Office of Inspector General

September 2008
Report No. AUD-08-016

Controls Over Contractor Payments for Relocation Services

AUDIT REPORT

Office of Audits

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OIG
Federal Deposit Insurance Corporation

Report No. AUD-08-016 September 2008

Controls Over Contractor Payments for Relocation Services

Why We Did The Audit

The Corporation provides relocation services and reimbursement of expenses for FDIC employees who change their official duty station for the benefit of the FDIC. Certain retirees also receive some relocation benefits. The FDIC has contracted with the Cartus Corporation (Cartus) to provide eligible employees and retirees with relocation services.

The objective of the audit was to determine whether the FDIC has sound controls in place to ensure that costs billed to the FDIC by Cartus for relocation services are allowable, allocable, and reasonable and in compliance with contract requirements. As part of the audit, we engaged the Defense Contract Audit Agency (DCAA) to examine selected invoices submitted by Cartus.

Background

The FDIC's Division of Finance (DOF) has overall responsibility for managing the FDIC's relocation program, including oversight of the Cartus contract. During 2006 and 2007, Cartus billed the FDIC about $11 million for relocation expenses such as household goods moving and storage costs, lump-sum payments (such as airfare and lodging), miscellaneous expense allowances, and real estate expenses. Cartus also billed the FDIC about $7.8 million during 2007 for advances of home equity and mortgage payoffs related to the FDIC's Home Sale Program. That program is intended to assist relocating employees in selling a qualified residence at the former official station so that the employee can move more quickly to purchase a home at the new official station.

The FDIC's *General Travel Regulation, Volume II,* specifies the benefits, requirements, and restrictions for employee participation in the FDIC's relocation program. Additionally, FDIC Circular 4010.3, *FDIC Enterprise Risk Management Program*, requires appropriate documentation of controls and procedures and monitoring of controls for financial transactions such as contractor payments.

Audit Results

DOF has implemented a number of important controls designed to ensure that payments to Cartus for relocation services are allowable, allocable, and reasonable and in compliance with contract requirements. Of particular note, DOF has designated an Oversight Manager and Technical Monitor to oversee the Cartus contract and has segregated key duties and responsibilities for reviewing, processing, and paying contractor invoices. Further, DOF has performed post-payment audits of selected invoices submitted by Cartus. In addition, DCAA found that costs billed to the FDIC for relocation services on selected Cartus invoices were allowable, allocable, and reasonable.

We also found that improvements are needed in some areas to ensure sound controls over the FDIC's payments to Cartus for relocation services. Specifically, DOF had not fully documented its control activities related to payments of the monthly Cartus invoices for relocation services, including the control activities for performing semi-annual post-payment audits and the roles and responsibilities in carrying out control activities. Also not fully documented were the control activities related to the weekly Cartus invoices for the Home Sale Program. These control activities are a key means of assuring the validity of payment transactions and the accuracy and timeliness of payment recording. Documentation of the control activities may help reduce the risk of errors and unauthorized transactions.

In addition, DOF has not fully documented procedures for the monitoring and periodic assessment of controls over contractor payments for the relocation program and formalized the procedures through management review and approval to ensure that they are working as intended. Monitoring and assessing controls are useful in ensuring the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with policies and procedures.

Improvements in these areas will also help ensure consistency with internal control standards as required by FDIC Circular 4010.3.

Recommendations and Management Response

We recommended that the Director, DOF:

- Fully document the control activities associated with contractor payments of the monthly invoices for relocation expenses and the weekly invoices for the Home Sale Program, including documenting the control activities for performing semi-annual post-payment audits and the roles and responsibilities in carrying out control activities.

- Formalize the monitoring and periodic assessment of the controls over contractor payments for relocation services as part of DOF's internal control program.

DOF concurred with our recommendations and has planned to take responsive actions.

To view the full report, go to www.fdicig.gov/2008reports.asp

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Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226

Office of Audits
Office of Inspector General

DATE: September 17, 2008

MEMORANDUM TO: Bret D. Edwards, Director
Division of Finance

/Signed/

FROM: Russell A. Rau
Assistant Inspector General for Audits

SUBJECT: *Controls Over Contractor Payments for Relocation Services* (Report No. AUD-08-016)

This report presents the results of our audit of controls over contractor payments for relocation services. This audit is the second we plan to perform this year on FDIC employee benefits, which is an area included in the *Office of Inspector General 2008 Business Plan*. The objective of the audit was to determine whether the FDIC has sound controls in place to ensure that costs billed to the FDIC by the Cartus Corporation (Cartus) for relocation services are allowable, allocable, and reasonable and in compliance with contract requirements.[1] In addition, we engaged the Defense Contract Audit Agency (DCAA) to examine selected invoices submitted by the contractor. We conducted this performance audit in accordance with generally accepted government auditing standards. Appendix 1 of this report discusses our audit objective, scope, and methodology in detail.

BACKGROUND

The FDIC's Division of Finance (DOF) is responsible for managing the FDIC's relocation program. The FDIC provides for relocation services and reimbursement of essential expenses for employees who change their official duty station for the benefit of the FDIC. Relocation services include activities and expenses associated with moving employees and their immediate families; relocation counseling, moving household goods and automobiles; and depending on an employee's personal circumstances, selling a current residence and buying a new residence at the new duty station. Certain FDIC retirees are also eligible for relocation services.

[1] The definitions of allowable, allocable, and reasonable and their applicability to this audit can be found in Appendix 1.

The FDIC's relocation policy is described in Volume II of the FDIC's *General Travel Regulations* (GTR) (FDIC Circular 2510.5, dated February 23, 2005). The FDIC has sole authority to develop, issue, and enforce the relocation travel regulations.[2] However, the National Treasury Employees Union (NTEU) and the FDIC have established negotiation procedures for the purpose of bargaining to develop and issue relocation regulations. Appendix 2 of this report provides a summary of the benefits available for employees under the FDIC's relocation program.

Relocation Services Contract

The FDIC contracted with Cartus on June 2, 2003 to provide relocation services for eligible employees in accordance with the GTR. The contract had a 1-year performance period (June 2, 2003 through June 1, 2004) with additional 1-year exercised option periods and an interim modification exercised to extend through December 31, 2007. Cartus was paid management fees, which depend on the number and type of relocation involved, and reimbursed for direct expenses incurred in providing certain relocation services as specified in the contract. The contract established an annual maximum amount of $300,000 for the management fees.

On January 1, 2008, the FDIC entered into a new contract with Cartus for a maximum period of 10 years with a 4-year base period and three 2-year award options. According to the Semi-Annual Contract Assessment Report for the period October 1, 2007 through March 31, 2008, the total 10-year price for the new Cartus contract was estimated not to exceed $180 million. The contract ceiling is about $85 million, which includes management fees of $4 million and reimbursable expenses of $81 million, with the remaining $95 million ($180 million less $85 million) in recoverable home equity advances and mortgage payoffs.

From the inception of the contractual relationship in 2003 through March 31, 2008, the FDIC paid Cartus $61.4 million for relocation services.[3] This amount includes over $11.2 million paid to Cartus for 2006 and 2007 monthly invoices as shown in Table 1 below.[4]

Table 1: Summary of Relocation Program Expenses

	2006	2007	Total
Total Monthly Invoice Amounts*	$5,239,889	$5,960,545	$11,200,434

Source: DCAA Audit Report No. 02901-2008A17900011, dated June 9, 2008.
* Includes expenses related to household goods moving and storage costs, a lump-sum payment (such as for airfare and lodging), a miscellaneous expense allowance, real estate sales and purchases expenses, loss/gains from home sales, and management fees.

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[2] The statutes related to federal relocation management have excluded government-controlled corporations such as the FDIC. As a result, the FDIC is not bound by federal relocation regulations and has developed its own relocation regulations.
[3] Includes payments made in 2008 for costs incurred in 2007.
[4] Our audit scope includes contractor payments for 2006 and 2007 relocation expenses and 2007 home equity and mortgage payoffs.

The FDIC also paid Cartus about $7.8 million during 2007 for advances of home equity and mortgage payoffs related to the FDIC's Home Sale Program. The program is intended to assist relocating employees in selling a qualified residence at the former official station so that the employee can move more quickly to purchase a home at the new official station. Advances and mortgage payoffs are receivables of the FDIC that are fully reimbursed by Cartus from the proceeds shortly after each residence is sold. Thereafter, any loss that is incurred on the sale of the residence is recorded as an expense and is billed by Cartus to the FDIC.

Controls Related to Contractor Payments

The Government Accountability Office (GAO) issued *Standards for Internal Control in the Federal Government*, which applies to all operations—programmatic, financial, and compliance. The standards state that management is responsible for developing internal control activities to help ensure that management's directives are achieved. Control activities are the policies, procedures, and mechanisms that enforce management's directives. Control activities include, for example, approvals, authorizations, verifications, reconciliations, and the creation and maintenance of related records that provide evidence that these activities have been executed and documented. FDIC Circular 4010.3, *FDIC Enterprise Risk Management Program*, adopted the internal control standards prescribed by GAO and intended to ensure the following control objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Circular 4010.3 requires management to develop and implement controls to ensure that management's directives are carried out and to provide reasonable assurance that controls are sufficient to minimize exposure to waste, fraud, and mismanagement and that the control activities are documented.

The circular requires management to perform monitoring activities to assess the quality of performance over time and the effectiveness of controls. Monitoring activities include routine management and supervisory actions; transaction comparisons and reconciliations; other actions taken in the course of normal operations; as well as separate and discrete control evaluations, including internal self-assessments and external reviews.

Circular 4010.3 describes key control activities related to contractor payments, including:

- Segregation of Duties. Key duties and responsibilities shall be divided among different individuals such that no one individual should control all key aspects of a transaction to reduce the risk of error or fraud.

- Proper Execution of Transactions and Events. Transactions and other significant events shall be authorized and executed only by persons acting within the scope of their authority.

- Appropriate Documentation of Transactions and Internal Controls. Internal controls, all transactions, and other significant events shall be clearly documented. This helps to ensure that payment transactions are complete, accurate, and recorded in a timely manner. Documentation shall be readily available for examination.

The FDIC's *Acquisition Policy Manual* (APM), which establishes policies and procedures for contracted goods and services, states that the assigned contract Oversight Manager (OM) is, among other things, responsible for monitoring the contractor's progress and performance to assure compliance with the contract terms. The FDIC pays contractor costs that are allowable by the terms of the contract, allocable to the contract based on the costs being invoiced to perform the relocation services, and reasonable in nature and amount. The OM reviews and approves invoices for payment and ensures the work is within the scope of the contract. The OM must also ensure that the invoices do not exceed the contract value and that they are applied to the correct fund accounting codes. Additionally, the APM provides that a Technical Monitor (TM) can be assigned to assist the OM in performing the contract oversight duties.

RESULTS OF AUDIT

DOF has implemented a number of important controls designed to ensure that payments to Cartus for relocation services are allowable, allocable, and reasonable and in compliance with contract requirements. Of particular note, DOF has designated an OM and TM to oversee the Cartus contract and segregated key duties and responsibilities for reviewing, processing, and paying contractor invoices. Additionally, DOF has performed post-payment audits of selected Cartus invoices. In addition, DCAA found that costs billed to the FDIC for relocation services on selected Cartus invoices were allowable, allocable, and reasonable.

Such controls are positive. However, improvements are needed in some areas to ensure sound controls over the FDIC's payments to Cartus for relocation services. Specifically, DOF has not fully documented its control activities related to payments of the Cartus monthly invoices for relocation services, including the control activities for performing semi-annual post-payment audits and the roles and responsibilities in carrying out control activities. Also not fully documented were the control activities during DOF's post-payment on-site audits to ensure that the Cartus weekly invoices for the Home Sale Program equity and mortgage payoffs and proceeds from home sales are supported with appropriate source documents in accordance with contractual requirements. These control activities are a key means of assuring the validity of payment transactions and the accuracy and timeliness of payment recording. Documentation of the control activities may help reduce the risk of errors and unauthorized transactions.

In addition, DOF has not fully documented the monitoring and periodic assessment of controls over contractor payments for the relocation program and formalized them through management review and approval to ensure that they are working as intended. Monitoring and assessing controls are useful in ensuring the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with policies and procedures.

Improvements in these areas will help ensure consistency with internal control standards as required by FDIC Circular 4010.3.

CONTROLS OVER CONTRACTOR PAYMENTS FOR RELOCATION SERVICES

DOF's Travel Services Unit (TSU) manages the FDIC's relocation program and has oversight responsibility for the Cartus contract. The TSU has assigned both a dedicated OM and TM to oversee the relocation services contract. Further, TSU has established and implemented control activities to ensure that contractor payments to Cartus are allowable, allocable, and reasonable and in compliance with contract requirements. However, as discussed below, DOF has not fully documented the control activities related to payments to Cartus. Also, DOF has not fully documented the monitoring and periodic assessment of controls over contractor payments for the relocation program and formalized them to ensure that they are working as intended by management.

Controls Implemented for Contractor Payments to Cartus

DOF has controls to ensure that relocation transactions are properly authorized, executed, and monitored in accordance with the APM. For contractor payments made in 2006 and 2007, TSU verified approvals for relocation services, performed prepayment reviews, and conducted post-payment audits. In addition, as prescribed by FDIC policy, DOF has separated the responsibilities for contractor invoice review, approval, and processing among TSU staff and Disbursement Operations Unit (DOU) staff.

Approval of Relocation Requests and Benefits. The GTR requires that employees relocating to a new office (transferees) submit to TSU an Official Notification of Relocation[5] (ONOR) that has been approved by the appropriate delegated authority.[6] However, eligible retirees applying for relocation benefits are required to submit either a letter of application request or an email request to TSU for relocation services. TSU reviews the retiree's request and verifies the employee's eligibility for the retirement relocation benefit with the Human Resources Branch in the FDIC's Division of Administration. A TSU technician enters data from the approved requests for relocation benefits into the Cartus accounting system to initiate relocation services. A TSU technician then assigns the benefit package (Tier 1-4 as described in Appendix 2) to each relocating employee based on information included on the approved requests (e.g., type of appointment, new hire, or transferee from another federal agency) and enters the benefit package into the Cartus system. The OM reviews the information in the system and ensures the assigned benefits are accurate.

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[5] ONORs include various employee information such as type of appointment, whether the employee is a new hire, and dependent information.

[6] The delegation of authority is the method by which authority is granted to individuals holding a specific position for making decisions or obligations on behalf of the Corporation.

We reviewed the requests for relocation services for 26 relocating employees of which 21employees were transferees and 5 were retirees.[7] We determined that the ONORs for the 21 transferees had been approved by the appropriate delegated authority and that the 5 retiree requests for relocation services had been submitted and approved in accordance with the GTR.

Prepayment Reviews of Cartus Invoices. Prior to 2007, the TSU reviewed 100 percent of the relocation expenses and supporting documentation for the Cartus invoices before approving payment to ensure that such payments were allowable and reasonable in accordance with the GTR and the contract with Cartus. The FDIC modified the Cartus contract in December 2005 to support TSU conducting post-payment audits at the contractor site rather than a 100-percent review of the relocation expenses at TSU. In 2007, TSU began performing the on-site post-payment audits every 6 months. As a result, Cartus was no longer required to send the FDIC all of the supporting documentation. The OM and TM continued to conduct prepayment reviews, but they are limited to verifying that the fixed expenses (e.g., management fees, miscellaneous expense allowances, and home inspection fees) on the monthly invoices did not exceed the maximum amounts allowed by the GTR. TSU is continuing the practice of limited prepayment reviews for the current Cartus contract that began in January 2008 with emphasis on post-payment audits.

With respect to the weekly Cartus invoices for the Home Sale Program, TSU indicated that prepayment reviews have not been performed because Cartus maintains the supporting documentation (e.g., equity statements, mortgage payoffs, and HUD[8] statements) for these transactions. According to the OM, the equity and mortgage payoffs related to the program are reconciled to the corresponding sales proceeds for the purchased homes and reviewed by TSU during post-payment audits (discussed below).

Post-Payment Audits. Every 6 months, the TSU conducts post-payment on-site audits of relocation expense files maintained at Cartus. During these audits, TSU reviews expenses attributable to relocations, including 100 percent of the real estate charges on each billing. According to TSU, the audit steps performed include:

- reconciling real estate expenses documented on the HUD-1 statement to the detailed spreadsheets attached to the invoices and to any other supporting documentation/invoices;
- verifying that the real estate commission is correct; and
- recalculating loan origination points.

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[7] The same 26 relocating employees were included in DCAA's examination of selected invoices, discussed later in this report.

[8] The settlement agent uses the Department of Housing and Urban Development's form HUD-1, *Settlement Statement*, to itemize all charges imposed upon a borrower and seller for a real estate transaction.

TSU also performs random reviews of other benefits such as lump sum payments and household goods moving and storage expenses. TSU's audit steps for these types of expenses typically include verifying that the lodging and per diem[9] expenses for employees are correct and reconciling relocation expense invoices to supporting documents maintained by Cartus. TSU summarizes and provides the results of the post-payment audits to DOF's Deputy Director/Controller.

During the October 2007 post-payment on-site audit, TSU identified exceptions totaling approximately $20,000, which represented about 1 percent of about $2 million billed by Cartus to the FDIC during July through September 2007. The majority of these exceptions was due to an overstatement of Cartus management fees for real estate expenses for retirees. Specifically, Cartus overcharged the management fees for a number of retirees that were eligible for relocation benefits. Cartus credited subsequent invoices for the difference to correct the errors. TSU indicated that since the October 2007 review, Cartus has made a change to its accounting system to correct the billing problem.

Segregation of Duties. DOF ensured the segregation of duties among staff responsible for reviewing, processing, and paying Cartus invoices. TSU prepared hardcopies of the Payment Authorization Vouchers (PAV), attached the PAVs to the weekly and monthly invoices, and sent them to the DOU. DOU then verified the invoice payment amount and the delegated signature authority and processed the payment in the New Financial Environment (NFE), the FDIC's financial management system.

The FDIC began using its electronic purchase order system to pay the monthly Cartus invoices for those relocation services requests initiated in 2008. The system separates the duties related to reviewing, approving, and processing contractor payments for the monthly invoices. For example, contractors such as Cartus e-mail the electronic invoices to DOU, which reviews them for accuracy and compliance before the invoices are scanned and entered into the Accounts Payable module of the NFE. Once the invoices have been entered, the OM and Contract Specialist can access them on-line. After the OM reviews and approves an invoice electronically, the Accounts Payable Reviewer checks the purchase order for funds availability, verifies that the correct purchase order number is on the invoice, and ensures that the invoice amount does not exceed contract limits. DOU returns any invoice that is not in compliance with these procedures to the sender for correction. DOU then processes the payment in the NFE.

TSU continues to prepare the hardcopy PAVs to pay the weekly Cartus invoices. TSU tracks home equity and mortgage payoffs and home sales proceeds. The OM indicated that TSU reviews equity and mortgage payoffs along with HUD statements during the post-payment on-site audits.

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[9] The maximum daily reimbursement rates for meals and incidental expenses for an employee while on official travel.

Results of DCAA Engagement

DCAA found that costs Cartus billed to the FDIC for relocation services were allowable, allocable, and reasonable. DCAA did not find any questioned, unsupported, or unresolved relocation expenses on the sampled monthly invoices for real estate expenses or the sampled weekly invoices for equity and mortgage payoffs. DCAA also provided added assurance that the contractor payment controls for relocation services have been working as intended. In addition, DCAA noted that Cartus has controls in place for the (1) prevention of duplicate payments; (2) third-party vendors (e.g., moving companies); and (3) timeliness and accuracy of equity/mortgage payoff amounts reflected in weekly Cartus invoices for relocation services.

Documentation and Monitoring of Controls for Contractor Payments

The control activities related to payments to Cartus for relocation services were not fully documented as part of managing the FDIC's relocation program, including oversight of the Cartus contract. In addition, DOF has not fully documented the monitoring and periodic assessment of controls over contractor payments for the relocation program and formalized them through management review and approval to ensure that they are working as intended. FDIC Circular 4010.3 requires appropriate documentation of internal controls and monitoring and assessment of internal controls. Documentation, monitoring, and assessment of controls for the relocation program are useful in achieving the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with policies and procedures.

Documentation of Control Activities. DOF needs to fully document the control activities related to reviewing payments of the Cartus monthly invoices for relocation services as required by the circular. DOF also needs to document the control activities related to the Cartus weekly invoices. Table 2 on the next page describes these control activities in more detail.

Table 2: Summary of TSU's Control Activities

Controls Related to FDIC Payments for Relocation Services	Control Activities	References
Assignment of OM and TM	OM and TM oversight of the relocation program	Letters of OM and TM Confirmation
Relocation Authorizations	Approval of Relocation Authorization by the Appropriate Official OM Verification of the ONOR	FDIC GTR Letters of OM and TM Confirmation
Relocation Expense Verification*	Prepayment review of the monthly invoices and verification that fixed expenses, such as miscellaneous expense allowances and home inspection fees, do not exceed the maximum amounts allowed by the FDIC Post-payment semi-annual on-site audits of relocation expenses	Cartus Contract
Home Sale Program Verification	Tracking of accounts receivable related to equity and mortgage payoffs	None

Source: OIG's review of the FDIC's relocation services contract, procedures, and regulations.
*Includes real estate expenses, household goods moving and storage costs, a lump-sum payment (such as for airfare and lodging), and a miscellaneous expense allowance.

In February 2007, DOF managers signed a *Relocation Services Process Memorandum Certification*, documenting the flow of information related to the relocation process as part of the FDIC's financial statement audit process. The memorandum provides a description of the receipt and payment of monthly invoices and Home Sale Program transactions, including TSU's tracking of equity and mortgage payoffs along with HUD statements. Nevertheless, the memorandum does not address control activities for performing semi-annual post-payment audits and the roles and responsibilities in carrying out control activities. The memorandum also does not address control activities related to the Cartus weekly invoices.

During our audit, TSU agreed with our findings and was drafting control activities to address our concerns.

Monitoring and Assessing Controls. DOF's Administration and Internal Control Section (AICS) worked with TSU to document a *Control Self-Assessment Workshop Matrix* (Control Matrix), dated March 2004, that identified the various control objectives, risks, and control techniques that have been implemented to ensure that costs incurred for relocation services are billed in accordance with contractual requirements. However, this Control Matrix has not been updated to reflect the changes in the controls over the last 4 years related to relocation services. Fully documenting and formalizing, including through management review and approval, the monitoring and periodic assessment of controls over contractor payments for the relocation program would help to ensure (1) that the controls are operating as management intended and (2) consistency with internal control standards as required by FDIC Circular 4010.3.

Recommendations Related to Controls Over Relocation Services

We recommend that the Director, DOF:

(1) Fully document the control activities associated with contractor payments of the monthly invoices for relocation expenses and the weekly invoices for the Home Sale Program, including documenting the control activities for performing semi-annual post-payment audits and the roles and responsibilities in carrying out control activities.

(2) Formalize the monitoring and periodic assessment of the controls over contractor payments for the relocation program as part of DOF's internal control program.

CORPORATION COMMENTS AND OIG EVALUATION

On September 12, DOF provided a written response to the draft of this report. DOF's response is provided in its entirety as Appendix 3 of this report. In its response, DOF concurred with both recommendations and outlined its planned corrective actions for each recommendation.

Regarding the documentation of controls and roles and responsibilities in carrying out control activities for the relocation program, DOF indicated that the *Relocation Services Process Memorandum Certification* covers, in considerable detail, the process for contractor payments of the monthly invoices for relocation expenses and weekly invoices for the Home Sale Program. By December 31, 2008, DOF will enhance the procedures for the weekly and monthly contractor payment process to include control activities in each area as well as the roles and responsibilities for carrying out these control activities. Additionally, DOF has documented the semi-annual post-payment audit process.

With respect to formalizing the monitoring and periodic assessment of the controls over contractor payments for the relocation program, by December 31, 2008, DOF will revise and update the Control Matrix for the control objectives, risks, and control techniques, including monitoring activities, affecting the contractor payment processes for the relocation program. This updated matrix will be the foundation for DOF's review of controls and risk assessment of the relocation program as part of the annual assurance statement process for TSU. The annual assurance statement process is a key element of DOF's internal control program to ensure controls at the organizational unit level are operating as intended and critical control risks are identified as priorities are considered and addressed.

A summary of management's response to each of the report's recommendations is in Appendix 4. DOF also provided clarifications to the description of the control environment for the relocation program, which we included in the report as deemed necessary. We consider DOF's completed and planned actions to be responsive to the recommendations. The recommendations are resolved but will remain open until we have determined that agreed-to corrective actions have been completed and are responsive.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective and Scope

The audit objective was to determine whether the FDIC has sound controls in place to ensure that costs billed to the FDIC by Cartus for relocation services are allowable, allocable, and reasonable and in compliance with contract requirements.

The terms "allowable, allocable, and reasonable" are based on the Federal Acquisition Regulation (FAR). Under that regulation, "allowable" means generally that an expense was allocable, reasonable, and complied with the contract's requirements. "Allocable" means, in general, that a cost was incurred in connection with the contract, or that the cost benefits the contract and other work; while "reasonable" means that the cost does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Compliance with contract requirements is self-explanatory.

The FAR is not legally binding on the FDIC, and in conducting the audit, including the DCAA's examination, the meaning of the terms allowable, allocable, and reasonable was modified, when necessary, in light of the FDIC's APM, relocation policy, and the circumstances of the Cartus contract. "Allocable" meant that the cost was incurred in connection with the contract; while "allowable" costs are those that meet the limitations set forth in the FDIC's GTR; and "reasonable," as used in this audit, applies to FDIC determinations of whether certain expenses exceeding the GTR limitations would be allowed.

We conducted this performance audit from February through June 2008 in accordance with generally accepted government auditing standards (GAGAS). 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 objective.

The scope of the audit focused on the payments made to Cartus for the period January 1, 2006 through November 2007. We engaged DCAA to perform appropriate tests and procedures to determine whether such payments were adequately supported consistent with the terms and conditions of the contract. DCAA's report states that it performed its examination in accordance with GAGAS.

Methodology

To accomplish our objective, we:

- Interviewed DOF's TSU personnel to obtain an understanding of their roles, responsibilities, processes, and practices for ensuring that costs billed by Cartus for relocation services were allowable, allocable, and reasonable and in compliance with contract requirements.

- Analyzed relevant provisions and modifications of the Cartus contracts to gain an understanding of the contractual terms and conditions related to scope, costs, and services provided.

- Engaged DCAA to examine selected invoices submitted by Cartus to determine whether costs billed to the FDIC were allowable, allocable, and reasonable and billed in accordance with contract requirements. DCAA reviewed selected monthly and weekly invoices.

- Based on DCAA's work, we reviewed a sample of ONORs for 21 transferees and requests for relocation services from 5 retirees and determined that, in each case, the requests for services had been approved within the appropriate delegations of authority.[10]

- Interviewed DOF's Internal Control Liaison to determine if the control activities for the relocation program were defined and tested by the FDIC to ensure that controls were in place and operating as management intended.

- Reviewed PAVs for the same five invoices (related to services for retirees) that DCAA had also tested to ensure that the PAVs had been signed by the appropriate delegated authority. We also verified that the invoice amounts and the amounts paid were the same.

- Considered relevant provisions of the following FDIC policies pertaining to relocation services:

    - Volume II of the FDIC's *General Travel Regulations* (FDIC Circular 2510.5, dated February 23, 2005).

    - 2006-2009 Compensation Agreement between the FDIC and NTEU

    - The FDIC's APM, including the *Letter of Oversight Manager Confirmation* and *Letter of Technical Monitor Confirmation*.

We performed our audit work at the FDIC's Headquarters offices in Arlington, Virginia, and Washington, D.C. DCAA conducted its fieldwork at the Cartus offices in Danbury, Connecticut.

Internal Control

We gained an understanding of the relevant control activities by examining applicable policies, procedures, and guidance related to relocation services. In addition, we gained an understanding of the roles and responsibilities of DOF's OM and TM responsible for

[10] The results of a non-statistical sample cannot be projected to the intended population by standard statistical methods.

oversight of the relocation program. Additionally, we evaluated DOF's *Control Self-Assessment Workshop Matrix*, which identifies control objectives, risks, and control techniques related to the relocation function.

Reliance on Computer-processed Information

Our audit objective did not require that we separately assess the reliability of computer-processed data to support our significant findings, conclusions, and recommendations. Additionally, in performing this audit, we did not consider it necessary to evaluate the effectiveness of information systems controls in order to obtain sufficient, appropriate evidence.

Performance Measurement

We reviewed the FDIC's *2008 Annual Performance Plan* and found that it did not contain specific goals, objectives, or performance measures that were relevant to our audit.

Compliance with Laws and Regulations

The FDIC's GTR and the APM are the relevant regulations for this audit of the controls over contractor payments for relocation services.[11] We found no instances where the FDIC was not in compliance with applicable laws and regulations.

We assessed the risk of fraud and abuse related to the audit objective in the course of evaluating audit evidence.

[11] The Prompt Payment Act is also applicable to contractor payments. However, the audit scope did not include testing of compliance with the Prompt Payment Act. Rather, the audit focused on controls for ensuring that the costs billed were allowable, allocable, and reasonable.

ELIGIBILITY OF RELOCATION BENEFITS BASED ON EMPLOYMENT STATUS

Benefit	Tier 1[a]	Tier 2[b]	Tier 3[c]	Tier 4[d]
Official Time for House Hunting	✓	✓	✓	✓
Lump Sum Reimbursement	✓	✓	✓	✓
Moving a Privately Owned Vehicle	✓	✓	✓	✓
Moving a Mobile Home	✓			
Household Goods Shipment	✓	✓	✓	✓
Real Estate Sales Expenses	✓			
Real Estate Purchase Expenses	✓			
Home Sale Program	✓			
Mortgage Interest Differential Allowance (MIDA)	✓			
Settling an Unexpired Lease		✓		
Miscellaneous Expense Allowance (MEA)	✓	✓	✓	
Tax Allowance	✓	✓	✓	✓

Source: The FDIC's GTR.
Note: A checkmark indicates that the employee (as described below) is eligible for the benefits in the respective categories (tiers).

The primary determinant of employee eligibility for participation in the FDIC's relocation program is the status of employment immediately prior to the personnel action authorizing the relocation. The GTR categorizes employee eligibility for relocation benefits into four tiers as described below.

[a] **Tier 1** covers FDIC employees or newly hired employees from other federal agencies who are homeowners and are serving on current appointments of a **permanent nature**, without a break in service, in either the competitive or excepted services.

[b] **Tier 2** covers FDIC employees or newly hired employees from other federal agencies who are renters and are serving on current appointments of a **permanent nature**, without a break in service, in either the competitive or excepted services.

[c] **Tier 3** covers FDIC employees who are serving on current appointments of a **temporary nature** in either the competitive or excepted services.

[d] **Tier 4** covers **all other newly hired** employees accepting new permanent or temporary appointments in either competitive or excepted service positions with the FDIC and retirees. (Retirees receive some Tier 1 benefits such as real estate expenses.)

CORPORATION COMMENTS

FDIC

Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226-3500

Division of Finance

DATE: September 12, 2008

MEMORANDUM TO: Russell A. Rau
Assistant Inspector General for Audits

FROM: Karen Hughes
Deputy Director, Controller

SUBJECT: Draft Audit Report Entitled, *Controls over Contractor Payments for Relocation Services* (Assignment No. 2008-007)

Thank you for providing the Office of Inspector General's (OIG) draft report for review and comment. The report discusses the OIG's audit of controls over contractor payments for relocation services and recommendations for strengthening them. We appreciate OIG's acknowledgement that the Division of Finance (DOF) "has implemented a number of important controls to ensure that payments" to the contractor, Cartus Corporation (Cartus) "are allowable, allocable, and reasonable and in compliance with contract requirements".

One recommendation notes where there are gaps in the complete documentation of controls over contractor payments. The audit also discusses DOF's internal control program and recommends formalizing the existing monitoring and periodic assessment of the controls over contractor payments for the relocation program. We concur with both recommendations and are taking proactive measures to address them. More detail is provided in our responses to the two audit recommendations in the Attachment.

We appreciate the OIG's thorough and diligent efforts during this audit and recognize the benefit of the recommendations that were made. In particular, the two meetings with OIG representatives to further discuss the contents and recommendations of the draft report were mutually beneficial and the agreed-upon revisions resulted in a more useful product. We value the impartial observations on DOF's activities the OIG provides and look forward to our continuing productive relationship.

Attachment

cc: Bret Edwards
James Angel
Robert Waldron
Richard Cywinski
David Wisnewski
Connie Brindle
Barbara Glasby

ATTACHMENT

DOF's Responses to OIG's 2008 Audit of Controls Over Contractor Payments for Relocation Services

OIG Recommendation 1: Fully document the control activities associated with contractor payments of the monthly invoices for relocation expenses and the weekly invoices for the Home Sale Program, including documenting the control activities for performing semi-annual post payment audits and the roles and responsibilities in carrying out control activities.

Management Response: We concur with this recommendation. The Relocation Services Process Memorandum already covers in considerable detail the process for contractor payments of the monthly invoices for relocation expenses and the weekly invoices for the Home Sales Program. By December 31, 2008 the procedures for the weekly and monthly contractor payment process will be enhanced to include the major control activities in each area as well as the roles and responsibilities for carrying out those control activities (primarily the Oversight Manager, Technical Monitor, and Travel Services Unit (TSU) Manager). Also, the semi-annual post payment audit process has been fully documented as of July 31, 2008.

OIG Recommendation 2: Formalize the monitoring and periodic assessment of the controls over contractor payments for the relocation program as part of DOF's internal control program.

Management Response: We concur with this recommendation. DOF managers regularly perform multi-faceted control monitoring activities of the contractor payment process (such as the "20-20 hindsight" scope and procedure review by the TSU Manager, Oversight Manager, and Technical Monitor after each semi-annual audit of Cartus). However, we recognize these control monitoring activities have not been fully documented in a systematic fashion. To that end, DOF's Internal Control Section will assist Travel Services staff in revising the Control Self-Assessment Workshop Matrix (last updated in March 2004) for the control objectives, risks, and control techniques (including monitoring activities) affecting the contractor payment processes and all other relocation services. The target completion date is December 31, 2008.

This updated controls matrix will be the foundation for the TSU manager's review of controls and risk assessments in this area as part of the annual assurance statement process for Travel Services. The annual assurance statement process is a key element of DOF's internal control program to ensure that controls at the unit level are operating as management intended and critical control risks identified as Corporate/Divisional priorities are being considered and addressed.

MANAGEMENT RESPONSE TO RECOMMENDATIONS

This table presents the management response on the recommendations in our report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved:[a] Yes or No	Open or Closed[b]
1	DOF will enhance the procedures for the weekly and monthly contractor invoice payment processes for the relocation program to include control activities in each area as well as the roles and responsibilities for carrying out these control activities. Additionally, DOF has documented the semi-annual post-payment audit process.	12/31/2008	NA	Yes	Open
2	DOF's Internal Control Section will assist TSU staff in revising the Control Matrix (last updated in March 2004) for the control objectives, risks, and control techniques (including monitoring activities) affecting the contractor payment processes and all other relocation services. This updated Control Matrix will be the foundation for the TSU manager's review of controls and risk assessments in this area as part of the annual assurance statement process for travel services.	12/31/2008	NA	Yes	Open

[a] Resolved – (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation.
(2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation.
(3) Management agrees to the OIG monetary benefits, or a different amount, or no ($0) amount. Monetary benefits are considered resolved as long as management provides an amount.

[b] Once the OIG determines that the agreed-upon corrective actions have been completed and are responsive to the recommendations, the recommendations can be closed.

ACRONYMS USED IN THE REPORT

AICS	Administration and Internal Control Section
APM	*Acquisition Policy Manual*
DCAA	Defense Contract Audit Agency
DOF	Division of Finance
DOU	Disbursement Operations Unit
FAR	Federal Acquisition Regulation
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GTR	*General Travel Regulations*
NFE	New Financial Environment
NTEU	National Treasury Employees Union
OM	Oversight Manager
ONOR	Official Notification of Relocation
PAV	Payment Authorization Voucher
TM	Technical Monitor
TSU	Travel Services Unit