

Office of Inspector General



October 3, 2002
Report No. 03-003

Controls over Board Members' Travel





DATE: October 3, 2002

TO: Fred S. Selby, Director,
Division of Finance

FROM: Russell A. Rau [Electronically produced version; original signed by Russell Rau]
Assistant Inspector General for Audits

SUBJECT: Draft Audit Report Entitled, *Controls over Board Members' Travel*
(Report No. 03-003)

This report presents the results of the Office of Inspector General's (OIG) audit of the controls over Board members' travel.¹ The objective of the audit was to evaluate the adequacy of internal control to ensure that Board members' travel expense reimbursement complies with FDIC policies and governing statutes.² The audit included a review of three federal laws or regulations that impact the reimbursement of travel expenses to FDIC Board members.

The first of these legal authorities is 5 U.S.C. Section 5536, a statute which precludes federal employees, such as Board members, from receiving any additional pay above their statutory rates. One example of a potential violation of this statute would be any reimbursement from public monies which constitutes taxable income to the Board member. The second legal authority is Section 274(m) of the Internal Revenue Code (26 U.S.C. Section 274(m)). This statute contains a stringent three-part test, each part of which must be met, for the reimbursement of spousal travel expenses to not be considered as taxable income to the employee. The third authority is the federal gift acceptance regulations contained in 5 C.F.R. Part 2635, Subpart B. This regulation, promulgated by the Office of Government Ethics, precludes an outside source from paying for a spouse to accompany a federal employee to a conference for official business or for the travel expenses of the employee, subject to various exceptions. Due to the highly visible role of members of the FDIC Board of Directors, the Corporation has established additional controls related to Board Member travel. One of these controls is the requirement for an automatic audit before payment for all travel vouchers submitted by an FDIC Board member.

¹ Of the four current members of the FDIC Board of Directors, only Donald E. Powell, the Chairman of the FDIC, and John Reich, a Director of the FDIC, are traveling under the authority of the FDIC's General Travel Regulations (GTR). One FDIC Board position is currently vacant. The remaining two positions are held by the Director of the Office of Thrift Supervision and the Comptroller of the Currency. Both of these latter Board members' travel is governed by the travel regulations enforced by the United States Department of the Treasury.

² The five standards for internal control in the federal government as prescribed by the United States General Accounting Office (GAO) in *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1 November 1999) are: (1) the control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring. These standards provide a general framework. In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

Additional details on the audit scope and methodology are included in Appendix I.

BACKGROUND

On February 13, 2002, the Director of the FDIC's Office of Internal Control Management (OICM) issued a report in response to a December 2001 request by the Deputy to the Chairman and Chief Financial Officer (CFO) that his office review the FDIC policies and procedures relating to the spousal travel of FDIC Board members. One of the recommendations in OICM's report was that the Corporation should request that the OIG resume its audits of the FDIC Board members' travel vouchers to ensure compliance with existing travel rules and regulations and notify the CFO of any exceptions for formal disposition.³ The OIG recognizes that internal controls are the processes designed to help achieve the FDIC's goals and objectives, and controls such as performing audits of travel vouchers help ensure that the FDIC does not provide reimbursement for unauthorized, falsified, or excessive expenses. Accordingly, we advised FDIC management that although such reviews of vouchers are a part of internal control, we would periodically review the effectiveness of their review. As a result, we concentrated on the additional internal controls present in the Divisions of Finance's (DOF) travel voucher audit process for Board member travel.

With the exception of certain travelers who file hard copy travel vouchers,⁴ travelers at the FDIC submit reimbursement claims for the travel expenses they incur while on official business for the Corporation through the Electronic Travel Voucher Processing System (ETVPS). This automated system has been designed to speed up the processing and payment of travel claims to FDIC employees by cutting down on many of the mathematical errors made by employees under the previous manual hardcopy system. The employee's supervisor still remains the primary internal control regarding the authorization of travel, efficient and effective execution of authorized travel, and the propriety of the claim filed by the traveler. However, certain automated controls are built into the ETVPS that flag vouchers for audit.

The FDIC has established a unique control for Board member travel by programming the ETVPS to flag all Board member travel vouchers for audit before payment. These vouchers are manually audited by travel audit specialists in the Program and Audit Unit of DOF's Employee Services Section of the Financial Services Branch. Using the DOF Audit Procedures Manual and a Travel Voucher Worksheet, the travel audit specialists perform multiple audit steps on Board member vouchers, to determine, among other things, whether:

- the travel was authorized;
- air and ground transportation expenses along with lodging and miscellaneous expenses conformed with the allowable provisions of the Corporation's GTR;

³ On November 8, 1991, the Chairman, FDIC, requested that the OIG review on an on-going basis the travel vouchers of FDIC Board members. The OIG reviewed these vouchers monthly and reported semiannually the results of review of Board members' vouchers until August 20, 2001.

⁴ Certain travelers, for example contractors who travel on behalf of the FDIC, file paper travel vouchers per Appendix G of Volume I of the FDIC's GTR.

- the Board member included receipts for claimed expenses when required;
- daily expense amounts correspond with the receipts submitted and the nature of the expenses claimed;
- receipts correspond to the locality reported and to the dates that the expenses are claimed; and
- the Board member completed the ETV submission in accordance with the GTR Section 3 provisions on filing taxable and nontaxable expenses.

If the audit identifies errors, they are communicated to the Board member's secretary for correction prior to payment.

RESULTS OF AUDIT

The FDIC recognizes the significance and sensitivity of Board member travel based on ethical and legal demands on Board members seeking reimbursement for travel. Although no formal risk assessment has been conducted in this area, the Corporation is cognizant of the risks associated with improper payments and the potential for embarrassment to individual Board members and the FDIC. Consequently, the Program and Audit Unit within DOF's Employee Services Section has sought to create a positive control environment through various control activities such as the automatic audit provisions, the travel review procedures, and information received from and communicated back to the Board members. In addition to the automatic audits by the travel audit specialists of all Board members' travel vouchers submitted for reimbursement, this area is also periodically monitored by both the OIG and the OICM through their separate and distinct review processes.

Although we found internal control over the travel reimbursements for members of the FDIC's Board of Directors to be generally effective and in keeping with GAO's five standards for internal control, we also identified where it can be improved. While the Corporation has reliable controls to audit all Board member travel vouchers, the current controls do not provide sufficient assurance that reimbursements for travel of spouses of FDIC Board members along with any non-FDIC reimbursement of travel expenses are reviewed for compliance with statutory requirements and the FDIC GTR. The Audit Procedures Manual used by the Program and Audit Unit in its routine audits of the reimbursement submissions of each FDIC Board member does not include review steps related to spousal travel or require documentation of each step performed. As a result, there is a risk that DOF could inadvertently pay unauthorized travel expenses, resulting in embarrassment to individual Board members and the Corporation.

Travel Audit Procedures

The DOF Audit Procedures Manual does not adequately address three laws or regulations related to Board member travel: spousal travel reimbursement restrictions based on the IRS ruling that such reimbursements are taxable income, the income limitations for Board members based on the statutory requirements for federal employees, and the prohibitions for payment of travel expenses from non-FDIC sources under certain conditions. Specifically, the Manual does not

include steps for identifying and disallowing travel expenses incurred by spouses who accompany Board members on official travel or for identifying reimbursement for lodging, meals, or transportation to Board members by non-FDIC sources. Although the Program and Audit Unit personnel state that they review Board members' vouchers for the evidence of any spousal travel claims for reimbursement along with any suspicious transactions that may violate the federal ethics laws, there is nothing in their written procedures that alerts them to do this. Also, the manual does not require that the performance of each audit step in the review process be documented in writing. Furthermore, the Travel Voucher Worksheet is not designed as a capture sheet to document that these reviews were performed. Consequently, the Corporation lacks assurance that these reviews effectively identify any violation of governing statutes and regulations.

Spousal Reimbursements: The FDIC prohibition against paying for the travel expenses of spouses who accompany Board members to Corporation-sponsored events was articulated in a Legal Division memorandum dated December 21, 2001. The rationale for the prohibition is predicated on the IRS ruling that states that spousal travel reimbursement, for the most part, is taxable income to the employee. Furthermore, according to information provided by the Legal Division, federal employees, such as FDIC Board members, are barred by 5 U.S.C. § 5536 from receiving any additional income from public monies above their statutory rates. The Legal Division, with the assistance of the DOF, the Division of Administration, and the Ethics Unit (formerly with the Office of the Executive Secretary, but now part of the Legal Division) are in the process of amending the FDIC's *Orientation Guide for Presidential Appointees* to preclude presidential appointees from being reimbursed by the FDIC or any sponsor of an event for travel expenses covering a spouse accompanying the presidential appointee to any event he/she is authorized to attend. The DOF travel audit specialists are currently aware of the prohibition on paying travel claims for the spousal travel of Board members and have been enforcing it since December 2001. Although the current practice in effect is to now deny claims for spousal travel, this prohibition is not reflected in the DOF Audit Procedures Manual, nor is it included on the travel voucher worksheet used by the Program and Audit Unit as an item to be on the alert for.

Payment by Non-FDIC Sources: The FDIC prohibition, subject to various exceptions, for payment of Board members' travel expenses by non-FDIC sources is covered under 5 C.F.R. Part 2635, Subpart B. Neither the Audit Procedures Manual nor the travel voucher worksheet includes an audit step to check for Board member disclosure of any non-FDIC or event-sponsored reimbursements for lodging, meals, or transportation. Although the Supervisory Audit Specialist in the Program and Audit Unit in DOF stated that Board members' vouchers are reviewed for this type of activity because of ethics considerations, the specific details and exact nature of these reviews are not documented to reflect what review work was performed.

Documentation of Voucher Review: We noted that many blocks on the travel voucher worksheets affixed to the Board members' vouchers are not filled in regarding receipts for such expense items as airfare, car rental, lodging, and meals. We were advised by the Program and Audit Unit that these blocks are used primarily to identify the original receipts that have been requested from but not as yet received from travelers who have been selected for audit. Travelers selected for audit may include those other than Board members. Most of these

travelers are audited after payment and did not need to submit receipts when they originally filed the voucher for payment. Since all Board members' vouchers are audited before payment, copies of all required original receipts are faxed to the Program and Audit Unit before the audit is initiated. In this sense, the Travel Voucher Worksheet is not really needed other than to identify the audit as one of a Board member's travel voucher. It also does not function as a vehicle to document audit steps performed on the Board members' vouchers.

The Program and Audit Unit informed us that although they now check for any evidence of FDIC Board members claiming spousal travel expense reimbursement, they have only been notified orally of the prohibition in effect for Board members on this issue. The fact that the staff has only been orally informed is the primary reason why the Audit Procedures Manual has not been updated to check Board members' vouchers for this type of expense reimbursement claim. Although the travel voucher worksheet does not function as a document to provide written evidence of all audit steps performed on a Board member's voucher, the Supervisory Travel Audit Specialist did show us where there is evidence of the review on the vouchers themselves based on check marks on individual line items. However, information on the specific review steps performed is not always clearly documented by the travel audit specialist and can lead to missed steps and an incomplete voucher review.

Due to the downsizing initiatives currently underway within the Corporation, there exists a real possibility for employee turnover in the DOF Program and Audit Unit. Without written procedures to alert new travel audit specialist personnel to the prohibition on spousal travel claim reimbursement by Board members, a submitted claim could improperly be paid. This possibility is made more likely with turnover in Board member appointments where a new appointee is not necessarily aware of the spousal travel reimbursement prohibition and/or how to handle offers of non-FDIC reimbursement for travel expenses. Also, if any checklist or worksheet that is used in assisting the auditor is not comprehensive enough to ensure that all of the necessary review steps have been performed, or if comprehensive enough, but not filled in, there exists no documentation to verify what audit procedures and steps were performed, the review results obtained, and the corrective action taken.

While the DOF's Program and Audit Unit personnel have expertise in the FDIC travel regulations, they may not be qualified to interpret laws related to presidential appointee travel. However, the Corporation currently has an interdivisional project team, as discussed earlier, consisting of the DOF, the Division of Administration, the Legal Division and the Ethics Unit within that division, certain members of which could play an active role in interpreting the relevant legal and ethical provisions. Although this group has had a role in developing the *Orientation Guide for Presidential Appointees*, its members have not had an active role in reviewing Board members' travel vouchers. Doing so would add additional internal control over Board members' travel, and the additional workload would not be that significant given the relatively small number of travel vouchers submitted by the current Board members.⁵

⁵ Chairman Powell submitted 17 vouchers and Director Reich submitted 9 vouchers between January 1, 2002 and June 30, 2002.

RECOMMENDATIONS

We recommend that the Director, DOF:

- (1) Incorporate steps into the Audit Procedures Manual, for the review of Board members' travel, that require travel audit specialists to:
 - review claims for reimbursement of spousal travel expenses;
 - develop internal control over Board member disclosure of any non-FDIC or event-sponsored payment of any travel expenses related to meals, transportation, and lodging; and
 - document the review steps performed during the audit process, including corrective actions needed or errors noted, by developing a worksheet specific to the review of Board members' travel vouchers; and
- (2) Consider requesting the assistance of the Legal Division in the review of Board members' travel voucher submissions prior to reimbursement.

CORPORATION COMMENTS AND OIG EVALUATION

On October 2, 2002, we received a written response to the draft audit report from the Director, DOF, with concurrence from the Chief Financial Officer (CFO) and the Chief Operating Officer (COO). The response is presented in Appendix II to this report. The Corporation agreed with both recommendations. DOF indicated that by September 30, 2002, it would incorporate steps into the Audit Procedures Manual for the review of Board members' travel that would require (1) reviewing claims for reimbursement of spousal travel expenses; (2) documenting the results of those reviews, including follow-up and resolution; (3) flagging the absence of certain claims made by Board members; and (4) documenting the follow-up with the Ethics staff and/or Executive Office administrative staff, who are now part of the Legal Division. DOF will also implement any COO approved recommendations made by the interdivisional task group in time to assist presidential appointees' transition into FDIC, upon completion of the update to the *Orientation Guide for Presidential Appointees*. The recommendations are resolved but will remain undispositioned and open for reporting purposes until we have determined that agreed-to corrective actions have been completed and are effective.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to evaluate the adequacy of controls to ensure that Board members' travel expense reimbursement complies with FDIC policies and governing statutes. To achieve our objective, we:

- Met with and interviewed key DOF employees in the Financial Management Services Branch. The purpose of our interviews was to obtain both oral and written documentation to support the internal controls of the FDIC Electronic Travel Voucher Processing System and the manual review of Board members' travel in the Program and Audit Unit.
- Compared review procedures obtained orally with those in writing to identify possible gaps in internal control continuity.
- Reviewed the governing provisions of the FDIC's official travel policy as contained in the General Travel Regulations and in the ethics standards contained in 5 C.F.R. 2635 Subpart B.
- Reviewed the IRS provisions limiting spousal travel reimbursement as a result of the Omnibus Budget Reconciliation Act of 1993 along with the limitations on Federal Executive Schedule compensation as set forth in 5 U.S.C. § 5536.
- Reviewed documentation of audits performed by the travel audit specialists in the DOF's Program and Audit Unit of the Financial Services Branch of Board members' vouchers submitted for reimbursement in May and June 2002.
- Reviewed the GAO *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1 November 1999).

We performed fieldwork at the FDIC's offices in Washington, D.C. We conducted the audit from April through May 2002 in accordance with generally accepted government auditing standards.

CORPORATION COMMENTS



Federal Deposit Insurance Corporation

801 17th St. NW Washington DC, 20434

Division of Finance

September 6, 2002

MEMORANDUM TO: Sharon M. Smith,
Deputy Assistant Inspector General

FROM: Fred Selby [Electronically produced version; original signed by Fred Selby]
Director, Division of Finance

SUBJECT: Response to Draft Report entitled , *Controls over Board Members' Travel* (Assignment Number 2002-105)

This memorandum provides our response to the recommendations presented in the subject report. The OIG audit report describes a control weakness in the current voucher audit process concerning Board members' travel reimbursement claims. More specifically the report states that, while the Corporation has reliable controls to audit all Board member travel vouchers, the current controls do not provide sufficient assurance that reimbursements for travel of spouses of FDIC Board members along with any non-FDIC reimbursement of travel expenses are reviewed for compliance with statutory requirements and the FDIC General Travel Regulations. To address these control weaknesses, the OTG recommends that the Division of Finance add procedures to its audit process and consider receiving the assistance of the Legal Division in conducting the voucher audit process.

The Division of Finance agrees with the report's recommendations. After consulting with the Legal Division, the Division of Finance believes that the identified control weakness will be most effectively addressed through the following actions:

- By September 30, 2002, the Program and Audit Unit staff will incorporate steps into the Audit Procedures Manual for the review of Board members' travel that will require travel audit specialists to:
 - Review claims for reimbursement of spousal travel expenses and document through the use of a worksheet, the result of the review. The documentation will include any follow-up or corrective action taken to resolve any questions or issues.
 - Specifically flag the absence of certain claims made by Board members and document the follow-up with the Ethics staff and/or the Executive Office administrative staff to verify compliance with 5 C.F.R. Part 2635 Subpart B.

September 6, 2002

- Implement any Chief Operating Officer (COO) approved recommendations made by the interdivisional task group, in time to assist the presidential appointee's transition into the FDIC, upon completion of the update to the *Orientation Guide for Presidential Appointees* (Guide).

We thank you for the opportunity to respond and we appreciate the interest and work of the OIG in this area.

Concur: [original signed by Steven O. App]

Steven O. App
Chief Financial Officer

Concur: [original signed by John F. Bovenzi]

John F. Bovenzi
Chief Operating Officer

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