868.

*Patricia A. Marsh*  
Patricia A. Marsh, CPA  
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Defense Business Operations





# Results in Brief: Foreign Allowances and Differentials Paid to DOD Civilian Employees Supporting Overseas Contingency Operations

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## What We Did

Our overall objective was to determine whether civilian pay for overseas contingency operations was disbursed in accordance with established laws and regulations. Specifically, we determined whether eligible DOD civilian employees were properly paid foreign allowances and differentials.

## What We Found

DOD Components' Human Resources Offices (HROs) authorized inaccurate foreign allowances and differentials to a projected 8,686 of 11,691 DOD civilian employees supporting overseas contingency operations. This occurred because the Office of the Deputy Under Secretary of Defense for Civilian Personnel Policy (ODUSD[CPP]) did not provide uniform guidance to the DOD Components' HROs to accurately and consistently authorize foreign allowances and differentials. In addition, the ODUSD(CPP) did not monitor DOD Components' HROs to ensure proper implementation and effectiveness of the DOD foreign allowances and differentials program. As a result, the Defense Finance and Accounting Service (DFAS) potentially made improper foreign allowances and differentials payments totaling a projected \$57.7 million to DOD civilian employees supporting overseas contingency operations.

## What We Recommend

The DUSD(CPP) should:

- Finalize and issue uniform DOD-wide policies and procedures to accurately and consistently authorize foreign allowances and differentials.
- Direct the DOD Components' HROs to review all foreign allowances and differentials paid since FY 2007, to identify inaccuracies and provide corrected authorizations to the Defense Finance and Accounting Service for pay adjustments, as appropriate.
- Conduct periodic quality assurance reviews, to ensure that the DOD Components' HROs are accurately and consistently authorizing foreign allowances and differentials.

The Director, DFAS, should take appropriate corrective action to reimburse or recover improper foreign allowances and differentials payments identified by the ODUSD(CPP) and DOD Components' HROs.

## Management Comments and Our Response

The Director, Standards and Compliance, DFAS, comments were responsive. The DUSD(CPP) did not respond to the draft report. We request that the DUSD(CPP) provide comments on the final report by September 17, 2010. Please see the recommendations table on the back of this page.

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Deputy Under Secretary of Defense for Civilian Personnel Policy, Office of the Under Secretary of Defense for Personnel and Readiness	1.a, 1.b, 1.c	
Director, Defense Finance and Accounting Service		2

**Please provide comments by September 17, 2010.**

# Table of Contents

<b>Introduction</b>	1
Objective	1
Background	1
Review of Internal Controls	3
<b>Finding. Authorization of Foreign Allowances and Differentials</b>	4
Recommendations, Management Comments, and Our Response	7
Management Comments Required	7
Other Matters of Interest	8
Management Actions	8
<b>Appendices</b>	
A. Scope and Methodology	9
Prior Coverage	12
B. Definitions of Foreign Allowances and Differentials	14
C. Statistical Sample	15
<b>Management Comments</b>	
Defense Finance and Accounting Service	17



# Introduction

## Objective

Our overall objective was to determine whether civilian pay for overseas contingency operations was disbursed in accordance with established laws and regulations. Specifically, we determined whether eligible DOD civilian employees were properly paid foreign allowances and differentials. The Defense Finance and Accounting Service (DFAS) paid an estimated \$212.9 million in foreign allowances and differentials to 11,691 DOD civilian employees supporting overseas contingency operations during FYs 2007 and 2008. See Appendix A for a discussion of the scope and methodology related to the objective.

## Background

Allowances and differentials are recruitment incentives for DOD civilian employees to accept assignments in foreign locations. The Office of Allowances, U.S. Department of State, administers the Federal Government foreign allowances and differentials program. Specifically, the Office of Allowances established the Department of State Standardized Regulations (DSSR), which governs allowances and differentials available to Federal civilian employees assigned to foreign locations. The DSSR authorizes 17 different types of allowances and differentials.<sup>1</sup> DOD Instruction 1400.25, volume 1250, “DOD Civilian Personnel Management System: Overseas Allowances and Differentials,” July 31, 2009,<sup>2</sup> authorizes all of these allowances and differentials for DOD civilian employees except portions of the foreign transfer allowance, the home service transfer allowance, and the education allowance.<sup>3</sup>

DOD civilian employees are not automatically granted foreign allowances and differentials when they meet eligibility requirements. DOD Components must consider the recruitment need and the expense each DOD Component will incur. During FYs 2007 and 2008, DOD Components approved eight types of foreign allowances and differentials for DOD civilian employees supporting overseas contingency operations: danger pay allowance, difficult-to-staff incentive differential, portions of the foreign transfer allowance, living quarters allowance, post allowance, post hardship differential, separate maintenance allowance, and temporary quarters subsistence allowance (see Appendix B for definitions).

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<sup>1</sup>The DSSR authorizes advance of pay, danger pay allowance, difficult-to-staff incentive differential, education allowance, educational travel, evacuation-related payments, extraordinary quarters allowance, foreign transfer allowance, foreign travel per diem allowance, home service transfer allowance, living quarters allowance, post allowance, post hardship differential, official residence expense allowance, representation allowance, separate maintenance allowance, and temporary quarters subsistence allowance.

<sup>2</sup>DOD Instruction 1400.25, volume 1250, was issued in December 1996. DOD administratively reissued this instruction on July 31, 2009.

<sup>3</sup>DOD civilian employees are not authorized the wardrobe portion of the foreign transfer allowance or the home service transfer allowance. The educational travel allowance may be authorized.

## ***DOD Components' Human Resources Office Process***

DOD Components' local and regional Human Resources Offices (HROs) provide comprehensive support to deploying DOD civilian employees supporting overseas contingency operations. Each DOD Component has a large number of local HROs. The local HROs serve as primary points of contact for informing employees of foreign allowances and differentials for which they are eligible and assisting them in preparing their SF 1190, "Foreign Allowances Application, Grant, and Report,"<sup>4</sup> and supporting documentation. An SF 1190 is required to authorize all foreign allowances and differentials except danger pay allowance and post hardship differential. Local HRO personnel enter the SF 1190 information into the Defense Civilian Personnel Data System (DCPDS)<sup>5</sup> or forward it to the regional HRO.

The Army has eight regional HROs, Navy has seven regional HROs, and Air Force has one regional HRO, which process foreign allowances and differentials. Additionally, DFAS, Defense Logistics Agency, DOD Education Activity, and Washington Headquarters Services have one regional HRO each. The DFAS, Defense Logistics Agency, and Washington Headquarters Services regional HROs also process foreign allowances and differentials for other Defense organizations.

The regional HROs enter the SF 1190 information into DCPDS. DCPDS electronically transfers the SF 1190 information to DFAS Civilian Pay for payroll processing. Alternatively, the regional HROs transfer SF 1190 and supporting documentation through the remedy system, whereby they create a remedy ticket<sup>6</sup> for DFAS Civilian Pay to manually process foreign allowances and differentials. During March 2009, the Civilian Personnel Management Service instructed the regional HROs to discontinue using remedy tickets and enter the SF 1190 information in DCPDS.

## ***DFAS Civilian Pay***

DFAS Civilian Pay is responsible for ensuring that DOD civilian payroll is processed accurately and promptly. Initially, DFAS processed DOD civilian payroll at three locations: Charleston, South Carolina; Denver, Colorado; and Pensacola, Florida. From March 2007 through March 2008, the civilian payroll offices were consolidated and transferred to Cleveland, Ohio, and Indianapolis, Indiana.

## ***Civilian Pay Processing of Foreign Allowances and Differentials***

DFAS Civilian Pay uses the Defense Civilian Pay System (DCPS) to process biweekly payroll. DCPS maintains pay entitlements, leave entitlements, deductions and

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<sup>4</sup>SF 1190 includes the employee's name, position, and pay grade; spouse and dependent information; country and deployment dates; allowances and differentials types; and approving or authorizing officials' signatures.

<sup>5</sup>DCPDS is the primary human resources information system maintained by the Civilian Personnel Management Service that supports DOD civilian personnel operations.

<sup>6</sup>A remedy ticket is submitted to DFAS Civilian Pay to request assistance with problems that DOD Component HROs cannot solve. The remedy system has templates that are used for everyday transactions where hard copy documentation is not needed or if manual intervention by the Payroll office is needed.

withholdings, time and attendance, and other employee information. It also maintains SF 1190 information electronically transferred from DCPDS. If DCPS does not identify any errors in the data, DCPS electronically transfers the foreign allowances and differentials to the DFAS Disbursing Office for payment.

DFAS Civilian Pay also receives scanned SF 1190 information on remedy tickets for payroll technicians to process. DFAS payroll technicians review SF 1190s to ensure proper approval and deployment dates, current personnel information, and that the DOD civilian employee is not receiving duplicate foreign allowances and differentials. DFAS payroll technicians then manually enter SF 1190 information in DCPS. A DFAS Civilian Pay supervisor approves the foreign allowances and differentials and electronically transfers them to the DFAS Disbursing Office for payment. During biweekly payroll, DFAS Disbursing Operations, Cleveland, Ohio, disburses foreign allowances and differentials payments to all DOD civilian employees supporting overseas contingency operations.

## **Review of Internal Controls**

DOD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” January 4, 2006, requires DOD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses as they relate to the audit objective. The Office of the Deputy Under Secretary of Defense for Civilian Personnel Policy (ODUSD[CPP]), Office of the Under Secretary of Defense for Personnel and Readiness, did not provide uniform guidance to the DOD Components’ HROs to accurately and consistently authorize foreign allowances and differentials paid to DOD civilian employees supporting overseas contingency operations. Additionally, the ODUSD(CPP) did not monitor DOD Components’ HROs to ensure proper implementation and effectiveness of the DOD foreign allowances and differentials program. Implementing Recommendations 1.a, 1.b, 1.c, and 2 will strengthen policies and procedures to ensure DOD Components’ HROs properly authorize and monitor foreign allowances and differentials and reduce improper payments. We will provide a copy of the report to the senior official responsible for internal controls in the Office of the Under Secretary of Defense for Personnel and Readiness and DFAS.

## **Finding. Authorization of Foreign Allowances and Differentials**

DOD Components' HROs authorized inaccurate foreign allowances and differentials to a projected 8,686 of 11,691 DOD civilian employees supporting overseas contingency operations. This occurred because the ODUSD(CPP) did not provide uniform guidance to the DOD Components' HROs to accurately and consistently authorize foreign allowances and differentials. In addition, the ODUSD(CPP) did not monitor DOD Components' HROs to ensure proper implementation and effectiveness of the DOD foreign allowances and differentials program. As a result, DFAS potentially made improper foreign allowances and differentials payments totaling a projected \$57.7 million to DOD civilian employees supporting overseas contingency operations.

### **Accuracy of Authorization**

DOD Components' HROs authorized inaccurate foreign allowances and differentials to a projected 8,686 of 11,691 DOD civilian employees supporting overseas contingency operations. Specifically, DOD Components' HROs authorized inaccurate danger pay allowances for foreign locations. DSSR, chapter 650, "Danger Pay Allowance," July 9, 2006, allows DOD civilian employees to receive danger pay allowance for the full day when they are in a danger pay location for 4 hours or more. However, we identified several instances where DOD civilian employees received danger pay allowances for dates on which they were not at the specified location. For example, a DOD civilian employee was in Kuwait for 2 days before arriving in Iraq. The DOD civilian employee was authorized the Iraq danger pay allowance rate of 35 percent while in Kuwait, which has a danger pay allowance rate of 15 percent. Additionally, DOD Components' HROs authorized inaccurate danger pay allowances for days DOD civilian employees were not in danger pay locations. For example, a DOD civilian employee traveled to the United States for 30 days but continued to be incorrectly authorized a total of \$3,857 in danger pay allowance for Iraq. This employee should not have been authorized a danger pay allowance for those 30 days in the United States.

DOD Components' HROs also authorized inaccurate post hardship differentials to DOD civilian employees. DSSR, chapter 540, "Hardship Differential on Detail From the United States or Other Posts," July 9, 2006, allows DOD civilian employees to become eligible for the post hardship differential on the 43rd consecutive day at a post-hardship-differential location unless they are in Afghanistan or Iraq, where they can receive this differential from the first day. However, we identified numerous instances where DOD civilian employees were authorized inaccurate post hardship differentials during their first 42 days in a post-hardship-differential location other than Afghanistan and Iraq. For example, a DOD civilian employee entered Ankara, Turkey, on October 15, 2007. The employee was incorrectly authorized a total of \$454 in post hardship differentials by the employee's DOD Component HRO starting the first day of the assignment, even though he was not entitled to receive the differential until November 26, 2007. Additionally, DOD Components' HROs incorrectly authorized multiple post hardship differentials to DOD civilian employees who were not in post-hardship-differential locations. For

example, during FY 2007, one civilian employee was incorrectly authorized a total of \$19,228 in post hardship differentials while in Germany. The DSSR does not authorize the post hardship differential for Germany.

## **Documentation for Foreign Allowances and Differentials**

DOD Components' HROs incorrectly authorized foreign allowances and differentials without SF 1190s or supporting documentation. DSSR, chapter 73, "Report Forms," May 1, 2005, requires an SF 1190 to authorize payments of all foreign allowances and differentials except danger pay allowance and post hardship differential. However, numerous DOD civilian employees did not have an SF 1190 or supporting documentation to receive foreign allowances and differentials. For example, a DOD civilian employee was authorized a total of \$28,627 in living quarters allowance during FYs 2007 and 2008, but the DOD Components' HROs could not provide an authorizing SF 1190 or supporting documentation. DOD Components' HROs also incorrectly authorized foreign allowances and differentials with incomplete SF 1190s. DSSR, chapter 77, "Use of SF 1190, Foreign Allowances Application, Grant, and Report," July 9, 2006, requires DOD Components to complete the entire SF 1190. DOD Components must complete all boxes on the form and indicate the nonapplicable sections. Some DOD Components' HROs authorized foreign allowances and differentials with SF 1190s that did not identify the employee's position and pay grade, country, deployment dates, allowances and differentials types, and approving or authorizing official signatures.

## **Guidance for Authorization**

The ODUSD(CPP) did not provide uniform guidance to the DOD Components' HROs to accurately and consistently authorize foreign allowances and differentials. DOD Instruction 1400.25, volume 100, "General Provisions," April 13, 2009,<sup>7</sup> requires the ODUSD(CPP) to develop and issue uniform DOD civilian personnel policies and procedures. Instead, the ODUSD(CPP) delegated the ability to develop and implement procedures for processing foreign allowances and differentials to DOD Components. The ODUSD(CPP) instructed DOD Components to follow the DSSR when developing their guidance. However, DOD Components established different guidance for processing foreign allowances and differentials. DFAS and Washington Headquarters Services drafted formal policies that addressed danger pay allowances and post hardship differentials.<sup>8</sup> However, their policies did not address any other foreign allowances and differentials and were not specific enough to achieve uniform processing of all foreign allowances and differentials. The Army developed a formal policy on living quarters allowance and two Web sites that provided details for processing all foreign allowances

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<sup>7</sup>DOD Instruction 1400.25, volume 100, was issued on December 3, 1996. DOD administratively reissued this instruction on April 13, 2009.

<sup>8</sup>The DFAS policy is contained in HR Instruction Number 09-05, "Civilian Expeditionary Workforce," August 25, 2009. The Washington Headquarters Services policy is contained in Memorandum for Administrative Officers, "Processing Danger Pay for Civilian Employees Serving in Certain Overseas Areas," August 11, 2006.

and differentials.<sup>9</sup> The Air Force, Defense Logistics Agency, and DOD Education Activity did not establish any policies and relied on the DSSR. The Navy did not provide any policies.

According to an ODUSD(CPP) official, discrepancies occurred because DOD Components' HROs did not have a consistent procedure to process foreign allowances and differentials. In May 2009, the ODUSD(CPP) provided informal DOD guidance, which detailed processing instructions for all foreign allowances and differentials. The guidance aligned with rules in the DSSR and incorporated DOD Components' HROs' best practices to streamline the processing of foreign allowances and differentials. The informal DOD guidance also included the use of a foreign location record, which tracked each employee's daily location. The foreign location record was a good way to ensure that DOD Components' HROs properly applied foreign allowance and differential rates when employees traveled to multiple countries. The ODUSD(CPP) should finalize and issue this informal DOD guidance to provide uniform DOD-wide policies and procedures to accurately and consistently authorize foreign allowances and differentials. In addition, because of the inconsistent authorization of foreign allowances and differentials, the ODUSD(CPP) should direct the DOD Components' HROs to review all foreign allowances and differentials paid since FY 2007, to identify inaccuracies, which they should refer to DFAS for correction.

The ODUSD(CPP) also did not monitor DOD Components' HROs to ensure proper implementation and effectiveness of the DOD foreign allowances and differentials program, as required by DOD Instruction 1400.25, volume 100. According to a ODUSD(CPP) official, the Office of the Under Secretary of Defense for Personnel and Readiness periodically surveyed civilians in foreign locations about pay and communicated issues to the in-theater HRO to fix problem trends. The ODUSD(CPP) could improve monitoring of DOD Components' HROs authorization of foreign allowances and differentials through periodic quality assurance reviews. Quality assurance reviews would ensure that DOD Components' HROs accurately and consistently authorized foreign allowances and differentials and would reduce improper payments.

## **Foreign Allowance and Differential Payments**

DFAS potentially made improper foreign allowance and differential payments totaling a projected \$57.7 million to DOD civilian employees supporting overseas contingency operations. DFAS paid foreign allowances and differentials based on inaccurate SF 1190s and supporting documentation provided by DOD Components' HROs. As a result, DFAS made overpayments and underpayments to DOD civilian employees. Public Law 107-300, "Improper Payments Information Act of 2002," considers payments that should not have been made or were made in an incorrect amount to be improper.

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<sup>9</sup>The Army formal policy on living quarters allowance is AE Regulation 690-500.592, "Civilian Personnel Living Quarters Allowance," November 18, 2005. The two Army Web sites are <http://cpolrhp.belvoir.army.mil/ncr/FunctionalAreas/NCCPOC/customersupport/ForeignEntitlements.htm> and [http://cpolrhp.belvoir.army.mil/eur/overseas/OA\\_Info.htm](http://cpolrhp.belvoir.army.mil/eur/overseas/OA_Info.htm).

DOD Regulation 7000.14-R, “DOD Financial Management Regulation” (DOD FMR), volume 8, chapter 1, requires DFAS Civilian Pay to ensure that foreign allowances and differentials payments are accurate. It also requires DFAS Civilian Pay to promptly investigate improper payments and take appropriate action to correct deficiencies. DFAS should take appropriate corrective action to reimburse or recover improper foreign allowances and differentials payments identified by the ODUSD(CPP) and DOD Components’ HROs.

## **Recommendations, Management Comments, and Our Response**

**1. We recommend that the Deputy Under Secretary of Defense for Civilian Personnel Policy, Office of the Under Secretary of Defense for Personnel and Readiness:**

**a. Finalize and issue uniform DOD-wide policies and procedures to accurately and consistently authorize foreign allowances and differentials.**

**b. Direct the DOD Components’ Human Resources Offices to review all foreign allowances and differentials paid since FY 2007, to identify inaccuracies and provide corrected authorizations to the Defense Finance and Accounting Service for pay adjustments, as appropriate.**

**c. Conduct periodic quality assurance reviews, to ensure that the DOD Components’ Human Resources Offices are accurately and consistently authorizing foreign allowances and differentials.**

### ***Management Comments Required***

The Deputy Under Secretary of Defense for Civilian Personnel Policy, Office of the Under Secretary of Defense for Personnel and Readiness, did not respond to the draft report. We request that the Deputy Under Secretary of Defense for Civilian Personnel Policy provide comments on the final report.

**2. We recommend that the Director, Defense Finance and Accounting Service, take appropriate corrective action to reimburse or recover improper foreign allowances and differentials payments identified by the Office of the Deputy Under Secretary of Defense for Civilian Personnel Policy and DOD Components’ Human Resources Offices.**

### ***Defense Finance and Accounting Service Comments***

The Director, Standards and Compliance, agreed and stated that DFAS will take appropriate corrective actions when the OUSD(CPP) and DOD Components’ HROs identify the improper accounts. Additionally, the Director, DFAS Indianapolis, stated that currently there are two employees in Iraq and Afghanistan, respectively, detailed for civilian pay. DFAS Civilian Pay also implemented a new civilian pay processing team, which specializes in deployed personnel pay issues, to include all foreign entitlements

and aggregate pay limitation issues. The new civilian pay processing team provides face-to-face customer service. It also resolves all payroll inquiries between the deployed personnel's home duty station timekeeper, customer service representative, and HRO. DFAS also is working to implement the use of an electronic SF 1190.

## ***Our Response***

The comments of the Director, Standards and Compliance, are responsive, and the actions meet the intent of the recommendation.

## **Other Matters of Interest**

DOD FMR, volume 8, chapter 3, "Pay Administration," did not include proper maximum danger pay allowance and post hardship differential percentages because the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (OUSDC)/CFO did not implement current DSSR guidance. According to a OUSDC/CFO official, the DOD FMR has not been updated to reflect the current DSSR guidance because this DOD FMR section is always changing. DOD FMR requires that danger pay allowance may not exceed 25 percent of the employee's basic pay.<sup>10</sup> When both an allowance and a differential have been authorized, the total pay must not exceed 50 percent of the employee's basic pay. However, the DSSR authorizes maximum percentages for Afghanistan and Iraq that are greater than those authorized by the DOD FMR. Specifically, DSSR, chapter 650, "Danger Pay Allowance," July 9, 2006, authorizes an Afghanistan and Iraq danger pay allowance not to exceed 35 percent of the employee's basic pay. Additionally, DSSR, chapter 500, "Post Hardship Differential," July 9, 2006, authorizes an Afghanistan and Iraq post hardship differential not to exceed 35 percent of the employee's basic pay. The DSSR does not impose any maximum percentage when both a danger pay allowance and post hardship differential have been authorized. For example, if an employee was located in Iraq and their DOD Component HRO followed the DOD FMR policy, they would have received 25 percent danger pay allowance and 25 percent post hardship differential, for a total of 50 percent. However, if their DOD Component HRO followed the DSSR, they would have received 35 percent danger pay allowance and 35 percent post hardship differential, for a total of 70 percent. DOD Components' HROs should use the current DSSR guidance to authorize danger pay allowance and post hardship differential payments. Although no instances of DOD civilian employees being incorrectly paid as a result of the DOD Components' HROs following the DOD FMR were identified in our sample, updating the DOD FMR to refer to the DSSR would reduce the risk of this occurring in the future.

## **Management Actions**

DOD FMR, volume 8, chapter 3, was updated and published in June 2010. The updated information reflects the DSSR and allows for a danger pay allowance of up to 35 percent and a post hardship differential of up to 35 percent. Additionally, the update allows a combined allowance and differential total of up to 70 percent.

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<sup>10</sup>Basic pay is the rate of pay before any deductions.

## Appendix A. Scope and Methodology

We conducted this performance audit from April 2009 through May 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine that eligible DOD civilian employees supporting overseas contingency operations properly received authorized allowances and differentials, we evaluated the foreign allowances and differentials process. We contacted DFAS to obtain an audit universe of allowances and differentials paid to DOD civilian employees supporting overseas contingency operations. According to DFAS officials, DCPS could not provide a complete listing of DOD civilian employees who received foreign allowances and differentials payments while supporting overseas contingency operations. DFAS officials contacted the Civilian Personnel Management Service, to identify this listing. According to Civilian Personnel Management Service officials, DCPDS does not include a code to identify all DOD civilian employees supporting overseas contingency operations. After discussions with DFAS and the Civilian Personnel Management Service, a DFAS official agreed that the best way to identify a complete listing of DOD civilian employees supporting overseas contingency operations was to extract all DOD civilian employees that received either a danger pay allowance or a post hardship differential from DCPS. We requested that DFAS extract these employees from DCPS.

After three attempts and 3 months, DFAS extracted 11,820 DOD civilian employees who had received either a danger pay allowance or a post hardship differential from DCPS during 2007 and 2008. Some of these DOD civilian employees received additional foreign allowances and differentials, such as difficult-to-staff incentives, foreign transfer allowance, living quarters allowance, post allowance, separate maintenance allowance, and temporary quarters subsistence allowance payments. Some foreign allowances and differentials were for other foreign locations not supporting overseas contingency operations. These 11,820 DOD civilian employees received over \$252 million in foreign allowances and differentials.

Some of the 11,820 DOD civilian employees received foreign allowances and differentials payments that were not during FYs 2007 and 2008. Using the Audit Command Language, we removed foreign allowances and differentials payments that were not during FYs 2007 and 2008, which reduced our universe by 129 DOD civilian employees. Therefore, the new universe identified was 11,691 DOD civilian employees who received over \$247 million in foreign allowances and differentials payments. After further reviewing the information provided by DFAS, we also identified that the extracted DCPS information included duplicate foreign allowances and differentials entries and misidentified negative foreign allowance and differential entries as positives. We estimated that the 11,691 DOD civilian employees received over \$212.9 million in foreign allowances and differentials.

We selected a statistical sample of 342 DOD civilian employees who were supporting contingency operations, to determine whether eligible employees properly received authorized allowances and differentials during FYs 2007 and 2008. See Appendix C for the statistical sample plan. We requested authorizing documentation for the sample from the DOD Components' HROs. After 2 months, DOD Components' HROs provided some of the requested SF 1190s and supporting documentation. In many instances, we did not receive any documentation, or the documentation was incomplete. We reviewed SF 1190s and supporting documentation provided to us. We recalculated the authorization amount using the DSSR and documentation provided by the DOD Components' HROs. We then compared the authorization amount to DCPS documentation, to identify potentially improper payments. Each DOD civilian employee could have been paid up to eight foreign allowances and differentials. We identified the potential improper amount of each type of allowance and differential and took a net value of the totals. We did not include potentially improper payments of less than \$100. Two examples from our analysis follow.

- Employee A.** Employee A received four types of foreign allowances and differentials. We received complete SF 1190s and supporting documentation from the employee's DOD Component HRO. We calculated the amount of foreign allowances and differentials the employee was eligible for using the DSSR. We determined the employee was overpaid for two of the allowances and differentials and underpaid for the other two. The net value of the overpayments and underpayments was \$1,524. Therefore, we identified that Employee A potentially had improper foreign allowance and differential payments of \$1,524. See Table A-1.

**Table A-1. Foreign Allowance and Differential Payments for Employee A**

<b>Type</b>	<b>Amount Paid</b>	<b>Potential Over- or Underpayment</b>
Danger pay	\$12,774	\$1,635
Post hardship differential	12,504	1,675
Post allowance	4,922	(926)
Separate maintenance allowance	18,653	(3,908)
<b>Total</b>	<b>\$48,853</b>	<b>(\$1,524)</b>

- **Employee B.** Employee B received three types of allowances and differentials, totaling \$75,242. We did not receive any SF 1190s or supporting documentation from the employee’s DOD Component HRO. Therefore, we could not calculate the amount of foreign allowances and differentials the employee was eligible for using the DSSR and had to count the entire amount as potentially improper. See Table A-2.

**Table A-2. Foreign Allowance and Differential Payments for Employee B**

<b>Type</b>	<b>Paid</b>	<b>Potential Over- or Underpayment</b>
Post hardship differential	\$22,030	\$22,030
Living quarters allowance	42,408	42,408
Post allowance	10,804	10,804
<b>Total</b>	<b>\$75,242</b>	<b>\$75,242</b>

To accomplish the audit objectives, we performed the following tasks.

- We met with the OUSD(C)/CFO officials to obtain applicable DOD regulations for maximum danger pay allowance and post hardship differential percentages.
- We met with officials from the ODUSD(CPP), Office of the Under Secretary of Defense for Personnel and Readiness, to obtain allowances and differentials policy. Specifically, we reviewed policy memoranda, informal authorization guidance, and the ODUSD(CPP) annual statement of assurance.
- We met with officials from the Civilian Personnel Management Service to gain an understanding of the process for foreign allowances and differentials and to obtain points of contact for DOD Components.
- We contacted the Army, Navy, Air Force, DOD Office of the Inspector General, Defense Logistics Agency, DFAS, DOD Education Activity, and Washington Headquarters Services, to determine authorization procedures for processing foreign allowances and differentials paid to DOD civilian employees supporting overseas contingency operations. We also obtained standard operating procedures and requested SF 1190 and supporting documentation. Our Civilian Personnel Management Service point of contact communicated our request for SF 1190 and supporting documentation to seven DOD Components. The DOD Components canvassed a large number of local HROs, as well as their regional HROs, to provide the documentation because the employees were processed at different locations around the world. We directly contacted the DOD Office of the Inspector General to obtain supporting documentation. We reviewed all SF 1190 and supporting documentation that was provided by the DOD Components.

- We contacted officials from DFAS Pensacola, to obtain an audit universe of DOD civilian employees who received danger pay allowance and post hardship differential payments while supporting overseas contingency operations during FYs 2007 and 2008.
- We met with officials from DFAS Civilian Pay, Cleveland, Ohio, and Indianapolis, Indiana, to determine the foreign allowances and differentials payment process. Specifically, we reviewed payroll processes, payroll standard operating procedures, payment documentation, and remedy tickets.
- We met with officials from DFAS Disbursing Operations, Cleveland, Ohio, to determine the disbursement process for foreign allowances and differentials payments.

## **Use of Computer-Processed Data**

To perform this audit, we used data from DCPS. DCPS is the official civilian payroll system for DOD. DOD Office of the Inspector General auditors assessed DCPS general and application controls. They obtained reasonable assurance that DCPS controls were adequate. We also assessed reliability by reviewing existing information about DCPS and interviewing knowledgeable agency officials. Additionally, we assessed data reliability by comparing SF 1190, foreign location records, lease agreements, master pay history records, and other supporting documentation and recalculating foreign allowances and differentials paid to DOD civilian employees. Based on this work, we concluded that the data were sufficiently reliable and accurately reflected foreign allowances and differentials for the purpose of our review.

## **Use of Technical Assistance**

The DOD Office of the Inspector General Quantitative Methods and Analysis Division assisted with the project sample selection and projection of results.

## **Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO) and the U.S. Army Audit Agency have issued two reports related to allowances and differentials paid to DOD employees supporting overseas contingency operations. Unrestricted Government Accountability Office reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted Army reports can be accessed from a .mil domain over the Internet at <https://www.aaa.army.mil/>.

## **GAO**

GAO Report No. GAO 09-562, “Actions Needed to Better Track and Provide Timely and Accurate Compensation and Medical Benefits to Deployed Federal Civilians,”  
June 26, 2009

***U.S. Army Audit Agency***

U.S. Army Audit Agency Report No. A-2007-0184-FFM, "Civilian Pay in Support of Operation Enduring Freedom and Operation Iraqi Freedom," August 15, 2007

## Appendix B. Definitions of Foreign Allowances and Differentials

**Danger Pay Allowance** provides U.S. Government civilian employees additional compensation above basic pay for service in foreign locations where conditions of civil insurrection, civil war, terrorism, or wartime-type conditions exist.

**Difficult-to-Staff Incentive Differential** is paid to an employee assigned to a location with especially adverse conditions.

**Foreign Transfer Allowance** is for additional expenses necessary to transfer an employee to a foreign location.

**Living Quarters Allowance** provides the annual cost of living quarters for the employee and his or her family. It covers rent, heat, light, fuel, gas, electricity, water, and other costs required by law.

**Post Allowance** is granted to an employee officially stationed in a foreign location where the cost of living is substantially higher than Washington, D.C. The post allowance permits employees to spend the same portion of their basic compensation for current living without incurring a reduction in living standards.

**Post Hardship Differential** compensates employees in foreign locations for substantially different environmental conditions.

**Separate Maintenance Allowance** provides an employee additional pay to cover expenses for maintaining eligible family members at a different foreign location assignment. There are three types of separate maintenance allowances: involuntary, voluntary, and transitional.

**Temporary Quarters Subsistence Allowance** provides for the average accommodations in a hotel or other living quarters in foreign locations. The employee may also be reimbursed for meals and laundry expenses.

## Appendix C. Statistical Sample

**Population.** The population consisted of 11,691 DOD civilian employees who received foreign allowances and differentials during FYs 2007 and 2008.

**Sample Plan.** The DOD Office of the Inspector General Quantitative Methods and Analysis Division used a stratified sampling design for this project. They stratified the population into six strata and selected a random sample of 342 DOD civilian employees for review. See Table C-1 for our sampling plan.

**Table C-1. Sampling Plan**

Stratum	Population Size	Sample Size
≥150K	53	53
≥100K–<150K	113	49
≥50K–<100K	1,013	65
≥25K–<50K	2,235	80
≥10K–<25K	3,895	65
<10K	4,382	30
<b>Total</b>	<b>11,691</b>	<b>342</b>

**Analysis and Interpretation.** Through an analysis of each employee in the sample, we identified 285 individuals with potential improper payments totaling \$3.7 million. Table C-2 provides the Quantitative Methods and Analysis Division projection of these amounts across the population at a 90 percent confidence level.

**Table C-2. Projection of Foreign Allowances and Differentials With Potentially Improper Payments**

	Number of Civilian Employees	Potentially Improper Payments
Upper bound	9,564	\$66.2 million
Point estimate	8,686	57.7 million
Lower bound	7,809	49.2 million



# Defense Finance and Accounting Service Comments

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INDIANAPOLIS, IN 46249

## DEFENSE FINANCE AND ACCOUNTING SERVICE

DFAS-JJ

June 14, 2010

MEMORANDUM FOR DIRECTOR, DEFENSE BUSINESS OPERATIONS, OFFICE OF  
THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (DoD)

SUBJECT: Management Comments to DoDIG Draft Report "Foreign Allowances and  
Differentials Paid to DoD Civilian Employees Supporting Overseas Contingency  
Operations," Dated May 12, 2010, Project D009-D000FC-0199.000

Attached are management comments for recommendation 2, (TAB B) along with Positive  
Management Action from Expeditionary Support Organization (ESO).

If you have questions or concerns regarding these comments your staff may contact [REDACTED]

A handwritten signature in black ink, appearing to read "David E. McDermott".

David E. McDermott  
Director, Standards & Compliance

Attachments:  
As stated

Management Comments to DoDIG Draft Report "Foreign Allowances and Differentials Paid to DoD Civilian Employees Supporting Overseas Contingency Operations." Dated May 12, 2010, Project D2009-D000FC-0199.000

**Recommendation 2:** We recommend that the Director, Defense Finance and Accounting Service, take the appropriate action to reimburse or recover improper foreign allowances and differentials payments identified by the Office of the Deputy Under Secretary of Defense for Civilian Personnel Policy and DoD Components' Human resources Offices.

**Management Comments: Concur.** When the Deputy Under Secretary of Defense for Civilian Personnel Policy and DoD Components' HROs identify the accounts, the DFAS will take appropriate corrective actions.

**Estimated Completion or Completed Date:** We consider this recommendation closed.



DEFENSE FINANCE AND ACCOUNTING SERVICE  
8899 EAST 24<sup>TH</sup> STREET  
INDIANAPOLIS, INDIANA 46248

MAY 28 2010

DFAS-JB/IN

MEMORANDUM FOR DIRECTOR, DEFENSE BUSINESS OPERATIONS, OFFICE OF  
THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE  
(DOD)

SUBJECT: Management Comments to DoDIG Draft Report "Foreign Allowances and  
Differentials Paid to DOD Civilian Employees Supporting Overseas Contingency  
Operations." Dated May 12, 2010, Project D009-D000FC-0199.000

Although not required to respond to the draft report, please see the ESO management  
comments below.

The Defense Finance and Accounting Service (DFAS) initiated providing Civilian  
Payroll support In Theater effective May 2009. There are currently two Civilian employees  
detailed to Theater for Civilian Pay, one to Iraq and one to Afghanistan. The Civilian Pay  
department has assembled a team of 7-8 employees who focus their efforts on deployed civilian  
pay issues. The DFAS works very closely with the Office of the Secretary of Defense (OSD)  
Civilian Expeditionary Workforce at Camp Atterbury on training deploying civilians on civilian  
pay and deployment entitlements.

Civilian Pay implemented a new processing team which specializes in deployed  
personnel pay issues, to include all foreign entitlements and aggregate pay limitation issues.  
These team members are prepared to be deployed to any combat zone upon request from J/G1  
command seeking a Civilian Payroll representative in their office. These members, when In  
Theater are there to provide face-to-face customer service and provide resolutions to all payroll  
inquiries. They also act as a liaison between the deployed personnel's home duty station  
timekeeper, Customer Service Representative and actual Human Resource Office. They provide  
problem resolution to the deployed individuals to resolve complex pay problems or to provide  
required supporting documentation to allow the home station payroll office resolve the inquiry.  
They utilize their knowledge to explain and provide regulatory guidance to explain or resolve a  
pay issue.

ESO is also working with OSD Civilian Pay policy on using electronic SF 1190 and the  
addendum sheet that is digitally signed to speed the process and allow updates to the civilian pay  
account across geographic separations. The DFAS is testing the electronic SF 1190 on its  
deployed personnel, while OSD is promoting the electronic SF 1190 to other agencies.

[www.dfas.mil](http://www.dfas.mil)  
Your Financial Partner @ Work

If you have questions or concerns regarding these comments your staff may contact

[Redacted]

  
for Edna J. Knight  
Director, DFAS Indianapolis





# Inspector General Department of Defense

