AUDIT REPORT

ADMINISTRATIVE OPERATIONS

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

2003-KC-0002

JULY 29, 2003

OFFICE OF AUDIT, REGION 7
KANSAS CITY, KS

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audit report

Issue Date July 29, 2003	
Audit Case Number 2003-KC-0002	

TO: Armando Falcon Jr., Director, Office of Federal Housing Enterprise Oversight

Roger E. Niesen

FROM: Roger E. Niesen, Regional Inspector General for Audit, 7AGA

SUBJECT: Administrative Operations of the Office of Federal Housing Enterprise Oversight

We have completed an audit of certain administrative operations of the Office of Federal Housing Enterprise Oversight, the safety and soundness regulator for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. We conducted this audit based on directions contained in the Congressional Record for the Senate dated January 15, 2003. Our audit objectives related to the request were to review the appropriateness of travel expenditures at the Office of Federal Housing Enterprise Oversight during the last four years, and to determine whether the Office's compensation levels are comparable to other Federal financial regulators. We also evaluated whether the Office's space utilization is reasonable.

We concluded the Office's compensation levels are comparable to other regulatory organizations. Our report contains two findings with recommendations requiring action by your office. The two findings address the Office's need to ensure that its resources are efficiently used and the Office's need to strengthen controls over its travel program.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (913) 551-5870.

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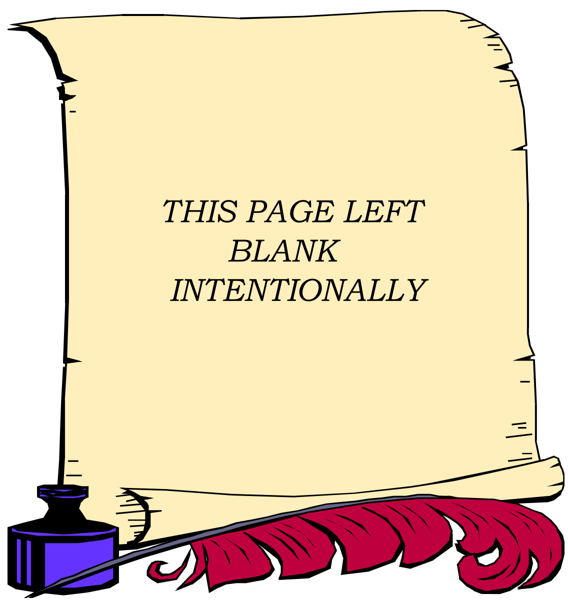
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Executive Summary

We have completed an audit of certain administrative operations of the Office of Federal Housing Enterprise Oversight, the safety and soundness regulator for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. We conducted this audit based on directions contained in the Congressional Record for the Senate dated January 15, 2003. Our audit objectives related to the request were to review the appropriateness of travel expenditures at the Office of Federal Housing Enterprise Oversight during the last four years, and to determine whether the Office's compensation levels are comparable to other Federal financial regulators. We also evaluated whether the Office's space utilization is reasonable.

Enhanced Travel and Space Policies and Procedures are Suggested

The Office of Federal Housing Enterprise Oversight did not ensure that it used its funds at optimum efficiency. The Office paid for lodging costs above the maximum per diem rate and also leased office space in excess of the government recommendations and averages. The Office incurred these expenses because the regulations allowed it the flexibility to do so and it believed that they were reasonable expenses. The Office's statute provides for it to collect annual assessments from the Enterprises it regulates. These expenses should not exceed the amount needed to provide for reasonable costs and expenses of the Office. The Federal Travel Regulations and the Code of Federal Regulations limit expenses to those providing the greatest benefit at the minimum cost. The Office needs to improve policies and procedures to ensure costs are effectively contained and that Fannie Mae and Freddie Mac do not pay assessments for unreasonable costs.

Travel Program Needs Increased Oversight

The Office of Federal Housing Enterprise Oversight sometimes did not detect its employees' travel card misuse or travel voucher errors. The Federal Travel Regulations place responsibility with the agency to ensure the accuracy of the travel claim. The Office's review procedures were not adequate to always detect these errors. The Office has taken corrective action by changing its procedures to prevent recurrence of these problems.

Compensation Is Comparable

The Office complied with its statutory requirement to maintain salary comparability with other Federal financial regulators. The Office performed a compensation study to ensure it met this requirement and made appropriate adjustments to their pay scale.

We provided a discussion draft of our audit report to the Office following the audit. We held an exit conference with the Office on June 17, 2003. The Office provided written comments to our findings on July 18, 2003. We incorporated excerpts of the comments into our report as appropriate. The complete text of the comments is contained in Appendix A.

Recommendations

We recommend that the Director of the Office of Federal Housing Enterprise Oversight improve its policies and procedures in order to ensure that its funds are used efficiently. We also recommend that the Office ensure procedural changes that have been initiated for the review of travel related expenditures are fully implemented and effective.

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Abbreviations:

HUD – Department of Housing and Urban Development
OIG – Office of Inspector General
Fannie Mae - Federal National Mortgage Association
Freddie Mac - Federal Home Loan Mortgage Corporation

Introduction

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 established the Office of Federal Housing Enterprise Oversight as an independent office within the Department of Housing and Urban Development. The Office is responsible for overseeing the financial safety and soundness of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (Fannie Mae and Freddie Mac). The President appoints the Office's Director to serve a five-year term. The current Director, Armando Falcon Jr., was sworn in during October 1999.

The Office's oversight responsibilities include conducting broad based examinations of Fannie Mae and Freddie Mac, developing a risk-based capital standard, using a "stress test" that simulates stressful interest rate and credit risk scenarios, making quarterly findings of capital adequacy based on minimum capital standards and a risk-based standard, prohibiting excessive executive compensation, issuing regulations concerning capital and enforcement standards, and taking necessary enforcement actions.

The Office is funded through assessments of Fannie Mae and Freddie Mac. The Office's operations represent no direct cost to the taxpayer, however, its funds are considered Federal funds. The Office's budget was $16 million for fiscal year 1999, $19.6 million for fiscal year 2000, $22.6 million for fiscal year 2001, $27 million for fiscal year 2002, and $30 million for fiscal year 2003. Its travel expenditures have grown from $102,000 in fiscal year 1999 to an estimated $417,000 in fiscal year 2003. Its staff has grown from 87 in fiscal year 2000 to 122 with approval for 145 in fiscal year 2003.

Audit Objectives

Our overall audit objective was to review certain administrative operations of the Office of Federal Housing Enterprise Oversight. Specifically, our audit objectives were to review the appropriateness of travel expenditures at the Office during the last four years, to determine whether the Office's compensation levels are comparable to other Federal financial regulators, and to evaluate whether space utilization is reasonable.

The Senate Committee on Appropriations directed us to assess the compensation levels of employees in the Office of Federal Housing Enterprise Oversight to determine whether salaries are comparable to those of the employees of other Federal financial regulators. The Committee also directed us to review the appropriateness of travel expenditures over the last 4 years.

Audit Scope and Methodology

During our audit, we reviewed the Office's statute, the Federal Travel Regulations, General Services Administration reports, and Code of Federal Regulations to identify the requirements governing the Office. We also reviewed the Office's Internet site, Financial Management Accounting Manual, and Guidelines to obtain background information and internal policies and procedures.

We reviewed the Office's compensation study and determined that the Office met its statutory requirement to assure comparability to the other Federal regulators. Specifically, we reviewed the Compensation Practices Report, the Compensation Survey Data Matrix, and the Report on Compensation Competitiveness Study, prepared by a consultant hired by the Office. We reviewed the Final Grade Assignments and 2003 merit payout justification prepared by the Office. We reviewed the consultant's letter providing his written opinion that the pay was comparable to other regulators.

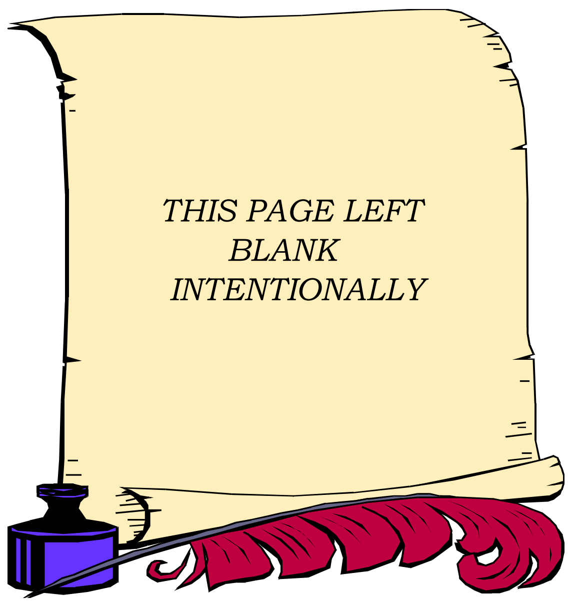
From October 1, 1998 through March 14, 2003, the Office expended $437,124 for 498 training and program temporary duty station travel trips. From this universe, we reviewed travel orders, travel vouchers, and supporting documentation for all trips exceeding $500--as well as all trips taken by the Director since October 1, 1998 regardless of amount. As a result, our review covered 378 trips totaling $407,379, or 93 percent of the travel expenditures.

We reviewed the Office's Congressional Budget Justifications and office blueprints to determine if the office space was reasonable. We also interviewed the Associate Director of Finance and Administration at the Office as well as staff in three of the other regulators regarding their offices' space utilization.

We reviewed travel card usage reports, as available, for indications of credit card misuse. We interviewed the Office's Manager of Budget and Finance regarding travel card training and oversight. We also interviewed HUD regarding their travel card oversight and calculations of travel card delinquencies.

We performed audit work from December 2002 through April 2003. The audit covered the period October 1, 1998 through March 14, 2003. The Audit was conducted in accordance with generally accepted government auditing standards.

We provided copies of this report to the Director of the Office of Federal Housing Enterprise Oversight and to the requesting committee.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The Office Needs to Strengthen Management of Travel and Space Costs

The Office of Federal Housing Enterprise Oversight did not ensure that it used its funds at optimum efficiency. The Office paid for lodging costs above the maximum per diem rate and also leased office space in excess of the government recommendations and averages. The Office incurred these expenses because the regulations allowed it the flexibility to do so and it believed that they were reasonable expenses. The Office's statute provides for it to collect annual assessments from the Enterprises it regulates that do not exceed the amount needed to provide for reasonable costs and expenses of the Office. The Federal Travel Regulations and the Code of Federal Regulations limit expenses to those providing the greatest benefit at the minimum cost. The Office needs to improve policies and procedures to ensure costs are effectively contained, and to prevent Fannie Mae and Freddie Mac from paying assessments for unreasonable costs.

Criteria

The Office's statute says that the Director is authorized, without the review or approval of the Secretary, to manage the Office. The Director may, to the extent provided in appropriation Acts, establish and collect from the enterprises it regulates annual assessments in an amount not exceeding the amount sufficient to provide for reasonable costs and expenses of the Office.

The Federal Travel Regulations permit lodging expense to be reimbursed by the actual expense method, which is warranted when a) procured at a prearranged place such as a hotel where a meeting, conference or training session is held; b) costs have escalated because of special events (e.g., missile launching periods, sporting events, World's Fair, conventions, natural disasters); lodging cannot be obtained nearby within the prescribed allowances; and costs to commute to/from the nearby location consume most or all of the savings achieved from occupying less expensive lodging; c) mission requirements necessitate it; or d) any other reason approved within the traveler's agency (FTR 301.11-300). The maximum reimbursement amount under actual expense is limited to 300 percent of the applicable maximum per diem rate (FTR 301.11-303).

However, the Regulations also provide that agencies must limit the authorization and payment of travel expenses to travel that is necessary to accomplish their mission in the most economical and effective manner. Consideration should be given, but not limited, to budget constraints, adherence to travel policies, and reasonableness of expenses (FTR 301-70.1). The Regulations also provide that agencies are to limit authorization and payment of transportation expenses to those expenses that result in the greatest advantage to the Government (FTR 301-70.100). They state that an agency will not pay for excess costs resulting from luxury accommodations or services unnecessary or unjustified in the performance of official business (FTR 301-2.4).

The 2002 update to the Code of Federal Regulations, Title 41, Section 102-79, addresses space allocation within the Federal government. The updated code pertaining to space assignment and utilization says that an Executive agency must promote maximum utilization of Federal workspace, consistent with mission requirements, to maximize its value to the Government. Executive agencies must promote the optimum use of space for each assignment at the minimum cost to the Government, provide quality workspace that is delivered and occupied in a timely manner, and assign space based on mission requirements.

The General Services Administration's annual space use study recommends a space standard of 230 rentable square feet per person, at a cost of $7,900 per person in the Washington D.C. area. Rentable square feet refers to the gross square footage minus vertical penetrations such as stairwells and elevators.

The Office Needs to Demonstrate That Funds Are Used Efficiently

The Office did not ensure that it managed its resources to result in the minimum cost to the Government. It spent its funds in excess of what appeared to be reasonable costs and expenses. For example, the Office paid lodging costs far above the maximum per diem rate, without ensuring that lodging at or below the maximum per diem rate was not available. Furthermore, the Office leased more office space than was needed to house its current staff.

The Office Approved Actual Lodging Costs

The Office approved and paid lodging costs that exceeded the maximum lodging rates set by the General Services Administration. Of 378 trips that we reviewed, 371 were completed, and 355 of these included hotel expenses. The Office paid hotel costs in excess of the maximum lodging rate for 152, or 43 percent, of these trips. The maximum rates for these trips ranged from $50 to $208, while the actual lodging expenses ranged from $74 to $379 per night. Although the dollar amounts are not material in relation to the Office's travel budget or total appropriation, it is important that government agencies, particularly those in a regulatory function and seen as financial experts, do not convey any perception of wastefulness or inadequate record keeping. For all but 15 trips, documentation was not adequate to verify what, if any, attempts had been made to obtain a government rate hotel. For the 15, there was some explanation of efforts made, but the names of other hotels contacted were not always listed.

These trips were primarily to attend or present at conferences and training sessions held in various locations throughout the United States and abroad. About one-third of the trips were to Manhattan and San Francisco, with the remainder of the trips to 34 other locations. The most frequent users of actual lodging expense were the employees in the Director's Office and the Office of External Relations, who used actual lodging on about two-thirds of their trips. The Office justified approving actual lodging based on mission requirements, as stated in their strategic objective and performance goals. Specifically, they wanted to maximize the understanding of the proposed risk-based capital regulation and public participation in the rulemaking process. The ability to stay at the conference hotel was believed to be essential to meet this goal.

There were two instances where the Office approved travel costs in excess of 300 percent of the maximum per diem rate, in violation of the Federal Travel Regulations. The following table shows the range of approvals as a percentage of the maximum per diem rate.

Percentage of the Maximum Per Diem Rate	Number of Trips	Total Lodging Costs	Amount Above Maximum Rate
101 - 149%	76	$37,702	$6,340
150 - 199%	45	$27,739	$10,336
200 - 249%	23	$15,414	$8,462
250 - 299%	6	$3,991	$2,460
300% +	2	$1,039	$765
Total Amount	152	$85,885	$28,363

Actual expense authorization was not used by the Office on an exception only basis as it was designed to be used. The Office should be more diligent in determining when actual expense reimbursement is warranted. The Office has approved actual lodging less frequently in recent years; however, the nine trips that exceeded the government rate so far in 2003 were at 177 percent of the maximum per diem rate, the highest for the audit period. The following table shows the trend in actual lodging use since fiscal year 1999.

	Number of Trips	% of All Trips	% of Maximum Per Diem Rate
1999	49	59%	142%
2000	35	56%	163%
2001	45	49%	175%
2002	14	18%	153%
2003	9	21%	177%
Total Amount/ Average Percent	152	43%	159%

The Office's stated policy dating back to 1998 is that official travel per diem should generally be reimbursed at or below the maximum level established by the General Services Administration. Employees requesting authorization for actual lodging costs, up to 300 percent of the General Services Administration rate, should provide the reason why the General Services Administration rate is not adequate to support official travel for the specific travel requested in the travel authorization. The Office's Director or Deputy Director are to act on these requests on a case-by-case basis. Further, the accounting department sent an e-mail message in August 2001 reminding employees that when an actual expense for a hotel cost is approved, the employee must provide sufficient data about the lack of alternative lodging to qualify for the actual expense. The e-mail said that although employees naturally want to stay in the conference hotel, it is incumbent on the employee to ensure that no other lodgings are available at or below the maximum per diem rate and document this in the travel authorization comments so the approving official has a valid basis to grant actual expense authorization.

Despite this policy, it is top management's philosophy to be flexible where the regulations permit it, and since the Federal

Travel Regulations allow agencies discretion in approving actual lodging, it is management's goal to allow employees to stay at conference hotels. It is quite important to the Office to have its employees available to explain what they do, reach out to affected groups to solicit feedback, and interact and answer questions outside of the conference. Management believes that when conferences are in town, other hotels are just as high or higher, but concedes that they could do a better job of documenting attempts to get other hotels.

The Office does not have a policy establishing boundaries within which it will approve actual lodging or the minimum number of hotels within a specified radius of the conference location that an employee must contact, or any procedures in place to document and verify the inability to obtain lodging at or below the per diem rate before approving actual lodging expenses. Without these controls, the Agency has no assurance that it was necessary to spend $28,363 more than the maximum per diem rate on lodging costs since October 1998.

Following our audit, the Deputy Director issued a memo outlining a strengthened documentation process for actual lodging approval. The memo states that a memorandum of justification must support travel orders for actual lodging expense. The memorandum must include comparative information for at least three (3) hotels. The comparative information should include the prices quoted, the distance from the conference or other official event, and estimated travel costs to a more distant hotel. If there are extenuating circumstances, impacting the hotel prices, an explanatory statement should be included. In addition, if approval for a specific hotel is requested, a strong justification must include a description of the events planned at the hotel that make lodging elsewhere impractical. The Deputy Director advised management staff that he intends to approve very few requests for actual lodging. The week the Deputy Director issued the memo, he denied a request from a senior staff member for actual lodging at a conference hotel.

The Office Needs to Ensure Space Use is Economical

Since December 2002, the Office has leased 72,002 square feet of space at an annual cost of $2,874,653. As of June 2003, the Office employed 140 staff. The Office's utilization rate was therefore 514 square feet per person, at a cost of

$20,533 per person. In fiscal year 2003, the Office began making leasehold improvements to this space, in anticipation of increased staffing levels expected over the next several years. The space is designed to have individual offices averaging 200 square feet each. In addition to private offices, the office space includes conference rooms, storage and file rooms, "white" rooms for team meetings, and employee lounges.

In contrast, three other regulators maintain or are in the process of maintaining substantially less space per employee. Two of these regulators have 375 and 386 square feet per person, while the third has 531 square feet per person but is in the process of negotiating with its union to reduce utilization to 265 square feet per person. Further, the General Services Administration recommends a utilization rate of 230 square feet per person at a cost of $7,900 based on its study of average government space utilization. The private sector, which determines its office space requirements independent from government recommendations, averages 325 to 355 square feet per person, according to recent studies performed by two associations.

The Office explains that its space use is justified based on several factors. First, it procured space to accommodate the increased staffing levels. By fiscal year 2005, the Office expects to increase staffing to 171. If this staffing level is attained, the utilization rate will be reduced to 421 square feet per person and the cost per person will be $16,811. According to management, the Office took advantage of a discrete size space that became available, which could not be subdivided, to eliminate costs that would be associated with maintaining two separate facilities. Secondly, the Office's professional staff needs private offices to accomplish their jobs, as the status of these employees and the nature of their work dictate that they have privacy and security for business sensitive information. Also, they needed offices to be comparable with other regulators in order to recruit and retain employees. Finally, the footprint of the building and the location of the mechanical infrastructure dictated the office layout, sometimes causing space to be used inefficiently, such as the placement of hallways on either side of the three atriums.

By using its funds to lease and improve this office space, there is a risk that the Office will have made these improvements needlessly if its staffing level does not increase, and it will have incurred higher lease costs than necessary to house its current staff.

The General Services Administration suggests that Federal agencies who exceed the recommended overall Government-wide average for office space use should ensure the agency mission mandates a direct requirement for higher per capita office space allocation. Once this link is established, agencies need to benchmark their office space to the allocation of other Government and private organizations with similar missions and needs. If the higher average cannot be directly linked to the agency mission and corroborated by benchmarking with similar organizations, then the agency should seriously consider a strategy to bring office space use per person down closer to the recommended overall average of 230 rentable square feet per person.

Our efforts at benchmarking the Office's space to similar organizations did not show there was a need for the higher average. The current utilization rate exceeds the other regulators. The projected rate based on increased staffing is also higher than its peers.

We recommend that the Office establish and implement policies and procedures that will ensure that its funds are used efficiently. The new policy memorandum on actual lodging approval should accomplish this, provided the three documented hotel options are restricted to hotels that normally offer the government rate and the Deputy Director stands by his commitment to only infrequently approve actual lodging. The Office should also ensure that its space is reasonable in relation to its mission, similar organizations, and the government recommended average.

Auditee Comments

Following is an excerpt from the Office's comments on our draft report. Appendix A, page 27, contains the complete response.

The Office believes that it has effectively managed its travel and space costs to the benefit of the agency. Eighty-five percent of the trips approved using actual lodging expenses took place in the years 1999 to 2001. This was a time period when the Office was developing its Risk-Based Capital Rule and was actively promoting the understanding of this rule with key representatives of the mortgage finance industry and the capital markets. Senior management determined on a trip-by-trip basis that staying at hotels where conferences were held promoted the attainment of goals. Staff in the Director's and External Affairs offices, who made the bulk of these trips, were the people primarily responsible for informing interested parties about risk-based capital. The number of trips using actual expenses dropped significantly since the capital rule was finalized. Management continues to use the flexibility that the Federal Travel Regulations provides agencies when they determine that paying such costs supports Office of Federal Housing Enterprise Oversight's strategic objective of enhancing the public's understanding of the housing finance system. While the Office strives to operate as efficiently as possible, it must also balance that objective with the goal of seeking the most effective means of accomplishing its mission. That balancing will not always result in the lowest possible "minimum cost." However, the additional costs incurred are minimal, amounting to only $2,333 in 2002.

OIG Evaluation of Auditee Comments

We believe the Office's rationale for approving actual lodging costs was not well documented. The availability of the government rate at nearby hotels was frequently not explored or if explored, not documented. As a result, there is a lack of assurance that the Office could not have accomplished its goals while securing lodging at nearby, alternate hotels. We agree management has the flexibility to authorize actual lodging when they determine it is in the best interest of the organization; however, to ensure effective controls are maintained against abuse, documentation should be retained to justify actual lodging expenditures. Our audit found a high use of actual lodging with little or no supporting documentation. If these trips were approved on a trip-by-trip basis, we would have expected to find documentation supporting each decision. In addition, some of the trip purposes did not seem to relate to enhancing understanding of the risk based capital rule or the housing finance system. For example, several trips were made to Fannie Mae regional offices, for meetings with finance industry advisor experts, and for executive training.

Auditee Comments

The report states that the Office was "inefficient" in the use of funds because more office space was leased than was needed to house current staff. As explained during the audit process, the Office has been planning since 2001, with the approval of the Office of Management and Budget, to increase its staff, primarily in the examination area. The Office reviewed space at separate locations and found the expense of relocating the office and maintaining staff in two locations to be substantial. The report suggests that the Office should wait until it receives Congressional approval for all the staff increases before leasing space. Currently, the Office is part of the annual appropriations process. If the Office were to try to lease space in conjunction with the annual appropriation, it would risk not being able to maintain its entire staff at the same location and it would slow the utilization of the new staff because the Office would have to wait for adequate space to be leased and outfitted. In leasing and outfitting the space in advance of hiring the staff, the Office was making a strategic decision that that was forward looking. Successful firms operate on a similar basis. While the Office agrees it should use its funds efficiently, we also believe implementation of your recommendation would result in greater overall costs in the long-run and potentially hamper the Office in achieving its mission.

OIG Evaluation of Auditee Comments

We disagree with the Office's assertion that implementation of our recommendation will result in greater overall costs and hamper mission achievement. We have altered our recommendation to acknowledge that decisions already made cannot easily be changed now and to emphasize that future decisions should be made only after justifying the amount of space needed. We recommend that for all future office space decisions, the Office supports how its mission requirements necessitate more space than the General Services Administration recommends, compares the office accommodations to its fellow regulators, and ensures office space is configured so that it is reasonable and comparable.

Recommendations

We recommend that the Director, Office of Federal Housing Enterprise Oversight:

1A. Follow the new policy statement that actual lodging expense will be infrequently approved and that all requests must fully document the attempts to obtain lodging within the per diem rate or a strong justification for staying at an actual cost hotel. The Policy should be amended to require travelers to contact hotels that ordinarily offer the government rate to support their attempt to obtain lodging within per diem.

1B. Implement policies and procedures that ensure all future office space decisions apply comparable organizations' space utilization data and General Services Administration's recommendations.

The Office Should Enhance Controls Over Travel Card Use and Travel Record Keeping

The Office of Federal Housing Enterprise Oversight sometimes did not detect its employees travel card misuse or travel voucher errors. The Federal Travel Regulations place responsibility with the agency to ensure the accuracy of the travel claim. The Office's review procedures were not adequate to always detect these errors. The Office has taken corrective action by changing its procedures to prevent recurrence of these problems.

Federal Travel Regulations

The Federal Travel Regulations (FTR 301-71.201) provide that it is the reviewing official's responsibility to ensure the types of expenses claimed are authorized and allowable expenses, the amounts claimed are accurate, and the required receipts, statements, justifications, etc. are attached to the travel claim. The certifying officer assumes ultimate responsibility under 31 U.S.C. 3528 for the validity of the claim; however: (a) The traveler must ensure all travel expenses are prudent and necessary and submit the expenses in the form of a proper claim; and (b) The authorizing/approving official shall review the completed claim to ensure that the claim is properly prepared in accordance with regulations and agency procedures prior to authorizing it for payment (FTR 301-71.203).

The Regulations permit individuals to obtain cash advances for official travel. The Regulations state government contractor-issued charge cards can only be used for official travel expenses and if an employee uses the travel card for purposes other than official travel, the agency may take appropriate disciplinary action (FTR 301-70.706-707). The Office's travel cardholder guide also states the official travel card rules.

The Regulations require that an employee must provide receipts for lodging expenses and any other expense costing over $75 (FTR 301-52.4, 301-11.25). The Regulations allow the traveler to claim 75 percent of the applicable meals and incidental expense rate on the day of departure and the day of return, and 100 percent of the applicable rate on the full days of travel (FTR 301-11.101). The claim must be reduced for meals furnished to the traveler (FTR

301-11.18). The Regulations provide that an agency may disallow a claim if the traveler fails to provide proper itemization of an expense; provide receipt or other documentation required to support the claim; or claims an expense which is not authorized (FTR 301-52.8).

Oversight of Credit Cards Was Not Always Effective

The Office's management reviewed monthly credit card reports, but sometimes did not detect or prevent misuse. The travel card issuer sends monthly statements to the Office's employees, who are responsible for making payments directly to the issuer. There is no direct cost to the government. The issuer also sends reports to the Office so that the Office can monitor its employees' usage. Management did not detect improper cash advances totaling $10,315. One individual took $9,215 in excessive advances, including $2,581 more than he was authorized during official travel and $6,634 while not on official travel. Two other employees used their credit cards to obtain $1,100 in improper cash advances. In addition, the Office's employees occasionally used their credit cards for unallowable credit card purchases that were not detected. Nine employees made 26 improper purchases totaling $4,074, 13 of which were not detected by management. The personal purchases included charges at a local restaurant, gasoline, and personal car repairs.

Although the amount of the credit card misuse is fairly insignificant and in fact represents no cost to the government, misuse of credit cards by government employees is a very sensitive issue. These instances of misuse could undermine public perception of the Office. Regulatory agencies must be beyond reproach and able to withstand a high degree of scrutiny to remain credible.

When employees initially applied for the travel cards, the accounting staff briefed them on the various travel card policies and gave them the card issuer's cardholder guide. Management also sent out periodic e-mail reminders about the appropriate use of the travel card. In spite of this guidance, the one employee making $9,215 in unauthorized travel advances and $2,873 in personal purchases stated that he knew the rules, but needed to pay for personal expenses such as repairing his automobile. After we notified management of the problem, he promised it would not happen again. Other employees with improper travel advances and purchases claimed that they did not know or forgot the travel rules, they didn't have their personal credit card on-hand for their private purchases, or they accidentally used the wrong card. These employees did not misuse their cards again after management couseled them.

Although management reviewed the monthly travel card reports, they did not always detect questionable purchases and did not detect any of the improper cash advances that we identified. Beginning in the fall of 2001, management had some problems in getting timely reports due to the September 11, events and the irradiation process initiated because of the Anthrax scare, which caused some reports to come apart when opened. This hindered their review of the monthly reports. Management discussed the improper purchases and delinquencies that they did identify with the employees and their supervisors. Management contacted employees regarding the additional problems we identified as soon as we brought them to their attention.

Although there is no direct cost to the government for the travel card misuse, the act violates the Federal Travel Regulations and the Office's travel card policy. These instances of credit card misuse can damage the contractual relationship with the government travel card issuer.

In response to our audit finding, the Office changed several of its procedures. Credit card reports are now being received from the card issuer electronically. For the next several months, the Manager of Budget and Finance plans to personally review the credit card reports each month and deal with improper cash advances or improper purchases by counseling the employee and making management aware of the problem. The Office announced a new accounting position and plans to assign the new employee the responsibility of credit card report review. Management reported that the most recent credit card report reflected one delinquent account and one excessive advance, both of which were discussed with the employees involved. The employee with the most blatant misuse has fully paid his account and has been counseled about past abuses of the credit card. The Associate Director of Finance and Administration has briefed management about the credit card issues and has asked for their support in ensuring that employees understand the rules. In addition, management sent out reminders about appropriate and inappropriate use of travel cards, as well as a memorandum and attached the Citibank Travel Card Cardholder Guide with a certification that employees must sign and return to management. The certification explains that the employee has received the memo, read the Guide, and understands that improper use of the card will result in administrative or displinary action, as appropriate. Management will re-certify employees on an annual basis through a briefing and certification statement.

By receiving the credit card reports electronically, the Office can improve its efforts in managing the travel card program. The efforts to hire an individual to help manage the travel card program is commendable and should pay dividends in the future. It is essential that senior management support all initiatives in this regard and they must take appropriate disciplinary action against employees who violate the travel card regulations and policies. When the Office begins the annual recertification of employees on travel card policies, this will reinforce each employee's understanding of the subject.

Travel Review Process Needs Improvement

The Office sometimes paid travel claims to employees for unsupported or ineligible amounts. The Federal Travel Regulations require receipts for lodging claims and all other claims greater than $75. Out of 378 trips that we selected for review, we found that 371 trips were completed and the Office paid claims for 145 airfares, hotels, and rental cars that lacked receipts or had receipts that did not support the amount that was claimed. We reduced the number of unsupported claims to 35 using alternative documentation that was obtained during and following the audit process. The alternative documentation included government credit card statements, personal credit card statements, receipts that employees located or obtained copies of from vendors, and travel agency reports. Additionally, meals and incidental expenses were incorrectly calculated 32 times. Further, 3 claims included ineligible amounts. These included a claim for porter fees, an excess personal phone call claim, and a flawed cost comparison. The following table depicts these results.

Travel Voucher Problem	Number of Vouchers
Unsupported hotel	19
Unsupported airfare	15
Meals & Incidental Expense calculation error	32
Ineligible claims	3
Unsupported rental car	1

The total amount of ineligible and inaccurate claims is a very small percentage of the approximately $400,000 in travel expenditures that we reviewed. Further, the Office is taking action to collect from or make payments to its employees to correct the travel voucher errors. After taking into account all alternative documentation, the unsupported claims total $7,112. The Office's former procedure which allowed employees to retain their own records in support of travel vouchers could have exposed it to a potentially much larger problem. Although we discovered that the problem is relatively immaterial, we have included it in this report because it was an area of specific interest in the Congressional request.

The travelers are responsible for the accuracy of their travel claims. Traveler error was the reason for many of the mistakes. When the employee returned home a day early or otherwise changed their travel dates, they were responsible for updating the actual dates in the travel management system to prevent the system from automatically adding lodging and per diem expenses not actually incurred.

The accounting department is responsible for ensuring the accuracy of the travel claims, but they were unaware when unsupported or inaccurate amounts were claimed, due to the policy that travelers retained their receipts in their own files, rather than submitting them with their travel vouchers. After our initial review of a small sample of vouchers during our survey, management became aware of the problems and changed this policy. Now, all employees are required to submit their receipts with their travel vouchers. This will allow the accounting staff to detect errors.

In reviewing the travel vouchers, we observed many instances where the employee reviewing the travel detected errors and corrected them before paying the claim. Specifically, the reviewer usually identified those attempting to claim more than $12 per day for personal phone calls, porter fees, gratuities, and unitemized miscellaneous expenses. The traveler was notified and the payment amount was reduced accordingly.

As a result of our audit, the Office has further refined its procedures. Travelers are required to turn in all required receipts to the Finance Assistant who is to process travel vouchers. The voucher is not considered submitted until all required receipts are received. The Finance Assistant reviews the voucher against the authorization and all receipts against the voucher to ensure that the voucher is correct. Airfare and hotel receipts are to be validated as charged on the government travel card. The Finance Assistant is to review all claims for per diem to ensure that they are correctly calculated, and certify the vouchers for payment. The Manager reviews the vouchers prior to payment and has final sign-off authority in the financial management system. She is personally talking with employees about issues and is using this as an opportunity to provide enhanced training to the staff. Once the Manager is satisfied with the quality of payments sent to her, she may delegate review to a staff member. The Office is reviewing the audit findings regarding unsubtantied claims and will take appropriate action.

The actions the Office is taking should prevent future travel payment errors. However, the Office needs to ensure it follows through with the actions it has initiated.

Auditee Comments

Following is an excerpt from the Office's comments on our draft report. Appendix A, page 27, contains the complete response.

Because of the de minimis size of credit card transactions in relationship to the Office's budget, the Office chose to sample transactions on monthly credit card reports. The Office considered the credit card program a lower risk to the government than other types of transactions that directly impacted the Office's resources. The individual employee is responsible to pay all charges and cash advances. The Office's existing controls over travel card use were effective in that there has been no loss of funds to the government or the credit card company from the travel card program. The Office is now maintaining documentation of the review including tracking the individual charges back to specific trips. This type of comprehensive validation is time-consuming and labor intensive.

The Office agrees that its travel review procedures did not always ensure the accuracy of travel claims, and it has implemented additional controls to provide finance staff the records needed to detect errors. Based on employee inability to quickly provide the auditors with their historical travel records, the Office has removed from employees the responsibility to maintain receipts and has re-instituted centralized control of employee receipts and supporting documentation. The auditors chose to review only the electronic documentation for trips taking place in FY 2000 and after. Documentation of items questioned during payment processing would be in the finance source file, which is paper. The Office's staff advised the audit team of this possibility during the audit and showed them examples of corrections documented in the paper file, which were not reflected in the travel management software file. The amount of unsupported or ineligible travel claims is truly insignificant when put into context of the amount paid over multiple years. Despite the immaterial dollar findings, the Office agrees that the documentation process over travel expenses could be strengthened and has implemented a new process, centralizing travel receipt and document maintenance, several weeks prior to the exit conference. The new process of collecting receipts prior to making payments on travel claims submitted electronically is bearing fruit in the examination of items claimed on employee vouchers.

OIG Evaluation of Auditee Comments

We agree with the Office that based on dollar amounts their travel card use and improper transactions are not significant. That is why we did not include a recommendation in our report for the Office to research and correct all transactions. However, because the Office is a financial regulatory agency we believe that it is important they hold themselves to a high standard to avoid negative perceptions by the public. Our audit process was to use electronic files and the employees' trip files to review for the required receipts. We gave the Office the opportunity to provide additional documentation that may be available that addressed any of the problems we identified. We evaluated any additional documentation provided at the time of the audit, including information retrieved from the finance paper source files. This primarily consisted of explanatory e-mails or accounting corrections that prevented ineligible amounts from being paid, rather than receipts for amounts claimed. Following the audit, we accepted additional supporting documentation that the Office obtained by having employees search for personal credit card records and contact vendors for duplicate receipts and by searching government credit card reports showing charges for these trips. Although some of these documents were not the source documents required by the regulations, we accepted those that corroborated that the expense was actually incurred. We believe full support for travel expenses should be retained in office files. The Office agreed and has already initiated corrective actions that should correct the problems we found.

Recommendations

We recommend that the Director, Office of Federal Housing Enterprise Oversight:

2A. Follow through on the plan to hire a new accounting technician and implement the new procedures that have already been initiated to address the travel card misuse and the travel voucher errors.

Management Controls

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

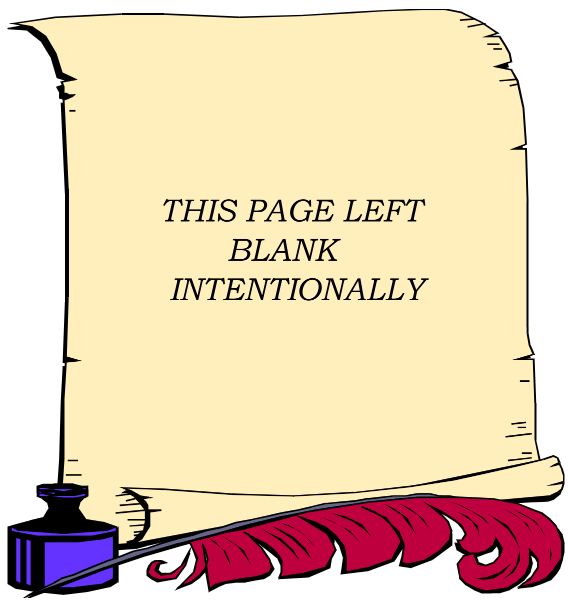
- Controls over determining staffing and pay.
- Controls over staff reimbursements.
- Controls over development of administrative policies and procedures.

We assessed the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe there were no significant weaknesses.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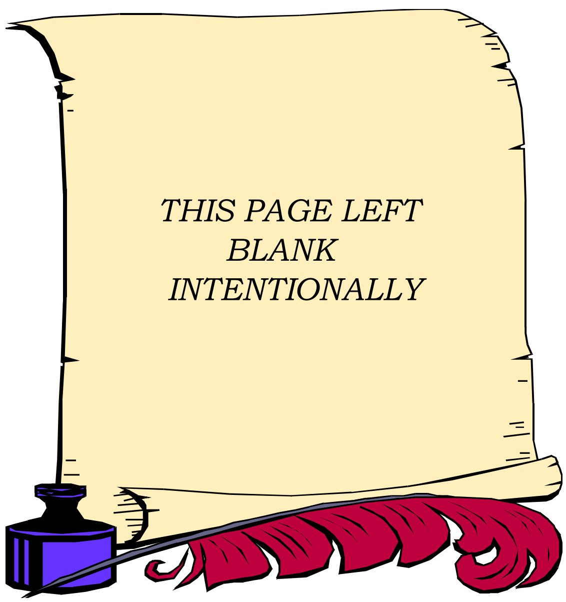
Follow Up On Prior Audits

This is the first Office of Inspector General audit of the Office of Federal Housing Enterprise Oversight.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Auditee Comments

OFHEO **OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800

July 18, 2003

Regional Inspector General Roger Niesen
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit
Great Plains Region, 7AGA
Gateway Tower II – 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

Dear Regional Inspector General Niesen:

On behalf of OFHEO, I am providing formal comments on the report entitled Administrative Operations, Office of Federal Housing Enterprise Oversight. Before commenting on your report, I would like to express our appreciation for the professionalism exhibited by your staff that performed the audit, and the opportunity to discuss issues with them during the exit conference on June 19.

I am pleased that you have concluded that OFHEO **does not have any significant weaknesses** in its management controls in the areas covered by your audit. Your audit objectives were threefold: 1) determine whether the compensation levels are comparable to other Federal financial regulators, 2) review the appropriateness of travel expenditures, and 3) evaluate whether the Office's space utilization is reasonable.

SUMMARY RESPONSE

Your report concludes that OFHEO complied with its statutory requirement to maintain salary comparability with other Federal financial regulators and therefore there are no findings that this is an area in need of improvement. We agree with your conclusion on pay comparability, and we will continue to periodically evaluate our pay structure to ensure that we comply with our statutory requirement.

With respect to the other two audit objectives, your report makes two findings: 1) OFHEO needs to strengthen management of travel and space costs, and 2) OFHEO needs to enhance its controls over travel card use and travel record keeping. With respect to Finding 1, OFHEO believes that we do in fact have adequate management controls over travel and space costs, and that your office simply disagrees with how we have exercised our legal discretion in this area. We do, however, agree with Finding 2. OFHEO has already put in place enhancements to our existing controls over travel card use and travel record keeping. While the

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amounts of unsupported claims uncovered in your audit are very small and are not material, the enhancements described below will make our controls in these areas even more effective.

Specific comments on your report are below.

Objective 1: Pay Comparability

OFHEO fulfilled its statutory requirement of maintaining comparability with the compensation provided to the staff of the Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision. After reviewing documentation that we provided to your audit staff on this issue, we are pleased that your report comes to the same conclusion.

Objective 2: Travel and Space Costs

OFHEO believes that it has effectively managed its travel and space costs to the benefit of the agency.

Actual Lodging Expenses

Your report concludes that OFHEO "did not ensure that it managed its resources to result in the minimum cost to the Government." You support your conclusion by noting that OFHEO approved and paid lodging costs that exceeded the maximum lodging rates set by the General Services Administration (GSA) on 43 percent of the trips that were audited.

As you indicate in your report, Federal Travel Regulations (FTR) provide agencies the flexibility to pay actual lodging costs up to 300% of the maximum rate set by the GSA. Agencies may take advantage of this flexibility for several reasons, including:

- Lodging and/or meals are procured at a prearranged place such as a hotel where a meeting, conference or training session is held;
- Because of mission requirements; or
- Any other reason approved within your agency.

On page 8 of your report, a table shows 85% (129 of 152) of the trips approved using actual lodging expenses took place in the years 1999 to 2001. This was a time period that OFHEO was developing its Risk-Based Capital Rule and was actively promoting the understanding of this rule with key representatives of the mortgage finance industry and the capital markets. In fact, Performance Goal 1.1 (a) in OFHEO's Performance Plan for FY 1999 and FY 2000 requires OFHEO "to maximize the understanding of the proposed risk-based capital regulation and public participation in the rulemaking process." Senior management determined on a trip-by-trip basis that staying at hotels where conferences were held, for

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example, promoted the attainment of Performance Goal 1.1 (a). These were hotels where costs usually exceeded GSA rates. Your report notes that staff in the Director's and External Affairs offices made the bulk of these trips. These were the people primarily responsible for informing interested parties about risk-based capital.

The number of trips using actual expenses dropped significantly since the capital rule was finalized. Yet management continues to use the flexibility that the FTR provides agencies when it determines that paying such costs supports OFHEO's Strategic Objective of "Enhancing the Public's Understanding of the Housing Finance System, particularly the role that Fannie Mae and Freddie Mac play in the Provision of Mortgage Credit."

While we strive to operate as efficiently as possible, we must also balance that objective with the goal of seeking the most effective means of accomplishing our mission. That balancing will not always result in the lowest possible "minimum cost." However, the additional costs incurred are minimal, amounting to only $2,332.75 in 2002.

Office Space Acquired As Strategic Business Decision

The report states that OFHEO was "inefficient" in the use of its funds because more office space was leased than was needed to house current staff. As explained during the audit process, OFHEO has been planning since 2001, with the approval of the Office of Management and Budget, to increase our staff, primarily in the examination area. OFHEO leases space from the Office of Thrift Supervision (OTS), which has been undertaking a series of staffing reductions, making space available for lease after reductions. OFHEO has the first right of refusal to the additional space in the building it currently occupies and OFHEO exercised this right to lease space when OTS made it available. OFHEO also reviewed space at separate locations and found the expense of relocating the office and maintaining staff in two locations to be substantial.

OFHEO secured the services of an architect to plan space utilization in the OTS building in a way that would meet OFHEO's requirements to:

- maintain office equity among staff,
- provide working areas for cross-functional teams,
- design maximum space utilization around the footprint which incorporates an open atrium, a unique mechanical infrastructure and adjacent space not amenable to offices due to the infrastructure, and
- provide space to house new employees consistent with our three-year plan to strengthen OFHEO's regulatory capacity.

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The report suggests that OFHEO should wait until it receives Congressional approval for all the staff increases before leasing space. Currently, OFHEO is part of the annual appropriations process. If OFHEO were to try to lease space in conjunction with the annual appropriation, it would risk not being able to maintain its entire staff at the same location and it would slow the utilization of the new staff because OFHEO would have to wait for adequate space to be leased and outfitted. In leasing and outfitting the space in advance of hiring the staff, OFHEO was making a strategic decision that was forward looking. Successful firms operate on a similar basis. While OFHEO agrees it should use its funds efficiently, we also believe implementation of your recommendation would result in greater overall costs in the long-run and potentially hamper OFHEO in achieving its mission.

Objective 3: Travel Card Use and Travel Record Keeping

OFHEO agrees that its travel review procedures did not always ensure the accuracy of travel claims, and it has implemented additional controls to provide finance staff the records needed to detect errors. However, our existing controls over travel card use were effective in that there has been no loss of funds to the government or the credit card company from OFHEO's travel card program.

Maintenance of Receipts Now Centralized

In FY 1997, OFHEO implemented travel management software that contained edits to detect mathematical errors in travel order and vouchers. The software also assures that GSA lodging and subsistence rates are used and, if not, prompts for a justification, and edits travel documents for compliance with the FTR. At that time, OFHEO also implemented a process giving employees the responsibility to maintain receipts to support voucher claims and put accountability with the traveler for the accuracy of claims submitted for payment. OFHEO still reviewed the claims and often sought from employees additional information to support amounts claimed. While the travel management software has its shortcomings, OFHEO found that it greatly improved travel order and travel voucher quality as well as providing an efficient electronic routing process for the review and approval of documents.

In implementing new processes to support a more paper free environment, agencies will need to experiment in reaching the optimum balance between customary controls and automated controls. OFHEO believes that to leverage the effective use of technology within government, administrative functions require re-engineering of processes, an opportunity to evaluate the effectiveness of these new processes and the ongoing need to effect changes as required. Based on employee inability to quickly provide your auditors with their historical travel records, we have removed from employees the responsibility to maintain receipts and have re-instituted centralized control of employee receipts and supporting documentation.

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Credit Card Use Monitoring Improved

OFHEO agrees that it could have assigned staff to review every transaction an employee made on his or her government-issued credit card. Instead, because of the de minimis size of credit card transactions in relationship to our budget, OFHEO chose to sample transactions on monthly credit card reports. OFHEO periodically issued policy guidance to employees cautioning about inappropriate uses of the card. OFHEO considered the credit card program a lower risk to the government than other types of transactions that directly impacted OFHEO's resources. The individual employee is responsible to pay all charges and cash advances, not OFHEO. There was no loss to OFHEO or to the credit card company from OFHEO employee charges. OFHEO ensured that employees paid all charges and worked with the credit card company to effect this.

Your auditor's review identified three employees who improperly used the credit card cash advance option. One of the employees had recently taken out improper cash advances and the issue was pending discussion between the employee and the employee's manager. Another employee improperly used the cash advance feature during the earlier years of the audit and the employee had not repeated any identified unapproved use. The final employee had significantly overused the cash advance feature. OFHEO had not identified this overuse prior to the your audit. However, the employee has since been counseled, travel has been restricted for six months and the credit card was relinquished. The employee fully paid the cash advances back to the credit card issuer.

One of the issues in reviewing the monthly reports, was that OFHEO received them via the mail. Since the September 11, 2001 terrorist attack in New York and Washington, OFHEO's mail has been delayed and damaged due to radiation of certain incoming mail, which included the monthly credit card reports. Sometimes the reports were not received. Other times the reports were damaged to the point that they fell into pieces.

OFHEO has arranged to receive the monthly reports via electronic mail and has implemented a monthly review process by a management official. OFHEO is maintaining documentation of the review including tracking the individual charges back to specific trips. A new employee is being hired in finance, which will facilitate the comprehensive, monthly review of each credit card transaction as suggested by your auditors. OFHEO has over 100 cardholders, and this type of comprehensive validation is time-consuming and labor intensive.

Unsupported and Ineligible Travel Claims Not Significant

On page 16 of the report, you state that OFHEO "sometimes paid travel claims to employees for unsupported or ineligible amounts. Of the 378 trips over a 4.5 year period reviewed in your audit, you found 59 individual unsupported amounts, totaling $18,333. When compared to overall travel expenses of $437,124, this results in an annual error rate of 4%. As you correctly pointed out to us in our exit conference, this rate is close to the government average.

Since the exit conference, however, OFHEO has undertaken a review of each of the unsupported amounts identified in your report. Our review consisted of:

- evaluation of the documents in the finance source (paper) file,
- receipt documentation for over $9,300 of expenses made available by employees, and
- additional credit card reports providing documentation of nearly $5,400 of previously unsupported items.

OFHEO, through its own review, has been able to secure additional documentation to support all but $4,149 of the $18,333 identified in the report as unsupported payments. The $4,149 in remaining unsupported or ineligible travel expenses represents 0.9% out of the total $437,124 paid during the 4.5 years audited. Thus, OFHEO's error rate is less than one-fourth that of the average Federal agency.

OFHEO management learned after the exit conference that the auditors chose to review only the electronic documentation for trips taking place in FY 2000 and after. If finance staff identified a claim for further investigation after the claim had been processed in the software and before the payment was processed in the accounting system, the electronic file might not include full documentation for that trip. Documentation of items questioned during payment processing would be in the finance source file, which is paper. OFHEO staff advised the audit team of this possibility during the audit and showed them examples of corrections documented in the paper file, which were not reflected in the travel management software file. OFHEO raised this issue again after the exit conference.

Some staff was able to locate receipts when pressed by management after the exit conference. Unfortunately these receipts were not readily available to the auditors during their review. Our new policy of centralized record keeping will ensure such records will be accessible in the future.

In summary, the amount of unsupported or ineligible travel claims remains very small, is below the government average, and is truly insignificant when put into context of the amount paid over multiple years. The average unsupported amount per year is about $922 over the 4.5 years audited. OFHEO's average budget per year for the audit years is $25.6 million. The $922 average unsupported travel claims per year represents 0.0036% of the average budget per year.

Despite the immaterial dollar findings, OFHEO agrees that the documentation process over travel expenses could be strengthened and has implemented a new process, centralizing travel receipt and documentation maintenance, several weeks prior to the exit conference. The new process of collecting receipts prior to making payments on travel claims submitted electronically is bearing fruit in the examination of items claimed on employee vouchers.

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OFHEO has been able to identify improper or incorrect claims at the beginning of the voucher payment process. OFHEO expects this process will act as a quality assurance measure and an incentive to improve voucher quality before submission.

I hope you will take the time to review the supplemental travel claim records and make the appropriate corrections to the information contained in your report. If you have any questions concerning our written comments, please feel free to contact Mark Kinsey, Associate Director for Finance and Administration on 202-414-3811.

Sincerely,

Armando Falcon, Jr.