Office of Inspector General

Office of Audits and Evaluations
Report No. EVAL-17-002

OIG Hotline Complaints Regarding Employee Travel

December 2016

Office of Inspector General

Executive Summary

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Why We Did The Evaluation

We initiated this evaluation in response to two February 2016 Office of Inspector General (OIG) Hotline complaints regarding employee travel. The complainants alleged that certain FDIC employees were (1) traveling excessively and unnecessarily at the FDIC's expense; (2) designated as Work in Place (WiP), but incurring significant commuting expenses; and (3) traveling frequently enough to invoke tax consequences that were not addressed by the FDIC and the employees involved. The objective of our evaluation was to assess the merits of the complaints. We reviewed business travel completed by seven FDIC employees identified in the complaints and developed statistics on business travel completed by all employees identified as WiP by the FDIC.

Background

WiP allows an FDIC employee to work from a location different from the position's normal reporting location. For example, WiP could allow an employee physically located in Dallas to occupy a position normally located in Washington, DC (Washington)—Dallas would be the *official duty station* and Washington would be the *reporting duty station* for the WiP employee. The FDIC had not established a formal policy for the WiP program. A program official provided informal guidance in 2010 that applied to most WiP employees. The FDIC drafted a WiP policy in May 2016 that is expected to apply to all FDIC employees, once finalized. The Division of Administration (DOA) was continuing to update the draft policy during our evaluation. The May 2016 draft policy stated that WiP was established as a recruitment tool to allow managers the capability to recruit highly qualified candidates in a competitive labor market for hard-to-fill positions. The draft policy further states that senior management must determine that the position's major duties can be performed at the official duty station and that travel to the reporting duty station will be infrequent. As of December 2015, the FDIC identified 125 employees in WiP positions. DOA is responsible for administering the WiP program.

Reimbursements for long-term travel to the same location can trigger tax consequences for employees. Factors to consider when determining if travel is taxable include the location of an employee's official duty station and how often an employee travels between two places of business. If an employee travels for work to a single location other than his/her official duty station for the majority of his/her work time for 1 year or more, there is an increased likelihood that the travel expenses are taxable. Ultimately, whether business travel is taxable depends on the facts and circumstances of each travel situation. Travel reimbursements are also generally taxable when an employee travels for reasons of personal convenience instead of business necessity. The Division of Finance (DOF) is responsible for administering the FDIC's travel program and withholding and reporting employee tax information.

Evaluation Results

WiP Travel and Tax Consequences. We concluded that some of the allegations involving the travel patterns of the seven FDIC employees had merit. Five employees were designated as WiP and traveled frequently to their reporting duty station in Washington in 2015, contrary to the intent of the WiP program.[1] Three of the five WiP employees traveled extensively to Washington under details or promotions exceeding 1 year, which could trigger tax consequences. DOF recently began withholding taxes for one of those employees when it became apparent that the employee's detail and related travel would exceed 1 year. DOF should review the facts and circumstances for the other two WiP employees and determine whether withholding is warranted. The FDIC should also raise awareness among FDIC employees about assignments that involve long-term travel situations that could result in tax liability.

WiP Policy and Parameters. The FDIC lacks a formal policy for the WiP program that defines the program objective and establishes parameters for its use and there were differing views among divisions on when it was appropriate to offer such arrangements to employees. WiP is intended for hard-to-fill positions after merit promotion procedures have been unsuccessful and contemplates infrequent travel to the reporting duty station. The FDIC's use of WiP varied and was not always consistent with WiP guidance or the draft policy. For example, FDIC did not attempt to fill positions through merit promotion procedures for the five WiP employees identified in the complaints before using WiP and some WiP employees traveled frequently. The Corporation would benefit from finalizing WiP policy, clarifying program parameters including requiring competitive postings before offering WiP, and setting reasonable guidelines on travel frequency. Further, requiring divisions to complete cost-benefit analyses when considering WiP positions could facilitate more informed and cost-effective decisions, including those regarding relocation versus allowing employees to work from remote locations.

Travel for Personal Convenience and Related Tax Consequences. The seventh employee named in the allegation was an FDIC executive (Executive) that the FDIC reimbursed for extensive travel to his original city of residence, which was near an FDIC office (herein, referred to as Alternate Location), over a 14-year period. The Executive had relocated from the Alternate Location to Washington and operated under an informal work arrangement since 2002 that allowed him to spend a portion of his work time in the Alternate Location, where he continued to maintain a residence. In addition to receiving relocation benefits, the Executive earned a Washington-based salary that was 17-percent higher than what he would have earned in the Alternate Location in 2016.

We previously evaluated the Executive's work arrangement in 2005. We reported our results to the Executive's former supervisor noting recurring travel activity that included frequent travel to the Alternate Location. We requested that the Executive's former supervisor confirm that the travel was consistent with the terms of the work arrangement. We also suggested that the former supervisor assess the cost-effectiveness of the work arrangement. The former supervisor responded that the arrangement would continue with certain limitations and that the Executive's travel should be consistent with the Corporation's travel regulations.

The FDIC expects employees traveling on official business to exercise the same prudent care in incurring reimbursable expenses as though traveling on personal business. Over our 44-month analysis period, for which information was available, the Executive spent most of his work time and travel days in the Alternate Location. He routinely flew to and from this location during work hours. Although employees are permitted and encouraged to travel during work time, given the frequency and personal nature of the travel, this practice was not the most productive use of the Executive's work time. Additionally, the

[1] One of the seven employees was not WiP and did not travel frequently or extensively.

Executive typically increased the cost of legitimate travel to conference locations by first flying to the Alternate Location. He also claimed a frequent traveler stipend for which he only qualified because of his trips to the Alternate Location. The Executive told the OIG that his travel was allowed by the work arrangement and he did not believe his flight selections necessarily increased travel costs. The Executive also believed that others in the Corporation were aware of his work arrangement but acknowledged that he had not discussed it with his most recent supervisor.

Senior FDIC officials were not aware of the work arrangement, until we brought it to their attention in May 2016. The Executive's most recent supervisor was aware that the Executive traveled frequently, including to the Alternate Location, but was not aware of the work arrangement. In response to our draft report, senior FDIC officials stated that, when implemented, the work arrangement was necessary to retain the Executive and its costs were justified by the Executive's value to the Corporation. These officials stated that the work arrangement was in the best interest of the Corporation, contributed towards maintaining the profile of the Executive's office, and was needed during the 2008 financial crisis and Dodd-Frank Act implementation. In May 2016, the Executive's most recent supervisor concluded there was no longer a business need for the work arrangement and discontinued it. The Executive retired shortly thereafter.

In our view, the work arrangement created risks and adverse consequences for the Corporation and potentially for the executive and appeared not to be in the FDIC's best interests. Our report discusses several factors that contributed to this situation, including the Executive's former supervisor's decision to allow the work arrangement and the unique and informal nature of the arrangement. The work arrangement involved unusual provisions and was difficult to monitor, lacked parameters and controls, and created the risk of expenses that outweighed business needs. It would have been prudent for management to periodically review whether the arrangement continued to provide sufficient value to the Corporation.

We also concluded that the Executive took frequent advantage of the work arrangement for his own personal benefit and convenience. FDIC executives are held to a higher standard than other FDIC employees and are expected to practice good stewardship. A number of court cases have concluded that travel expenses paid by an employer should be treated as taxable income by the employee if those expenses are incurred for personal convenience instead of business necessity. We are further reviewing this matter and may take additional action, as appropriate.

We questioned the necessity and reasonableness of the costs associated with the Executive's travel to the Alternative Location. The Inspector General Act of 1978 requires that we report as questioned costs the expenditure of funds for unnecessary or unreasonable purposes. Accordingly, the FDIC should evaluate whether any of the $122,423 reimbursed to the Executive for travel to the Alternate Location during our 44-month period of analysis is recoverable. We will also report $122,423 as questioned costs in our *Semiannual Report to the Congress*.

Other Matter: Our report also discusses the use of shared passwords and delegations in approving travel vouchers and the need to strengthen controls in this area.

Recommendations and Management Response

We made eight recommendations to DOF and DOA to address observations identified in this report and strengthen policy and controls surrounding long-term taxable travel, the WiP program, and processes for identifying and monitoring unusual or questionable travel patterns. We also recommended that the FDIC disallow and attempt to recover $122,423 in costs associated with the Executive's travel to the Alternate Location.

DOF and DOA concurred with seven recommendations and partially concurred with our recommendation to disallow and attempt to recover costs. DOF and DOA took action to address three recommendations before we issued our final report and proposed corrective action that was responsive to the remaining recommendations.

DOF reviewed the Executive's travel patterns and facts associated with travel to the Alternate Location, recovered $2,658 in charges it concluded were not permitted under the work arrangement, and determined the remaining travel expenses were authorized under the work arrangement. We acknowledge management's decision regarding not pursuing recovery, but our conclusion regarding the necessity and reasonableness of the costs has not changed and we will report the $122,423 as questioned costs as noted earlier.

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

Office of Audits and Evaluations
Office of Inspector General

DATE: December 15, 2016

MEMORANDUM TO: Craig R. Jarvill, Director
Division of Finance

Arleas Upton Kea, Director
Division of Administration

/Signed/

FROM: E. Marshall Gentry
Assistant Inspector General for Evaluations

SUBJECT: Evaluation Report Entitled, *OIG Hotline Complaints Regarding Employee Travel* (Report No. EVAL-17-002)

This report presents the results of the subject evaluation. We initiated the evaluation in response to two Office of Inspector General (OIG) Hotline complaints we received in February 2016, regarding employee travel. The complainants alleged that certain FDIC employees were (1) traveling excessively and unnecessarily at the FDIC's expense; (2) designated as Work in Place (WiP)[2] but incurring significant commuting expenses; and (3) traveling frequently enough to invoke tax consequences that were not addressed by the FDIC and those employees.

The objective of our evaluation was to assess the merits of the OIG Hotline complaints. To address the objective, we:

- Reviewed business travel completed by all seven employees identified in the OIG Hotline complaints. This included an extensive review of the travel completed by one of the seven individuals (the Executive).

- Developed statistics on business travel completed by all employees designated as WiP, as of December 2015. This comprised 125 employees, five of whom were also identified in the OIG Hotline complaints.

We reviewed travel expenses incurred from 2012, when the FDIC's New Financial Environment Travel and Expense module (NFE T&E) became operational, through mid-2016.

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Appendix 1 of this report includes additional details on our objective, scope, and methodology; Appendix 3 contains a glossary of key terms; and Appendix 4 contains a list of acronyms and abbreviations.

[2] Certain terms are underlined when first used in this report and defined in Appendix 3, *Glossary of Terms*.

Background

The FDIC's WiP Program

WiP allows an FDIC employee to work from a location different from the position's normal reporting location. For example, WiP could allow an employee physically located in Dallas to occupy a position normally located in Washington, DC (Washington)—Dallas would be the *official duty station* and Washington would be the *reporting duty station* for the WiP employee.

The FDIC had not established a formal policy for the WiP program. A program official provided informal guidance in 2010 that applied to most WiP employees. The FDIC drafted WiP policy in May 2016 that is expected to apply to all FDIC employees, once finalized. The Division of Administration (DOA) was continuing to update the draft policy during our evaluation. This draft policy states that WiP was established as a recruitment tool to allow managers the capability to recruit highly qualified candidates in a highly competitive labor market for hard-to-fill positions in locations other than the position's reporting duty station, when a determination had been made that the reporting duty station location had not yielded an adequate pool of qualified applicants. The draft policy also states WiP should serve as an incentive to attract applicants who would not otherwise consider or apply to a position in a particular location.[3] As of December 2015, the FDIC identified 125 employees in WiP positions.

For a position to be designated WiP, the draft policy states that senior management must determine that the position's major duties can be performed at the official duty station and/or on travel to locations other than the reporting duty station and that required travel to the reporting duty station will be infrequent.[4] DOA is responsible for administering the WiP program.

Travel Tax Consequences

Reimbursements for long-term travel to the same location can trigger tax consequences for employees. Factors to consider when determining if travel is taxable include the location of an employee's official duty station and how often an employee travels between two places of business. If an employee travels for work to a single location other than his/her official duty station for the majority of his/her work time for 1 year or more, there is an increased likelihood that the travel expenses are taxable per Internal Revenue Code section 162. However, according to FDIC and Internal Revenue Service (IRS) officials, the tax code lacks clear guidance as to whether certain travel situations actually trigger tax consequences. Ultimately, whether business travel is taxable depends on the facts and circumstances of each situation.

Travel reimbursements are also generally taxable when an employee travels for reasons of personal convenience instead of business necessity. The Division of Finance (DOF) is

[3] The draft policy uses different terms for the official duty station and reporting duty station.
[4] The draft policy does not define what level of travel constitutes frequent or infrequent travel. For the purposes of this report, we considered travel to the reporting duty station of 20 percent or more of a typical 5-day work week to be frequent and travel of 40 percent or more to be extensive.

responsible for administering the FDIC's travel program and withholding and reporting employee tax information.

Evaluation Results

Several WiP Employees Had Extensive Travel that May Have Resulted in Tax Consequences

One of the February 2016 OIG Hotline complaints alleged that seven FDIC employees designated as WiP were traveling excessively and invoking tax consequences that neither the FDIC nor the employees addressed. We concluded that some of the allegations involving the travel patterns of the seven FDIC employees had merit. We confirmed that five of the seven individuals were in WiP positions. The reporting duty station for the five WiP employees was Washington, and their official duty station was outside of Washington. The sixth employee was not WiP, had the same official and reporting duty station, and had limited travel. The seventh employee was not WiP and the specific circumstances surrounding that employee's position and related travel are discussed later in this report. Table 1 presents travel information for the five WiP employees.

Table 1: Travel Information for Five WiP Employees (Week Day Travel Only)

Employee	Effective Month of WiP Position	Travel Information Since WiP Inception*				Percentage of Travel to Washington in 2015
		Travel to Washington	Travel to Other Locations	Non-Travel Status	Washington Travel Costs**	
1	Oct 2014	19%	8%	73%	$27,993	23%
2	Oct 2014	24%	6%	71%	$27,635	27%
3	Feb 2013	41%	4%	54%	$85,399	42%
4	Dec 2013	53%	7%	39%	$132,467	59%
5	July 2015	56%	15%	29%	$30,940	47%

Source: FDIC NFE T&E system and FDIC WiP documentation.
* Percentages based on the number of week days from the effective date of the WiP position through June 6, 2016.
** Washington Travel Costs primarily comprise transportation, lodging, and meal expenses. These costs were incurred on week days and weekends.

All five employees that were designated as WiP traveled frequently to their reporting duty station in Washington (more than 20 percent during 2015), contrary to the intent of the WiP program. Three of the five WiP employees spent extensive time in Washington (more than 40 percent during 2015) under details or promotions exceeding 1 year, which resulted in substantial travel costs and could trigger tax consequences as discussed later. DOF had begun withholding taxes on travel reimbursements for one of those employees.[5]

[5] DOF began withholding taxes for employee 5 when it became apparent that the employee would continue in the position for longer than 1 year.

Table 2 presents a summary of details and temporary promotions applicable to the five WiP employees. Each employee's reporting duty station was Washington and official duty station was outside of Washington.

Table 2: Detail and Promotion Information for Five WiP Employees

Synopsis of WiP, Details, and Promotions
Employee 1: In 2014, undertook two details with a combined duration of 6 months. In October 2014, was temporarily promoted as part of a job advertised as WiP and the announcement stated that occasional travel was required. A year later, this temporary promotion was extended through December 2016.
Employee 2: Was temporarily promoted in September 2010 and that temporary promotion was extended two times to September 2013. Served on a detail with a stated timeframe from March 2014 through September 2014. In October 2014, was temporarily promoted as part of a job advertised as WiP and the announcement stated that occasional travel was required. A year later, this temporary promotion was extended through December 2016.
Employee 3: Was temporarily promoted in October 2012, and the promotion was extended to February 2013. In February 2013, was permanently promoted as part of a position advertised as WiP. Despite being WiP, the job announcement stated that frequent travel to Washington was required.
Employee 4: Was temporarily promoted in December 2013 as part of a position advertised as WiP, and the announcement stated that occasional travel was required. This temporary promotion was extended several times with the latest not-to-exceed date in February 2017.
Employee 5: Was on a detail that began in July 2015, necessitating travel to Washington. The FDIC Chairman approved this detail in a June 2015 memorandum that provided if the detail exceeded 1 year, the Chairman would approve a tax gross-up reimbursement plan. In May 2016, the employee and the FDIC agreed to extend the detail to exceed 1 year and the FDIC prepared the paperwork to implement a tax gross-up reimbursement plan, effective in May 2016.

Source: OIG review of employee Standard Form 50 (SF-50) data, WiP vacancy announcements, and related information.

Tax Guidance Associated with Frequent Travel Activity

Table 3 presents relevant excerpts from IRS guidance and the FDIC's General Travel Regulations (GTR), which governs employee travel. These sources provide that if an employee regularly travels to a single location away from his/her duty station for a period of time exceeding 1 year, tax consequences may be triggered.

Table 3: Relevant Guidance for Assessing Long-Term Taxable Travel

Source	Relevant Excerpts
IRS *Topic 511—Business Travel Expenses* Applicable to all US taxpayers.	• If you regularly work in more than one place, your tax home is the general area where your main place of business or work is located. • In determining your main place of business, take into account the length of time you normally need to spend at each location for business purposes, the degree of business activity in each area, and the relative significance of the financial return from each area. However, the most important consideration is the length of time you spend at each location. • You can deduct travel expenses paid or incurred in connection with a temporary work assignment away from home. However, you cannot deduct travel expenses paid in connection with an indefinite work assignment. Any work assignment in excess of 1 year is considered indefinite. • If you realistically expect to work at a temporary location for 1 year or less, and the expectation changes so that at some point you realistically expect to work there for more than 1 year, travel expenses become nondeductible when your expectations change.
IRS Manual 1.32.11 *Official IRS City-to-City Travel Guide* Provides tax guidance for IRS employees. Manual is not binding on FDIC employees.	• If you regularly perform duties in a location other than your official station, and this situation is expected to last for over a year or is indefinite, then you must determine which work location is your main work location for tax purposes. The key factors are where you perform your principal duties, how long you will be performing them at that location, and where you spend the majority of your time. If you are being reimbursed for travel to your main work location, whether or not this is your official station, then you are in a long-term taxable travel situation.
FDIC *Regular Duty Travel Regulations – Chapter 2 – Travel Regulations Overview* Applicable to FDIC employees.	• Reimbursement for travel expenses for an assignment or a series of assignments to the same location that last longer than 364 calendar days will cause adverse tax consequences for the employee and FDIC. In the absence of any other facts, the IRS presumes that travel to a location that exceeds 364 days is a permanent assignment and travel between the residence and the assignment is taxable. • If an assignment exceeds 364 calendar days, the FDIC should either process it as a personnel action involving relocation or it must be approved by the DOF Director and requested by the traveler's division or office director for a gross-up of the taxable income. • The 364-calendar day limitation may not be extended by attempts to reset the clock, by authorizing returns to the official station for short periods of time. To reset the clock, the IRS requires a substantial break, typically at least 7 months. • The IRS may consider some types of reimbursable FDIC travel to be taxable income that the FDIC must report to the IRS. In these cases, any tax consequences resulting from reimbursement for FDIC travel expenses are the employee's responsibility.

Source: IRS and FDIC guidance and policies.

OIG Conclusion and Observations

Our review of relevant material and interviews with FDIC officials indicated that tax consequences could have been triggered but not addressed by either the FDIC or employees 3 and 4. These potential consequences resulted from extensive travel to the employees' reporting duty stations coupled with extensions of details and/or promotions beyond 1 year. We found that the FDIC addressed tax consequences in connection with the travel completed by employee 5. DOF should review the facts and circumstances for employees 3 and 4, determine whether travel was taxable, and take appropriate action.

We also had the following observations regarding the FDIC's practices associated with long-term taxable travel.

- The FDIC could do more to monitor long-term travel situations and raise awareness among FDIC managers and employees about tax consequences and related costs. We observed that the FDIC does not routinely ensure that assignments or a series of assignments lasting more than 364 days are reviewed, as required by the GTR. If an assignment to a single location lasts more than 364 days, the GTR requires FDIC personnel to process it as a personnel action involving relocation or the appropriate division director must request approval for a gross-up of the employee's taxable income, subject to approval by the DOF Director.[6] As such, the FDIC and employees are at risk of being non-compliant with FDIC policies and IRS regulations.

- Managers and employees may not be aware of long-term or frequent travel situations that could create tax consequences. DOF could periodically communicate long-term taxable travel information and guidance to FDIC managers and staff to raise awareness.

- FDIC travel reimbursement costs for long-term travel, especially if a tax gross-up is required, can be expensive. Requiring divisions to complete cost-benefit analyses when considering WiP positions could facilitate more informed and cost-effective decisions, including those regarding relocation versus allowing employees to work from remote locations. This matter is further discussed later in the report and contains a related recommendation.

The Hotline complaints also alleged that certain FDIC employees were traveling unnecessarily. With the exception of employee 7, who is discussed later in this report, we did not assess the business nature or necessity of travel completed by employees cited in the Hotline complaints. While the extent of travel may appear excessive and contrary to WiP draft guidelines, it is management's prerogative to require travel and management's responsibility to ensure travel is warranted and cost-effective.

[6] FDIC *Regular Duty Travel Regulations –Chapter 2 – Travel Regulations Overview*, part 2.E.1.

Recommendations

We recommend that the Director, DOF:

1. Review the travel patterns and facts and circumstances for employees 3 and 4 in Table 1, determine whether the employees' travel is taxable, and take appropriate action.

2. Take steps to raise awareness among FDIC employees and managers, about long-term taxable travel issues, costs, and employee responsibilities including reminding employees and managers of their responsibilities when employees travel to a single location in connection with an assignment or a series of assignments lasting more than 364 days.

The FDIC Should Finalize Policy and Establish Parameters and Cost Considerations Around WiP

WiP Policy and Parameters

The FDIC lacks a formal policy for the WiP program that defines the program objective and establishes parameters for its use. A program official issued informal WiP guidance in an April 26, 2010 email that applied to most WiP employees. In May 2016, the FDIC drafted a WiP policy that is expected to apply to all FDIC employees. DOA was continuing to update the draft policy during our evaluation. The May 2016 draft policy describes program scope, responsibilities, criteria for designating a position as WiP, and requirements for justifying and reviewing proposed WiP designations. FDIC officials stated that the delay in finalizing the policy was primarily because of ongoing discussions between FDIC management and the National Treasury Employees Union (NTEU) regarding circumstances under which employees could be considered for WiP. There have also been disagreements among the FDIC's various divisions and offices regarding the positions and types of work that could be considered for WiP.

The actual use of WiP varied and was not always consistent with the 2010 WIP guidance and/or 2016 draft policy. For example:

- the 2010 guidance and 2016 draft policy provides that WiP should be considered for hard-to-fill positions only after merit promotion procedures at the official duty station have been unsuccessful;[7]

- the 2010 guidance states that a position may be filled on a WiP basis only as a temporary promotion or temporary lateral reassignment opportunity while the 2016 draft policy states that WiP cannot be used to fill temporary positions such as details and temporary promotions; and

[7] The 2010 guidance did not specifically use the term "hard-to-fill," but discussed the concept of a traditional competitive posting not attracting an adequate pool of qualified applicants where the position is located.

- the 2010 guidance and 2016 draft policy provides that WiP is appropriate for positions that require infrequent travel.

We confirmed that the FDIC did not attempt to fill positions through merit promotion procedures for the five WiP employees identified in the complaints. Additionally, the five WiP employees participated in details and/or temporary promotions while designated as WiP and traveled frequently to their reporting duty station.

We also noted that the five WiP employees and most of the overall 125 WiP employees reported to Washington. FDIC officials stated that they considered Washington to be a hard-to-fill location because of cost of living and job stress factors. In this regard, the FDIC has separately identified employee aspiration as a succession management challenge for attracting qualified field staff to fill critical Washington positions. Specifically, qualified and experienced regional and field officials sometimes do not "aspire" to apply for senior leadership positions located in high-cost, high-stress locations like Washington. In this regard, the FDIC has considered WiP as an incentive for filling Washington positions, but the final WiP policy could better reflect the potential use of WiP to address this aspiration challenge.

The FDIC would benefit from finalizing a WiP policy that clarifies WiP program parameters, including whether hard-to-fill positions or locations need to be supported by unsuccessful competitive postings before using WiP; whether WiP is appropriate for details and temporary promotions or positions requiring frequent travel; and the use of WiP to address employee aspiration. Without such parameters, the FDIC risks inconsistent use of the WiP program, increased travel costs, potential tax consequences for employees for excessive travel, and employee misperceptions about WiP travel frequency.

WiP Employee Travel Frequency

For a position to be designated WiP, the FDIC's draft policy states division management must determine that the position's major duties can be performed at the assigned duty station and/or on travel to locations other than the official place of business of the organization in which the position is located (reporting duty station) and that required travel to the reporting duty station will be infrequent.

As of December 2015, the FDIC had 125 employees designated as WiP. Most WiP employees were in the Division of Risk Management Supervision (102) and the Division of Depositor and Consumer Protection (20). Table 4 presents information about the WiP employees' extent of travel to their reporting duty station. On average, the 110 employees with a reporting duty station in Washington traveled to Washington 12 percent of the time. Seventeen of the 110 employees (15 percent) spent at least 20 percent of their time in Washington. Four employees traveled more than 40 percent.

Table 4: WiP Employee Travel Frequency to Reporting Duty Station (Based on a 365-day year)

Location	Percent of Days in Travel Status to/from Reporting Duty Station*					Total	Percentage of Employees Traveling 20% or More
	Under 20%	20-24%	25-40%	41-50%	Over 50%		
WiP Employees with a Washington Reporting Duty Station	93	3	10	3	1	**110**	**17 (15%)**
WiP Employees with a Non-Washington Reporting Duty Station	15	0	0	0	0	**15**	**0**

Source: OIG analysis of DOA and DOF Information.
* Percentage calculations based on the number of days from the effective date of the WiP position through June 6, 2016 or the number of days between the employee's first travel voucher in NFE T&E through June 6, 2016. This analysis only considers travel between WiP employees' official and reporting duty station. WiP employees may also travel to other locations during the normal course of their job.

The draft WiP policy does not define what might constitute infrequent or frequent travel. Absent an existing benchmark, we concluded that 20 percent travel to the reporting duty station was frequent.

A DOF official noted there could be some circumstances necessitating frequent travel to an employee's reporting duty station and thus it would not be prudent for a finalized policy to prohibit frequent travel in all circumstances. For clarity, the finalized WiP policy should include general guidelines explaining a level of travel that could constitute frequent travel as well as examples of when frequent travel could be necessary, despite a WiP designation.

WiP Travel Cost Considerations

The May 2016 draft WiP policy provides that prior to designating a position as WiP, the hiring division or office must submit a written justification to DOA's Human Resources Branch that includes a cost-benefit analysis that addresses the benefits to the FDIC. A cost-benefit analysis was not completed for the five WiP employees listed in Table 1; however, those WiP designations occurred before the May 2016 draft policy.[8] It is important that the FDIC carefully consider the cost impact of WiP decisions and have a standard approach for assessing cost benefit. In addition to anticipated travel expenses to the reporting duty station, the cost analysis should consider offsetting costs, such as the avoidance of relocation costs and locality pay differentials. Requiring divisions to complete cost-benefit analyses when considering WiP positions could facilitate more informed and cost-effective decisions, including those regarding employee relocation versus allowing employees to work from remote locations.

[8] The April 2010 informal WiP guidance required division management to determine that use of the WiP option would be cost-effective, but did not require documentation of a cost-benefit analysis.

Recommendations

We recommend that the Director, DOA:

3. Work with other appropriate divisions and offices to finalize WiP policies and procedures that define WiP program parameters, establish responsibilities and authorities for administering the program, identify characteristics of positions appropriate for WiP, and set reasonable expectations on appropriate travel frequency.

4. Develop a standard cost-benefit analysis for WiP decisions that considers factors such as travel costs, relocation costs, and pay differential costs.

A Former FDIC Executive Was Reimbursed for Years of Extensive Travel that Was Predominately for Personal Benefit and Convenience

One of the OIG Hotline complaints questioned travel expenses for an FDIC executive (Executive) who had relocated to Washington but continued to maintain a home in his original city of residence which was near an FDIC office (herein, referred to as Alternate Location). The complainant questioned whether the Executive had, in fact, relocated and whether the FDIC paid for the Executive to travel from Washington to the Alternate Location at the Executive's choosing. The complainant also questioned whether the FDIC paid living expenses (such as lodging) on the Executive's behalf while in the Washington area.

The Executive's Work Arrangement and Prior OIG Review

The Executive held a former executive-level position in the Alternate Location until June 2002, when that position was discontinued. At that time, the Executive assumed a new role. The Executive's official duty station changed to Washington,[9] the FDIC paid relocation costs, and the FDIC entered into a work arrangement[10] allowing the Executive to spend a portion of his work time in the Alternate Location and travel between there and Washington. The Executive continued to maintain a residence in the Alternate Location in addition to one in the Washington area. The work arrangement was clarified in 2002 and 2004.

- **September 2002 email from a DOF official to the Executive.** Confirmed the Executive's duty station as Washington and that he would be in travel status when on official business away from Washington. Permitted the Executive to work part time from the Alternate Location and entitled him to reimbursement for per diem, local transportation

[9] In 2016, the Washington locality rate was 23.31 percent, compared to the Alternate Location rate of 6.24 percent, resulting in a salary approximately 17-percent higher.
[10] We did not identify or locate a physical written or signed work agreement. Evidence of work agreement terms were listed in the e-mail and memorandums discussed in this report.

(including a rental car), lodging, and the FDIC's Friends and Family Lodging Stipend when staying overnight at his residence at the Alternate Location.[11]

- **May 2004 memorandum from the Executive to a former senior FDIC official.** Stated that pursuant to a June 2002 agreement with his supervisor at that time (former supervisor), the Executive was permitted to (1) use the Alternate Location, a transportation hub located near the center of the country, as a way station for his work and (2) work outside of Washington up to 50 percent of his time as long as the best interests of his office were represented. Stated the Executive was spending less than 50 percent of his time in the Alternate Location, and, at his discretion, not claiming reimbursement pursuant to the Friends and Family Lodging Stipend or Frequent Traveler Lodging Stipend Program (FTLSP).[12]

In connection with a 2005 evaluation of executive manager travel, our office reviewed the Executive's travel over a 27-month period (July 1, 2002 through September 30, 2004) and found the Executive spent about 70 percent of his time in paid travel status and 70 percent of his travel nights in the Alternate Location. In February 2005, we reported in an internal memorandum that, while in the Alternate Location, the Executive was claiming travel expenses on weekends and on holidays and significant rental car expenses. We requested that the Executive's former supervisor determine whether the Executive's travel was consistent with the terms of the work arrangement and suggested the former supervisor assess the cost-effectiveness of the work arrangement.

The Executive's former supervisor responded in a March 2005 memorandum that the Executive (1) could continue to travel on official business to satisfy the requirements of his position, (2) could use the FDIC office located in the Alternate Location as a second office no more than 50 percent of the time, (3) could not claim per diem on weekends and holidays in the Alternate Location, (4) could not be reimbursed for a rental vehicle while working in the Alternate Location, and (5) was required to abide by the FDIC's GTR while on official Corporate business. The former supervisor left the FDIC in 2009. The Executive then reported to a different supervisor until May 2012, when he began reporting to his most recent supervisor.

The Executive told our office that he did not inform his most recent supervisor of his work arrangement but his prior supervisor and a former division director were aware of his work arrangement.[13] He also believed that other people at the FDIC, including DOF officials, were aware of the work arrangement. The Executive told our office that he believed the travel to the Alternate Location was authorized by the work arrangement and he was complying with the work arrangement.

[11] The Friends and Family Lodging Stipend allows the traveler to claim $40 a night when the traveler avoids lodging expenses, for example, by staying with a friend or family member.
[12] FTLSP is a nightly $40-50 stipend available to FDIC employees once they travel more than 50 nights in a calendar year.
[13] The Executive's prior supervisor and the former division director left the FDIC in 2012 and 2007, respectively.

We discussed our evaluation with the Executive's most recent supervisor and DOF officials in May 2016. These officials stated they were not aware of the March 2005 memorandum or the Executive's work arrangement until our review. The Executive's most recent supervisor sent a memorandum to the Executive dated May 25, 2016 stating the Executive's work arrangement allowing him to claim enhanced travel reimbursements to the Alternate Location was contrary to FDIC policies and would end on May 31, 2016. Travel expenses to the Alternate Location incurred after that date were to be authorized only for official business purposes. The Executive retired from the FDIC shortly after the work arrangement was ended.

In response to our draft report, Senior FDIC officials stated that, when implemented, the work arrangement was necessary to retain the Executive and its costs were justified by the Executive's value to the Corporation. These officials stated that the work arrangement was in the best interest of the Corporation, contributed towards maintaining the profile of the Executive's office, and was needed during the 2008 financial crisis and Dodd-Frank Act implementation. These officials noted that at some point, business needs no longer justified the work arrangement resulting in the May 25, 2016 memorandum from the Executive's most recent supervisor, which ended the work arrangement.

OIG Analysis and Observations on the Executive's Travel

We concluded the work arrangement created risks and adverse consequences for the Corporation and potentially for the Executive and appeared not to be in the FDIC's best interests. We also concluded that the travel to the Alternate Location was predominately for personal rather than business reasons. The Executive's most recent supervisor and staff were located in Washington, the Executive's duties could have been performed in Washington, and neither the Executive nor his most recent supervisor identified any work assignments necessitating travel to the Alternate Location.

The GTR states that the FDIC expects employees traveling on official business to exercise the same prudent care in incurring reimbursable expenses as though traveling on personal business. Travelers are responsible for excess costs or additional expenses incurred for personal preference or convenience. Among other things, the GTR provides that travel expenses for indirect routes for personal reasons are not reimbursable.

We had the following specific observations about the Executive's travel expenses:

- ***The FDIC reimbursed the Executive for $211,955 in travel costs over our 44-month analysis period, of which $125,082 (59 percent) comprised travel to or from the Alternate Location.*** We evaluated the Executive's travel costs for the period August 23, 2012 through May 3, 2016, based on available NFE T&E travel data.[14] The Executive incurred significant per diem, airfare, and taxi expenses associated with trips to the Alternate Location. Our analysis only covers about 26 percent of the 14-year work arrangement period. Travel expense information predating August 2012 was not readily available. Presumably, the

[14] The FDIC's NFE T&E became operational from May 2012 through September 2012 and the Executive's first expense in NFE T&E was dated August 23, 2012. Travel expenses prior to August 2012 were not readily available.

Executive's total travel expenses to the Alternate Location over this 14-year period followed a similar pattern to the amounts listed above and were much greater than we can quantify. Appendix 2 presents detailed information about the Executive's travel expenses.

- ***The Executive spent the majority of his travel and work days in the Alternate Location.*** On average during 2013, 2014, and 2015, the Executive spent 83 percent of his travel days and 70 percent of his work days in the Alternate Location, contrary to the March 2005 memorandum, which stated he could travel to the Alternate Location no more than 50 percent of the time. The Executive only spent an average of 34 non-travel days a year in Washington but received a higher, Washington-based salary. As discussed earlier, it is important to determine where a traveler spends the majority of his/her time for tax purposes. Appendix 2 presents information about the travel days that the Executive spent in the Alternate Location in relation to total travel days and total work days.

- ***The majority of the Executive's travel was for trips between the Alternate Location and Washington and many flights occurred during productive work hours.*** The Executive completed 247 flights during our 44-month period of analysis. Of these, 79 percent (194 flights) were between the Alternate Location and Washington. More than half of the flights originated during the work hours of 9:00am to 5:00pm on a weekday. Although employees are permitted and encouraged to travel during work time, given the frequency and personal nature of the travel, this practice was not the most productive use of the Executive's work time.

  We observed a frequent travel pattern for the Executive's trips between Washington and the Alternate Location. The Executive flew from the Alternate Location to Washington on a Monday or Tuesday 80 percent of the time and then flew back to the Alternate Location on a Thursday 51 percent of the time. The Executive explained that he primarily flew to Washington for biweekly status meetings with his most recent supervisor.

  The work arrangement also allowed the Executive to use the Alternate Location as a "way station" for conducting his work but did not precisely define the meaning of that term. One of the Executive's responsibilities was to attend banking-related conferences at various locations in the country. We observed that instead of flying directly from Washington to the conference site, the Executive often first flew to the Alternate Location and then to the conference site. This practice typically increases the airfare costs to the ultimate destination and is only allowed by the GTR when justified by a cost comparison.[15] The Executive did not provide cost comparisons and asserted to us that this practice was not more expensive than flying directly to the conference site from Washington.

- ***Some travel reimbursements were not allowed by the GTR or work arrangement or were contrary to the spirit of the work arrangement.*** These costs included:

[15] FDIC *Regular Duty Travel Regulations – Chapter 2 – Travel Regulations Overview*, part 2.F.2A states that travel expenses for indirect routes for personal reasons are not reimbursable except as permitted under comparative cost procedures.

- per diem overpayments where the Executive incorrectly claimed the higher Washington per diem rate instead of the per diem rate for the Alternate Location ($504),
- weekend and holiday per diem charges in connection with travel to the Alternate Location ($2,937),[16]
- the Friends and Family Stipend for sleeping at his Alternate Location residence for 304 nights ($12,160), and
- FTLSP claims for which he would not have accrued sufficient travel nights were it not for the personal trips to the Alternate Location ($9,950).[17]

A complainant also questioned whether the FDIC paid living expenses (such as lodging) on the Executive's behalf while the Executive was in the Washington area. We analyzed travel voucher information for evidence of Washington area lodging and per diem expenses. According to FDIC records, the Executive stayed at the FDIC's Student Residence Center (SRC)[18] eight times for a total of 18 nights from September 2012 to January 2016. In six instances the Executive was in Washington to attend a meeting or conference and in two instances, his flights were canceled due to inclement weather. An SRC lodging coordinator approved the hotel stays. Headquarters-based employees are generally not permitted to stay at the SRC. Exceptions are allowed for compelling safety reasons or business purposes.

Necessity, Reasonableness, and Tax Consequences of the Executive's Travel

We questioned the necessity and reasonableness of the costs associated with the Executive's travel to the Alternate Location. Section 5 of the Inspector General Act of 1978 requires that we report as questioned costs the expenditure of funds for unnecessary or unreasonable purposes.[19] Accordingly, the FDIC should evaluate whether any of $122,423[20] reimbursed to the Executive for travel to the Alternate Location during our 44-month period of analysis is recoverable. We will also report $122,423 as questioned costs in our *Semiannual Report to the Congress*.

In addition to travel reimbursements, we noted that the Executive received a Washington-based salary with locality pay that was 17-percent higher than he would have received in the Alternate Location in 2016, even though the Executive spent an average of only 34 non-travel work days a year in Washington. The Executive's higher locality pay also increased benefits such as

[16] DOF recaptured $2,658 from the Executive in connection with these costs in June 2016, after the OIG provided details of the Executive's work arrangement to FDIC officials.
[17] The Executive told us that he began claiming the stipend around 2013 or 2014 after DOF travel voucher auditors, who apparently were not familiar with the work arrangement, told the Executive that he was eligible for the stipend. The Executive stated that he claimed the stipend to offset disallowed reimbursements identified by the travel voucher audits and continued to claim the stipend going forward.
[18] The SRC is an FDIC-owned hotel for FDIC field and regional staff and part of the FDIC's Virginia Square building. Employees do not incur charges for staying at the SRC when staying for official business purposes.
[19] 5 U.S.C. Appendix, §5 (f)(1)(C) (2013), as amended.
[20] This amount reflects a reduction of $2,658 in travel reimbursements that DOF recaptured from the Executive in June 2016, after the OIG provided details of the Executive's work arrangement to FDIC officials.

retirement pay, life insurance, and lump-sum payments for unused annual leave. The FDIC also spent funds to relocate the Executive to Washington in 2002 and to relocate the Executive back to the Alternate Location following his retirement.[21] We are not including these amounts as questioned costs; however, these amounts did increase the FDIC's operational costs resulting from the work arrangement.

Finally, the Executive's long-term travel to the Alternate Location may have triggered tax consequences that were not addressed by the FDIC, and presumably, the Executive, as follows:

- **Travel for reasons of personal preference.** Section 162(a) of the IRS tax code[22] allows employees to receive tax-free reimbursements from their employer for all ordinary and necessary travel expenses paid or incurred in pursuing a trade or business. However, a number of court cases have concluded that travel expenses paid by an employer should be treated as taxable income by the employee if those expenses are incurred for personal convenience instead of business necessity.[23] We concluded that the Executive's travel expenses to the Alternate Location were incurred predominately for reasons of personal convenience and that work he performed in the Alternate Location generally could have been performed in Washington. Moreover, the most recent supervisor's May 25, 2016 memorandum to the Executive concluded that the work arrangement was contrary to FDIC policy and there was no legitimate business reason to continue the arrangement. In our view, the travel expenses the FDIC paid in connection with the Executive's travel to and from the Alternate Location could be taxable.

- **Extensive travel to the same location over a 14-year period.** The Executive's extensive travel to the Alternate Location over a 14-year period, and specifically during the period we analyzed, could have triggered tax consequences that the FDIC did not address. As discussed earlier, the location where employees spend the majority of their work time factors into whether travel is taxable. The Executive spent an average of 70 percent of his work time in the Alternate Location from 2013 through 2015.

We are concerned that the Executive's extensive long-term travel reimbursements predominately resulted from personal travel and likely should have been treated as taxable income to the Executive and reported to taxing authorities. We are further reviewing this matter and may take additional action, as appropriate.

Multiple Causes for Long-Term Reimbursement of Personal Travel

We identified multiple contributing causes that allowed for the FDIC's payment of personal travel expenses for such a long period of time.

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[21] Chapter 10 of DOF's relocation regulations allows permanent employees who completed at least 20 years of federal service and relocated at least one time for the convenience of the FDIC, to be relocated upon retirement. DOF estimated that the Executive's post-retirement relocation costs would be less than $3,500.
[22] 26 U.S.C. § 162 – Trade or Business Expenses.
[23] *C.I.R v. Peurifoy*, 254 F.2d 483 (1957) and *C.I.R. v. Flowers*, 326 U.S. 465 (1946).

- While intended to facilitate efforts to raise the profile of the Executive's office, the work arrangement approved by his former supervisor included provisions that were unusual, such as allowing the Executive to spend up to 50 percent of his time in the Alternate Location, and did not include adequate parameters and controls, such as a termination date or requirement to periodically review the arrangement's continued need. This created risk that the work arrangement's expenses would outweigh its business needs.

- The work arrangement was not adequately documented and was not communicated to current DOF officials or the Executive's most recent supervisor by prior officials when they left the FDIC. The Executive's most recent supervisor was aware the Executive traveled frequently, including to the Alternate Location, but was not aware of the work arrangement. Some officials, including one of the complainants, had heard that an agreement of some sort may have been in place.

- Finally, existing DOF travel activity reports did not detect this unusual or questionable travel pattern. DOF performed periodic audits of the Executive's travel voucher, but those audits were not focused or designed to question the business need or appropriateness of the travel.

However, a significant cause of this situation was the extent to which the Executive took frequent advantage of the work arrangement for his own personal benefit and convenience. FDIC executives are held to a higher standard than other FDIC employees and are expected to practice good stewardship.

Other Matter: Travel Voucher Approval. NFE T&E identified the Executive's most recent supervisor as the approving official on 111 travel vouchers submitted by the Executive from 2012 to 2016. That supervisor permitted a staff member to log into NFE T&E and approve travel vouchers from the Executive using the supervisor's system username and password. Corporate policy prohibits users from giving permission to another person to use their password.[24] We understand that this was a long-standing practice in FDIC executive offices, but has been discontinued.

According to DOF officials, a supervisor may properly delegate travel voucher approval to another employee using NFE T&E. In such cases, it would be prudent for the delegator to establish a feedback loop to ensure he/she is periodically informed about the travel activity being approved by the delegate.

[24] Circular 1360.10, *Corporate Password Standards*, March 7, 2012.

Recommendations

We recommend that the Director, DOF:

5. Review the travel patterns and facts and circumstances associated with the Executive's trips to the Alternate Location, disallow and attempt to recover the $122,423 in expenses that we identified as being predominantly for personal rather than business purposes.

6. Perform a review, in coordination with other division and office directors, to ensure no additional long-term travel arrangements, informal or otherwise, exist that allow employees to incur travel expenses for personal benefit or convenience and take appropriate action.

7. Determine whether existing NFE T&E activity reports are sufficient to identify employees with unusual or questionable travel patterns, develop additional reports if necessary, and ensure that reporting information is provided to divisions and offices for their use and consideration.

8. Communicate to managers and supervisors the appropriate method for delegating travel voucher approval in NFE T&E, examples of limited situations for when such delegation may be appropriate, and expectations for staying informed of the nature of delegated activity.

Corporation Comments and OIG Evaluation

The DOF and DOA directors provided a written response dated December 8, 2016, to a draft of this report. The response is presented in its entirety in Appendix 5. The FDIC's written response outlined corrective actions that were responsive to each recommendation. In its response, the FDIC concurred with seven of our eight recommendations.

The FDIC partially concurred with recommendation 5 which recommended reviewing, disallowing, and attempting to recover $122,423 of the Executive's travel expenses. The FDIC indicated it had reviewed and recovered certain expenses that were not permitted, but concluded that the $122,423 in reimbursements were within the terms of the work arrangement; were authorized; and thus, the FDIC could not disallow or attempt to recover them. We acknowledge management's decision regarding not pursuing recovery, but our conclusion regarding the necessity and reasonableness of the costs has not changed and we will report the $122,423 as questioned costs as noted earlier in the report.

The FDIC also completed corrective action for recommendations 1 and 8. Recommendation 1 involved reviewing the travel patterns and facts and circumstances of two WiP employees to determine whether their travel was taxable. On December 1, 2016, DOF provided a memorandum reporting that it had reviewed the facts surrounding the travel of the two employees and determined that the travel reimbursements for those employees would not be taxable.

Recommendation 8 involved delegating travel voucher approval in NFE T&E. The FDIC sent an e-mail to FDIC supervisors on November 15, 2016 and a memorandum to division and office directors:

- Reminding them of the appropriate methods for approving travel-related transactions, including delegating approval to another manager when the delegating manager is out of the office;
- Providing that, for senior executive manager delegations to administrative assistants, the delegate should periodically (no less than monthly) prepare a summary of the travel approved by the delegate on behalf of the senior executive manager for their review;
- Noting that delegating office directors, managers, or supervisors retain ultimate responsibility for approved travel activity; and
- Reiterating Corporate policy to not share passwords with others.

Accordingly, recommendations 1, 5, and 8 are closed. The FDIC established planned completion dates for the remaining recommendations from January 31, 2017 to December 15, 2017. Those recommendations will remain open until planned actions are completed. A summary of the Corporation's corrective actions is presented in Appendix 6.

Objective, Scope, and Methodology

Objective

The objective of our evaluation was to assess the merits of the OIG Hotline complaints.

Scope

To address the objective, we:

- Reviewed business travel completed by all seven employees identified in the OIG Hotline complaints. This included an extensive review of the travel completed by the Executive who was one of the seven individuals.

- Developed statistics on business travel completed by all employees designated as WiP, as of December 2015. This comprised 125 employees, five of whom were also identified in one of the OIG Hotline complaints. Our travel analysis of the five WiP employees named in the allegation was more comprehensive than the travel analysis we completed for the other 120 WiP employees.

We reviewed travel expenses incurred from August 2012 through May 3, 2016 for the Executive discussed in this report and from various points in 2012 through June 6, 2016 for the other six individuals whose travel is discussed in this report.[25]

With the exception of employee 7, the Executive, we did not attempt to assess the business nature or necessity of travel completed by employees.

Methodology

During the evaluation we:

- Reviewed and considered relevant FDIC and IRS guidance. Primary materials included:
  - o *General Travel Regulations (GTR), Regular Duty Travel – Volume 1,* Circular 2510.4, August 5, 2011.
    - ▪ *FDIC Regular Duty Travel Regulations:*
      - *Chapter 2 – Travel Regulations Overview*, January 15, 2016.
      - *Chapter 5 – Taxable and Nontaxable Travel*, April 8, 2013.
      - *Chapter 7 – Lodging*, April 7, 2015.
      - *Chapter 8 – Weekend Travel*, July 9, 2015.
    - ▪ *Relocation Travel Regulations:*
      - *Chapter* 10 – *Relocation Retirement Benefits*, April 30, 2014.
  - o The informal WiP guidance as of April 26, 2010.
  - o FDIC's draft WiP policy as of May 5, 2016.
  - o IRS Guidance:

[25] NFE T&E became operational from May 2012 through September 2012.

    - *Topic 511 – Business Travel Expenses*, January 4, 2016.
    - *Internal Revenue Manual – 1.32.11 Official IRS City-to-City Travel Guide*, September 30, 2011.

- Analyzed data in NFE T&E to assess the number of days WiP and other employees spent in travel status. We also analyzed travel costs and flight itineraries associated with the Executive.

- Reviewed the following prior FDIC OIG evaluation report and related workpapers. This evaluation also assessed the travel completed by the Executive.
  - *Inside Board Member and Executive Manager Travel*, Report No. 05-024, June 2005.

- Interviewed the following individuals:
  - The complainants to better understand their allegations.
  - Officials in DOF, DOA, the Legal Division, and the Executive Office to obtain clarity on matters involving tax law, better understand pertinent FDIC policies and procedures, and gain their perspectives on matters discussed in this report.
  - The Executive to gain his perspective on the allegations.
  - Individuals at the IRS and the Treasury Inspector General for Tax Administration to better understand tax consequences associated with business travel.

We conducted this evaluation from April through August 2016 in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

Detailed Travel Statistics for the Executive

Table 5 below presents an analysis of the travel expenses the FDIC reimbursed to the Executive during our 44-month period of analysis. As shown, most of the travel costs were associated with travel to the Executive's Alternate Location.

Table 5: Travel Costs Incurred by the Executive (August 23, 2012 - May 3, 2016)

Type	Total Travel	Alternate Location Travel Questioned by OIG	Alternate Location Travel as a Percentage of Total Travel
Per Diem	$ 44,517	$ 32,705	73%
Lodging	$ 33,519	$ 479	1%
Airfare	$ 59,835	$ 40,131	67%
Car Rental	$ 4,442	$ 0	0%
Mileage	$ 15,177	$ 6,674	44%
Taxi	$ 21,511	$ 20,036	93%
Parking	$ 6,318	$ 126	2%
Friends and Family Stipend [a]	$ 12,160	$ 12,160	100%
FTLSP (2014 & 2015) [a]	$ 9,950	$ 6,314	63%
Other (e.g., baggage, tolls)	$ 4,526	$ 3,798	84%
TOTAL	**$211,955**	**$122,423** [b]	**58%**

Source: NFE T&E.

[a] DOF reported these amounts as taxable income to the IRS using supplemental W-2 forms.

[b] This amount reflects a reduction of $2,658 that DOF recaptured from the Executive in June 2016, in connection with travel to the Alternate Location.

Table 6 presents an analysis of the travel days that the Executive spent in the Alternate Location in relation to total travel days and work days. On average, the Executive spent 83 percent of his travel days and 70 percent of his work days in the Alternate Location.

Table 6: Work Day Travel Completed by the Executive

Location	Number of Days		
	2013	2014	2015
Travel to/from Alternate Location [a]	152	167	156
Travel to All Other Locations	38	19	40
Total Travel Days	**190**	**186**	**196**
Washington (no per diem)	34	39	29
Total Work Days [b]	**224**	**225**	**225**
Percentage of Travel Days in Alternate Location	**80%**	**90%**	**80%**
Percentage of Work Days in Alternate Location	**68%**	**74%**	**69%**

Source: NFE T&E.

[a] Includes 54 days for which the Executive incorrectly claimed Washington instead of Alternate Location per diem.

[b] Work days do not include weekends, holidays, or days when the Executive took leave.

Glossary of Terms

Term	Definition
Frequent Traveler Lodging Stipend Program (FTLSP)	Allows employees to claim a stipend if they are in regular duty travel status for more than 50 nights per calendar year. In 2016, employees were eligible for a stipend of $40 per night for each eligible night in regular duty travel status from the 51st through the 70th night and $50 for each night over 70 nights. Employees make FTLSP claims through NFE T&E. FTLSP is considered taxable income to the employee.
Friends and Family Lodging Stipend	Allows employees who are in official business travel to claim a stipend if they stay with friends or family members and do not incur costs at a lodging establishment when overnight stays are required. This stipend was $40 per night in 2016 and is considered taxable income to the employee.
Locality Pay	Additional compensation, in addition to basic pay, that an employee receives to better align FDIC employee pay with local cost of living levels. Locality pay is calculated based on the location of an employee's official duty station, as indicated on the employee's SF-50 and corresponding locality pay area, even if the employee spends most of his/her time working in a different locality pay area. In 2016, the FDIC had 46 different locality pay areas, plus one additional area for the rest of the United States.
Long-term Taxable Travel	Travel away from home to a single location that is realistically expected to last for more than 1 year, or when there is no realistic expectation that the travel to a single location will last for 1 year or less (it is indefinite). The realistic expectation of long-term travel is based on the current facts and circumstances known to the employee and the employee's manager.
Official Duty Station	An employee's location, as reflected on his/her SF-50. Typically, an official duty station is the employee's physical location and regular place of business.
Reporting Duty Station	The physical location to which an employee reports to, which may be the same or different from the employee's official duty station.
Work in Place (WiP)	The FDIC established WiP as a recruitment tool to allow managers the capability to recruit highly qualified candidates in a highly competitive labor market for hard-to-fill positions in locations other than the position's official duty location, when a determination was made that the official duty location had not yielded an adequate pool of qualified applicants. The FDIC expects WiP to serve as an incentive to attract applicants who would not otherwise consider or apply to a position in a particular location.

Acronyms and Abbreviations

Acronym	Explanation
COO	Chief Operating Officer
DOA	Division of Administration
DOF	Division of Finance
FDIC	Federal Deposit Insurance Corporation
FTLSP	Frequent Traveler Lodging Stipend Program
GTR	General Travel Regulations
IRS	Internal Revenue Service
NFE T&E	New Financial Environment Travel and Expense module
NTEU	National Treasury Employees Union
OIG	Office of Inspector General
SF-50	Standard Form 50
SRC	Student Residence Center
U.S.C.	United States Code
Washington	Washington, DC
WiP	Work in Place

Corporation Comments

FDIC
Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226-3500 Division of Finance

December 8, 2016

TO: E. Marshall Gentry
Assistant Inspector General for Audits and Evaluations
Office of Inspector General

FROM: Craig R. Jarvill, Director **/Signed/**
Division of Finance

Arleas Upton Kea, Director **/Signed/**
Division of Administration

SUBJECT: Management Response to the Office of Inspector General Draft Evaluation Report Entitled, *OIG Hotline Complaints Regarding Employee Travel* (Assignment No. 2016-035)

The Division of Finance (DOF) and the Division of Administration (DOA) have completed the review of the subject Office of Inspector General (OIG) Draft Evaluation Report dated October 7, 2016 (revised November 23, 2016). In its report, the OIG made eight recommendations; six for DOF and two for DOA. We appreciate the OIG's observations and the opportunity to strengthen the policy and controls surrounding long-term taxable travel, the processes for identifying and monitoring unusual or questionable travel patterns, and to ensuring that the Work in Place (WiP) policies and procedures meet the needs of the Corporation and provide guidance on the program's parameters.

In our response, we address the $122,423 in questioned costs identified in the report and outline planned corrective actions for the six DOF recommendations and the two DOA recommendations. In summary, DOF and DOA are committed to ensuring that employees are both aware of and comply with all long-term taxable travel policies and to facilitating more informed and cost-effective decisions regarding WiP positions and the program. Additionally, we have provided comments to the OIG's observations pertaining to the Executive's travel.

Recommendation 1: Review the travel patterns and facts and circumstances for employees 3 and 4 in Table 1, determine whether the employees' travel is taxable, and take appropriate action.

Management Response: Concur.

Corrective Action: On October 27, 2016, DOF Travel Services staff re-examined the data and travel records associated with employees 3 and 4 and determined their travel reimbursements should be non-taxable. On December 1, 2016, DOF provided a copy of these results to the OIG.

Completion Date: December 1, 2016

Corporation Comments

Recommendation 2: Take steps to raise awareness among FDIC employees and managers, about long-term taxable travel issues, costs, and employee responsibilities including reminding employees and managers of their responsibilities when employees travel to a single location in connection with an assignment or a series of assignments lasting more than 364 days.

Management Response: Concur.

Corrective Action: The FDIC General Travel Regulations (GTR) contains clear guidance with regard to the ramifications of extensive travel to the same location, including explanations that employees are responsible for understanding the rules and making any appropriate claims relevant to their specific tax situation. In addition, DOF currently provides to Administrative Officers an instruction package summarizing these policies and procedures.

While DOF believes that the GTR is clear with regard to the policies and procedures related to employee travel to the same location, DOF will provide Division/Office Directors and their Administrative Officers with additional guidance reiterating Corporate policy in this area. The guidance will include references to the applicable GTR sections and other available written procedures.

Completion Date: January 31, 2017

Recommendation 3: Work with other appropriate divisions and offices to finalize WiP policies and procedures that define WiP program parameters, establish responsibilities and authorities for administering the program, identify characteristics of positions appropriate for WiP, and set reasonable expectations on appropriate travel frequency.

Management Response: Concur.

Corrective Action: DOA will work with the appropriate divisions and offices to finalize WiP policies and procedures that define the WiP program parameters, establish responsibilities and authorities for administering the program, identify characteristics of positions appropriate for WiP, and set reasonable expectations on appropriate travel frequency. The WiP policy and procedures will be vetted through the WiP working group for approval.

Completion Date: December 15, 2017

Recommendation 4: Develop a standard cost-benefit analysis for WiP decisions that considers factors such as travel costs, relocation costs, and pay differential costs.

Management Response: Concur.

Corrective Action: DOA will develop a standard cost-benefit analysis for WiP decisions for inclusion into the FDIC policy while fulfilling our bargaining obligations with NTEU.

Completion Date: December 15, 2017

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Corporation Comments

Recommendation 5: Review the travel patterns and facts and circumstances associated with the Executive's trips to the Alternate Location, disallow and attempt to recover the $122,423 in expenses that we identified as being predominantly for personal rather than business purposes.

Management Response: Partially Concur.

Corrective Action: As a result of OIG's observation, DOF has reviewed the travel patterns and facts associated with the Executive's travel to the Alternate Location and did find certain weekend and holiday per diem charges that were not permitted under the terms of the March 2005 work arrangement. These improper payments have been recovered.

DOF considered the OIG's recommendation to disallow and attempt to recover the remaining $122,423 in expenses. DOF analyzed the travel expenses and concluded that the reimbursements were within the terms of the work agreement. The FDIC Legal Division reviewed this matter and determined that, based on DOF's analysis of the travel expenses, this travel was authorized under the terms of the work agreement, and the associated expenses were properly approved. Therefore, we cannot disallow or attempt to recover these expenses.

Completion Date: October 27, 2016

Recommendation 6: Perform a review, in coordination with other division and office directors, to ensure no additional long-term travel arrangements, informal or otherwise, exist that allow employees to incur travel expenses for personal benefit or convenience and take appropriate action.

Management Response: Concur

Corrective Action: As part of the written communication referenced in Recommendation 2, DOF will reiterate that all travel is to be performed in accordance with FDIC policies and procedures, and Division/Office Directors and Administrative Officers will be asked to make DOF aware of any unusual formal or informal agreements that impact employee travel reimbursements.

Completion date: January 31, 2017

Recommendation 7: Determine whether existing NFE T&E activity reports are sufficient to identify employees with unusual or questionable travel patterns, develop additional reports if necessary, and ensure that reporting information is provided to divisions and offices for their use and consideration.

Management Response: Concur

Corrective Action: DOF has reviewed the existing suite of reports and believes that available reports provide FDIC management with the tools necessary to effectively evaluate employee travel. As a matter of policy, FDIC managers are required to authorize and approve each travel assignment, and are responsible for the review of all claimed travel expenditures. DOF provides

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managers and budget representatives with access to reports outlining employee travel patterns and expenditures. While DOF does monitor employee travel claims to ensure compliance with FDIC travel policies, it is incumbent upon each approving official to determine the need for specific employee temporary duty assignments and to review travel claims for reasonableness.

As part of the written communication referenced in Recommendation 2, DOF will reiterate that all travel is to be performed in accordance with FDIC policies and procedures, and division/office directors and administrative officers will be advised to ensure that all approving officials are properly reviewing employee travel requests and travel expense claims. In addition, DOF will reiterate that Divisions and Offices should be actively reviewing available financial reports to ensure that performed travel is necessary and appropriate.

Completion Date: January 31, 2017

Recommendation 8: Communicate to managers and supervisors the appropriate method for delegating travel voucher approval in NFE T&E, examples of limited situations for when such delegation may be appropriate, and expectations for staying informed of the nature of delegated activity.

Management Response: Concur.

Corrective Action: FDIC sent an e-mail to FDIC supervisors on November 14, 2016, and a memorandum to division and office directors with information regarding the appropriate methods for delegating travel transaction approval authorities in T&E, examples of situations when this is appropriate, and expectations for being informed of the delegated activity.

Completion Date: November 14, 2016

cc: Steven O. App, Deputy to the Chairman and Chief Financial Officer
Elaine Stankiewicz, Senior Advisor, Deputy to the Chairman and CFO
Thompson H. Sawyer, Jr., Deputy Director, Financial Operations
James H. Angel, Jr., Deputy to the Director, Corporate Management Control
Daniel H. Bendler, Assistant Director, Management Services Branch

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Summary of the Corporation's Corrective Actions

This table presents the corrective actions taken or planned by the Corporation in response to the recommendations in the 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 re-examined the data and travel records associated with employees 3 and 4 and determined their travel reimbursements should be non-taxable.	December 1, 2016	No	Yes	Closed
2	DOF agreed to provide division and office directors and their administrative officers additional guidance reiterating Corporate policy to include references to applicable GTR sections and other written procedures.	January 31, 2017	No	Yes	Open
3	DOA will work with divisions and offices to finalize WiP policies and procedures.	December 15, 2017	No	Yes	Open
4	DOA will develop a standard cost-benefit analysis of WiP decisions for inclusion into the WiP policy.	December 15, 2017	No	Yes	Open
5	DOF reviewed the Executive's travel patterns and facts associated with travel to the Alternate Location and recovered $2,658 in charges not permitted under the work arrangement. DOF determined the remaining travel expenses were authorized under the work arrangement.	December 8, 2016	$122,423	Yes	Closed
6	DOF will ask division/office directors and administrative officers to make DOF aware of any unusual formal or informal agreements that impact employee travel reimbursement.	January 31, 2017	No	Yes	Open

Summary of the Corporation's Corrective Actions

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved:[a] Yes or No	Open or Closed[b]
7	DOF reviewed its existing suite of reports and believes they provide management with tools necessary to effectively evaluate employee travel. DOF will reiterate that all travel should be performed in accordance with FDIC policies and procedures, and that divisions and offices should be actively reviewing available financial reports to ensure that travel is necessary and appropriate.	January 31, 2017	No	Yes	Open
8	FDIC sent an email to FDIC supervisors and a memorandum to division and office directors with information regarding the appropriate methods for delegating travel transaction approval authority.	November 14, 2016	No	Yes	Closed

[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] Recommendations will be closed when (a) Corporate Management Control notifies the OIG that corrective actions are complete or (b) in the case of recommendations that the OIG determines to be particularly significant, when the OIG confirms that corrective actions have been completed and are responsive.