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Office of Inspector General

Office of Audits

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## Audit of Premium Travel



September 29, 2008  
Report No. 447



OFFICE OF  
INSPECTOR GENERAL

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**M E M O R A N D U M**

September 29, 2008

**To:** Kristine Chadwick, Associate Executive Director, Office of Financial Management

**From:** H. David Kotz, Inspector General *MAK*

**Subject:** *Audit of Premium Travel, Report No. 447*

This memorandum transmits the Securities and Exchange Commission, Office of Inspector General's (OIG), final report detailing the results of our audit of premium travel. The audit was conducted by the OIG as part of our continuous effort, to assess the management of the Commission's programs and operations.

The final report contains 6 recommendations, which if implemented, will strengthen internal controls over travel. The Office of Financial Management generally concurred with all the report recommendations. Your written response to the draft report, dated September 12, 2008, is included in its entirety in Appendix V to the audit report. In addition, OIG's response to management's comments is included in Appendix VI.

Should you have any questions regarding this report, please do not hesitate to contact me. We appreciate the courtesy and cooperation that you and your staff extended to our auditor during this audit.

Attachment

cc:

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# Audit of Premium Travel

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## Executive Summary

**Background.** A primary purpose of the Federal Travel Regulation (FTR) is to interpret statutory and Executive Branch policy requirements to ensure that official travel is conducted responsibly while minimizing administrative costs. Consistent with this purpose, the FTR provides that with limited exceptions, travelers must use coach class accommodations for both domestic and international travel. Premium class air travel (first or business class) may be used only when the traveler's agency specifically authorizes the use of such accommodations and only under specific circumstances. Likewise, the FTR requires that lodging, meals and incidentals (actual expenses) in excess of the prescribed per diem rate for a specified location be approved in advance of travel and under specific circumstances.

Per Commission policy, the Office of Financial Management (OFM) permits first and business class travel only due to a qualifying medical necessity or in other narrow circumstances expressly provided by the FTR. OFM will not approve travel upgrades to business class based on the necessity to review confidential documents or perform agency work.

OFM will approve lodging, meals and incidental upgrades in unusual circumstances, such as when the Commission's official Travel Management Center (TMC) has confirmed that lodging is not available, within the prescribed per diem rate. Alternatively, the traveler may identify the number of attempts to find accommodations within the prescribed per diem rate. Also, an upgrade may be approved if the cost of lodging and meals that must be procured at a prearranged place in conjunction with a meeting, conference, or training session will exceed all of the prescribed per diem rates.

**Objectives.** The objectives of the audit were to assess:

- (1) whether the Commission has established effective management controls over airfare (business and first class) and actual expenses travel upgrades, and
- (2) if Commission employees are complying with the Federal Travel Regulation and other applicable laws, rules, regulations, and policies regarding the approval, justification, and documentation of airfare and actual expense upgrades.

**Results.** The audit found that the Commission has established some management controls over travel upgrades for airfare and actual expenses. However, there are several areas in which significant improvements are needed.

Specifically, OFM's current travel guidance pertaining to travel upgrades is outdated and requires strengthening. As a result, there is increased risk that Commission employees may not follow proper procedures for authorizing, justifying and documenting premium travel. In addition, OFM should update its travel website to ensure that all effective memoranda, policy updates, etc. pertaining to premium travel are available electronically to Commission employees. This will help ensure that employees, especially new hires, can easily access applicable travel requirements, including those for premium travel, from one central location. We also found that OFM does not routinely track summary data related to business class air travel and lodging, meals and incidental upgrades. Without knowing how much is spent on premium class travel, the Commission cannot effectively manage its travel budget in order to prudently safeguard taxpayer dollars

The audit also determined that existing management controls were generally functioning as intended and upgrades were processed, for the most part, in accordance with the FTR and Commission policy. Some travel practices, however, resulted in increased costs to the Commission and the appearance of impropriety. These practices included travel upgrade requests and travel vouchers that were self-approved or approved by subordinates and travelers that left from other than their official duty stations at increased costs to the Commission.

**Summary of Recommendations.** To strengthen management controls, the Commission should: (1) enhance existing policies and procedures pertaining to travel upgrades to ensure they are comprehensive and current, (2) update its current travel website to ensure all travel policies are maintained electronically in one location for easy retrieval by Commission employees, (3) implement procedures to obtain summary data on travel upgrades for purposes of internal monitoring, (4) prohibit subordinates from approving their supervisor's travel and require Office Heads, Division Directors, and other senior management officials to obtain approval from a peer or higher level for travel-related matters, (5) prohibit travel from a telework location if it results in increased cost to the Commission, and (6) begin to enforce the Office of Management and Budget requirement to restrict premium class travel for temporary duty when the employee is not required to report to duty the following day, and include this requirement in its travel policies and procedures. OAS generally concurred with all six recommendations. Management's response to the draft report is included in its entirety in Appendix V. In addition, OIG's response to management's comments is included in Appendix VI.

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# Background and Objectives

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## Background

The Federal Travel Regulation (FTR), 41 C.F.R. §301-1.1 etc., promulgated by the Administrator of General Services, implements statutory and Executive Branch policies for travel by Federal civilian employees and others authorized to travel at government expense. The purposes of the FTR are to interpret statutory and policy requirements to ensure that official travel is conducted responsibly while minimizing administrative costs, and to communicate the resulting travel policies clearly to Federal agencies and employees.

Consistent with its purposes, the FTR, Section 301-10.122, provides that with limited exceptions, travelers must use coach class accommodations for both domestic and international travel. Premium class air travel (first or business class) may be used only when the traveler's agency specifically authorizes the use of such accommodations (authorization) and only under specific circumstances (justification).<sup>1</sup> Likewise, FTR Sections 301-11.301 and 301-11.302, require that lodging, meals and incidental expenses (actual expenses) in excess of the prescribed per diem rate for a specified location be approved in advance of travel and under specific circumstances. Further, under FTR Section 301-11.303, actual expenses cannot exceed 300 percent of the maximum per diem allowance.

The Office of Financial Management (OFM) is responsible for administering travel policy for the Commission. In February 1998, OFM issued guidance on the process for requesting travel upgrades, as well as the criteria for approval.<sup>2</sup> Under the guidance, travelers must complete a form justifying the request. The form is reviewed by an authorizing official, who forwards it to OFM for final approval.

Upgrades may be for transportation (first or business class rather than coach) and lodging, meals and incidentals (actual expenses rather than the standard per diem amount). Per the Commission's February 1998, *Travel Policy Update*, OFM will permit first and business class travel only due to a qualifying medical necessity or in other narrow circumstances expressly provided by the FTR. According to the policy, OFM will not approve travel upgrades to business class based on the necessity to review confidential documents or perform agency work.

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<sup>1</sup> See FTR Sections 301-10.123 and 301-10.124.

<sup>2</sup> Memorandum to All SEC Employees from Margaret Carpenter, Comptroller, dated Feb. 2, 1998, Subject: Travel Policy Update.

OFM will approve lodging, meals and incidental upgrades in unusual circumstances, such as when the Commission's official Travel Management Center (TMC) has confirmed that lodging is not available within the prescribed per diem rate. Alternatively, the traveler must identify the number of attempts to find accommodations within the prescribed per diem rate. Also, an upgrade may be approved if the cost of lodging and meals that must be procured at prearranged place in conjunction with a meeting, conference, or training session will exceed all of the prescribed per diem rates.

Additionally, the Office of International Affairs (OIA) is responsible for coordinating and approving all international staff travel for the SEC. All foreign travel is reviewed by OIA in conjunction with the Office of the Executive Director (OED) to ensure it is limited, reasonable, and consistent with the SEC's objectives. The traveler is required to provide OIA and OED with documentation related to the foreign travel trip including such information as purpose of trip, travel itinerary, an agenda of the event, and invitation letter or email for the event.

Because many of the foreign travel trips are in excess of 14 hours, they are eligible for an airfare travel upgrade under FTR Section 301.10-124(h). Therefore, many trips taken by Commission employees are reviewed and approved by OFM, OIA and OED. OFM reviews the travel upgrade request to ensure it meets one of the allowable exceptions in the FTR and agency policy. OIA and OED review information pertaining to the trip to ensure the travel is conducted in a resource-efficient manner that best serves the Commission's programmatic interests.

The Commission spent approximately \$5.8 million on travel in FY 07 and \$4.2 million in FY 08 as of April 30, 2008. During FY 07 and FY 08, OFM approved 42 and 14 business class air upgrades, respectively. They reported no first class travel for this period. OFM also approved approximately 1,095 and 564 lodging upgrades for FY07 and FY 08, respectively.

In June 2008, during the course of the audit, OFM completed its implementation of FedTraveler, a new automated travel system that brings the SEC in compliance with the Presidential E-gov initiative requiring all Federal agencies to migrate to an E-gov Travel Service (ETS) provider. EDS' FedTraveler system is one of the approved ETS providers under the General Services Administration (GSA) umbrella. Under this new system, all travel actions, including travel upgrades, are prepared, approved, and documented electronically.

## **Objectives**

The objectives of the audit were to assess:

- (1) whether the Commission has established effective management controls over airfare (business and first class) and lodging travel upgrades, and
- (2) if Commission employees are complying with the Federal Travel Regulation and other applicable laws, rules, regulations, and policies regarding the approval, justification, and documentation of airfare and lodging upgrades.

## Findings and Recommendations

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The audit found that the Commission has established management controls over travel upgrades for lodging and airfare. However, additional improvements can be made in the areas of: (1) enhanced policies and procedures, (2) an updated travel website containing relevant memos, policies, etc. related to travel upgrades, and (3) increased monitoring of premium travel. We also found that existing management controls were generally functioning as intended and upgrades were processed, for the most part, in accordance with the FTR and Commission policy. Some travel practices, however, resulted in increased costs to the Commission and the appearance of impropriety. Lastly, we determined that all recommendations from a prior OIG audit pertaining to travel upgrades had been closed.<sup>3</sup>

Our detailed findings and recommendations are discussed below.

### **Finding 1: Management Controls Over Premium Travel Are in Place, But Can Be Improved**

OFM's current travel guidance pertaining to travel upgrades is outdated and requires strengthening. As a result, there is increased risk that Commission employees may not follow proper procedures for authorizing, justifying and documenting premium travel.

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<sup>3</sup> OIG Audit Report No. 281, *Travel Upgrades*, Issued June 5, 1998.



## Travel Policies and Procedures Need to Be Significantly Improved

In February 1998, OFM issued a memorandum titled *Travel Policy Update* (the policy). The policy contains guidance on the process for requesting travel upgrades, as well as the criteria for approval. However, the policy is outdated and contains references to the FTR which are no longer valid. For example, the policy states that frequent flyer upgrades must be approved in advance by the Office of the Comptroller (now OFM), which is no longer required by OFM or the FTR. Also, the policy includes references to the FTR pertaining to travelers finding information on transportation upgrades, use of noncontract carriers, and lodging, meals and incidental expenses that have since been changed.

The policy also needs to be strengthened by making it more comprehensive and incorporating internal control requirements mandated by the Office of Management and Budget (OMB). Based on the OIG's review of the policy, there are several areas that could be more descriptive in order to help ensure travelers understand premium travel requirements. Additionally, in January 2008, OMB issued Memorandum M-08-07, *Use of Premium Class Travel*<sup>4</sup>, requiring agencies to immediately implement specific internal controls over premium travel. OFM has not updated its policy to incorporate these requirements, although the Executive Director informed OMB in February 2008 that the Commission would do so.

Based on the OIG's review of current policy, we believe it could be strengthened by addressing the following areas:

- Identify when travelers can upgrade travel to first or business class per the FTR and in what circumstances the Commission applies more restrictive guidance. For example, the policy states that requests to upgrade to business class based on necessity to review confidential documents or perform agency work will not be approved. However, the policy does not explicitly state that upgrade requests based on agency mission (see FTR, Section 301-10.124(i)) will not be approved. Additionally, we identified two instances where travelers were upgraded for reasons that appear to be related to performance of agency work. In one instance, the traveler stated in their justification that they had prior commitments and could not depart before a specific day. Therefore, the request was necessary to allow time to prepare for a speech and rest before arriving in London. The same traveler used a similar

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<sup>4</sup> Memorandum to the Heads of Departments and Agencies from Clay Johnson, Deputy Director for Management, dated January 8, 2008, Subject: Use of Premium Class Travel.

justification for a trip to Paris. In both instances, OFM approved the travel upgrade requests to business class air. To ensure consistent application of the policy, it should be revised to clearly communicate in what circumstances, if any, travelers are permitted to upgrade based on agency mission.

- Clearly state what constitutes an acceptable written justification for requesting a travel upgrade. To illustrate, current policy states that requests for upgrades to actual expenses for lodging, meals and incidentals require justification and that the justification should be as detailed as possible. The policy further states that lodging upgrades will only be approved in special circumstances, such as when the Commission's TMC has confirmed that lodging is not available within the prescribed per diem rate. In lieu of TMC confirmation, the traveler must identify the number of attempts to find accommodations. Also, an upgrade may be approved if the cost of lodging and meals that must be procured at a prearranged place in conjunction with a meeting, conference, or training session will exceed all of the prescribed per diem rates.

The policy, however, does not specify what information should be included in the travel upgrade justification provided to OFM. The policy should address issues such as the number of hotels travelers are expected to call and procedures to take when attending a conference or other event and rooms have been pre-booked for conference participants. The policy should also specify and/or provide examples of the type of information that should be included in the justification submitted to OFM for review and approval. This will help ensure that the traveler understands what is required of them as well as provide OFM more complete information upon which to base a travel upgrade decision. This is particularly important since the new FedTraveler system only provides a blank text box in which to enter a justification with no explanation or pull down menu options, as shown below in Figure 1:

Figure 1: Fed-Traveler Window



Source: FedTraveler.com

- Include a required lead time for travelers to submit travel upgrade requests for approval and average turnaround time for review and approval of requests by OFM. This will help ensure that OFM receives travel upgrade requests in sufficient time to permit a thorough review. While we found that OFM approved travel upgrade requests in a timely manner, many times within a day of the request, travelers often provided the request to OFM for approval only a few days prior to travel.
- Identify the responsibilities of the authorizing official with regard to approval of a travel upgrade request. The current policy states that each request for an upgrade or actual expenses must first be reviewed and approved by an authorizing official. The policy, however, does not clearly state what the authorizing official should consider in regards to approving the travel upgrade. Based on our review, authorizing officials (typically the traveler's supervisor) send an email to OFM simply stating they approve the upgrade, but there is no way of knowing what factors were considered in making that decision. The OIG believes that OFM should emphasize the importance of minimizing excess travel costs in the spirit of the FTR. Accordingly, authorizing officials should consider other alternatives (e.g., travelers' use of frequent flyer miles for official travel, holding a teleconference versus traveling, utilizing coach class, etc.) when the cost of a business class fare far exceeds that of a coach class fare. Based on our review, it appeared that authorizing officials automatically approved business class upgrades for foreign trips in excess of 14 hours without scrutinizing the requests. The cost of a business class fare versus coach fare

for some of these trips was substantial, as illustrated in Table 1 below:

**Table 1: Business Class Versus Coach Class**

Example	Itinerary	Coach Fare per Traveler's Premium Travel Request	Approved Business Class Fare
1	DC to Hong Kong	\$1,435	\$9,025
2	DC to Tokyo	\$987	\$8,071
3	DC To Paris	\$947	\$7,073
4	Milwaukee to Tokyo	\$3,927	\$10,010

Source: OIG Generated

- Explain how travel upgrades are handled in the new electronic FedTraveler system. Current policy discusses a manual process which is no longer followed.

Based on review of OMB Memorandum M-08-07, *Use of Premium Class Travel*, the policy should also: (1) explain when mission criteria and intent call for premium class accommodations; (2) define what constitutes a rest period; (3) require annual certifications of a disability, unless such disability is lifelong; and (4) restrict premium class travel for both temporary duty and permanent change of station travel (relocations) when the employee is not required to report to duty the following day.

### Recommendation 1

The Office of Financial Management (OFM) should revise its current policies and procedures pertaining to travel upgrades to ensure they are comprehensive and current. The policies and procedures should: (1) clarify when travelers can upgrade airfare according to the Federal Travel Regulation and Commission policy, (2) communicate what constitutes an acceptable written justification for airfare and lodging upgrades, (3) include a required lead time for travelers to submit travel upgrade requests for approval and an average turnaround time for review and approval of requests by OFM, (4) identify the responsibilities of the authorizing official with regard to approval of a travel upgrade request, (5) explain how travel upgrades are handled in the new electronic FedTraveler system, and (6) include internal control requirements specified in the Office of Management and Budget Memorandum M-08-07, *Use of Premium Class Travel*.

## **OFM Travel Website Requires Updating**

OFM should update its travel website to ensure that all effective memoranda, policy updates, etc. pertaining to premium travel are available electronically to Commission employees. This will help ensure that employees, especially new hires, can easily access applicable travel requirements, including those for premium travel from one central location.

We found that subsequent to OFM's February 1998 policy, *Travel Policy Update*, OFM has also issued the following memoranda that discuss premium travel among other requirements:

- Memorandum to All Travelers from Darrell L. Dockery, Assistant Director for Finance and Accounting, OFM, dated January 8, 2002, Subject: *Frequent Flyer Benefits Update*; and
- Memorandum to All Travelers from Darrell L. Dockery, Assistant Director, Finance and Accounting, OFM, dated August 8, 2006, Subject: *Travel Policy Update*.

These policies were provided to the auditor by an OFM travel specialist in response to an inquiry for updated policies regarding premium travel; however, the documents are not maintained electronically on OFM's travel website for Commission employees to be able to access.

### **Recommendation 2**

The Office of Financial Management should update its current travel website to ensure all travel policies and procedures, including those that discuss travel upgrades, are maintained electronically in one location for easy retrieval by Commission employees.

## **Internal Monitoring over Premium Class Travel Should Be Strengthened**

We found that OFM does not routinely track summary data related to business class air travel and lodging, meals and incidental upgrades. Without knowing how much is spent on premium class travel, the Commission cannot effectively manage its travel budget in order to prudently safeguard taxpayer dollars. Also, OFM does not maintain data on premium travel in a format that allows it to readily identify the population of premium travelers and note patterns and trends that may be indicative of abusive travel. Further, it is unclear how OFM management is able to effectively manage its workload (e.g., ensure that there are adequate resources devoted to this work) without summary workload data.

The FTR requires all executive branch agencies to provide GSA with annual reports listing all instances in which the organizations approved the use of first class transportation accommodations, which GSA then forwards to OMB. However, agencies are not currently required to report on the use of premium travel for other than first class air travel.<sup>5</sup>

Despite the fact that business class travel has accounted for all premium class air travel at the Commission during the audit period, OFM does not maintain summary data (e.g., name of traveler, date and location of travel, type of upgrade requested, cost of the upgrade, date of upgrade request and response date and disposition) regarding business travel upgrade requests. OFM used to maintain an electronic mailbox called OC\_Travel (by fiscal year) containing email traffic related to travel upgrade requests, denials and approvals, however, this information is not easy to view or sort in order to determine the amount of travel upgrades, the value of the upgrades, and other summary data. Additionally, data on travel upgrades is not requested or reviewed by upper management within OFM on a routine basis to identify trends or patterns, etc.

The OFM travel specialist responsible for reviewing travel upgrade requests stated that she used to maintain a spreadsheet containing summary data for all types of travel upgrade requests including air and lodging, but discontinued the practice in FY 2005 because prior management never asked to see the data and it appeared to be a waste of time. Also, the new FedTraveler system does not currently produce travel upgrade summary data.

### **Recommendation 3**

The Office of Financial Management (OFM), in conjunction with the FedTraveler developer, needs to enhance the system to produce travel upgrade data and implement procedures to periodically obtain data from the Travel Management Center on business class travel, in addition to any first class travel, and compare that data with OFM approvals in FedTraveler to ensure all airfare upgrades are receiving proper approval prior to travel.

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<sup>5</sup> See FTR Sections 300.70-100 through 300.70-104.

## **Finding 2: Management Controls are Generally Functioning as Intended; However, There are Several Practices That Significantly Increase Commission Risk**

Travel Upgrade Requests and Travel Vouchers Involving Premium Travel were Self-Approved, or Approved by Subordinates or Other Unauthorized Individuals

We found that an Office Head, Division Director, and another senior management official in the Commission approved their own travel upgrade requests prior to submitting them to OFM for final review and approval. Additionally, we found one instance where a Division Director self-approved his travel voucher claiming expenses for premium travel. We also found instances where travel upgrade requests and travel vouchers were approved by subordinates or those without proper authorization. As a result, internal controls are not always functioning as intended.

OFM's February 1998 Memorandum, *Travel Policy Update*, requires travelers to have travel upgrades reviewed and approved by a travel authorizing official prior to forwarding to OFM for final review and approval. Essentially, this management control is intended to provide two layers of review and approval.

Out of a sample of 32 trips involving premium air travel, we identified 19 instances where approvals were found to be problematic.

- Nine instances where senior management officials self-approved their travel upgrade requests (by leaving blank or inserting their name into the authorizing official signature box on the Unusual Circumstances for Travel Form) prior to electronically sending the form to OFM for review and approval. The Unusual Circumstances for Travel Form contains information regarding the type of upgrade requested, justification for the upgrade, cost of the upgrade, etc. The form is completed by the traveler, approved by a travel authorizing official, and forwarded to OFM for approval per its current policy.
- One instance where a Division Director self-approved his travel voucher claiming expenses for premium travel.
- One instance where a subordinate (SK-17) approved a Senior Officer's Unusual Circumstances for Travel Form.

- Six instances where a subordinate of an Office Head approved their travel vouchers claiming expenses for premium travel.
- We also identified two instances where individuals not designated by their offices as travel authorizing officials approved traveler's Unusual Circumstances for Travel Forms. In one instance, the individual also approved the related travel voucher claiming expenses for premium travel.

An OFM travel specialist explained that prior to February 2008, the Commission permitted self-approval of travel authorizations and vouchers. Likewise, the OFM travel specialist allowed self-approval of travel upgrade requests. However, in February 2008, the former Financial Operations Branch Chief for OFM issued a memorandum to all Division Directors, Office Heads, Regional Directors, and District Administrators stating, "Effective immediately, Division Directors, Office Heads, Regional Directors, and District Administrators are *no longer* permitted to authorize/approve their own travel authorizations and vouchers. The new policy requires that each Division Director, Office Head, Regional Director and District Administrator designate, in writing, to the Office of Financial Management, an official(s) at the next lower level, to sign as travel authorizing/approving official for him/her on both travel authorizations and vouchers."<sup>6</sup> The new policy also requested that offices designate, in writing, individuals to be general travel authorizing/approving officials for their office. The memorandum did not specifically address travel upgrade requests.

The OFM travel specialist further explained that the change occurred due to a review conducted by the General Accountability Office (GAO) and that she was informed by the prior Chief Financial Officer, as well as the former Assistant Director for Finance and Accounting, that the change did not affect self-approval of travel upgrade requests. Therefore, the OFM travel specialist had continued to allow the practice.

While the OIG has learned that the new FedTraveler system, which was fully implemented in June 2008, has controls to prevent self authorization and authorization by individuals without proper authority, the system will not prevent a subordinate from approving a supervisor's travel if the subordinate has been included in the system by OFM as a designated travel authorizing/approving official.

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<sup>6</sup> Memorandum to Division Directors, Office Heads, Regional Directors and District Administrators from Russell Follin, Branch Chief, Financial Operations, OFM, dated February 19, 2008, Subject: Travel Authorizing Officials Signature Authority: Policy Changes.



The GAO recently highlighted in its report on government-wide premium class travel, Report No. GAO-07-1268, *Internal Control Weaknesses Governmentwide Led to Improper and Abusive Use of Premium Class Travel* (Sept. 2007), page 14, that the FTR does not forbid subordinates from approving their superior's premium class travel. However, applying criteria set forth in GAO's internal control standards<sup>7</sup> and sensitive payment guidelines<sup>8</sup>, premium class transactions approved by subordinates reduced scrutiny of premium class travel and amounted to self-approval.

The OIG believes that having subordinates approve their supervisors' travel creates the appearance of impropriety and a potential conflict of interest. This is particularly true when travel by senior management officials is approved by subordinates.

#### **Recommendation 4**

The Office of Financial Management should implement a policy prohibiting subordinates from approving their supervisors' travel and require Office Heads, Division Directors, and other senior management officials to obtain approval from a peer or higher level for travel-related matters.

### **Travelers Were Authorized to Leave from Locations Other than their Official Duty Location at Increased Costs to the Commission**

We identified three instances involving premium travel where travelers left from locations other than their official duty stations. This resulted in the Commission incurring \$5,604 in additional costs for the increased airfare.

The FTR, Section 301-10-7, requires travelers to travel to their destination by the usually traveled route unless their agency authorizes or approves a different route as officially necessary. The FTR, Section 301-10.8, further states that a traveler's reimbursement will be limited to the cost of travel by a direct route or on an uninterrupted basis and that the traveler will be responsible for any additional costs. In August 2006, OFM issued a memorandum to all travelers stating that the SEC requires all official travel to be from the official duty station or official residence.<sup>9</sup> The

<sup>7</sup> GAO/AIMD-00-21.3.1, *Standards for Internal Control in the Federal Government*, November 1999.

<sup>8</sup> GAO/AFMD-8.1.2, *Guide for Evaluating and Testing Controls Over Sensitive Payments*, May 1993.

<sup>9</sup> Memorandum to All Travelers from Darrell L. Dockery, Assistant Director, Finance and Accounting, dated Aug. 8, 2006, Subject: Travel Policy Update.

memorandum further states that the government airfare is only for official travel segments from your official duty station to your official travel locations. If a traveler leaves from another location for personal reasons or convenience, they are responsible for the difference in the airfare.

Out of a sample of 32 trips involving premium air travel, we found three instances where travelers originated and terminated travel from other than their official duty station per their travel voucher and supporting documents. All three instances involved travel originating and terminating at an airport near the traveler’s residence. Details of the trips are summarized in the table 2 below:

**Table 2: Travelers Leaving From Other Than Their Duty Station**

Traveler	Itinerary	Duty Station Per Travel Voucher	Additional Cost to the Government
A (Trip 1)	Chicago to Uganda	Washington, DC	\$762
A (Trip 2)	Milwaukee to Tokyo	Washington, DC	\$4,842
B	Newark to Tokyo	Washington, DC	\$0
<b>TOTAL</b>			<b>\$5,604</b>

Source: OIG Generated

Because the travelers did not originate travel from the official duty station claimed on their travel voucher, the total additional cost to the Commission was approximately \$5,604 for the increased airfare. The travelers’ vouchers and supporting documentation did not show why the change in routing of their travel was “officially necessary,” however, in one instance, the traveler (Traveler B) stated on their travel upgrade request that they were leaving from their telework location. For all three trips, the travelers had authorizations approved by their supervisors showing they were leaving from other than their duty station.

Although the Commission’s travel policies and procedures do not specifically address telework and travel, an OFM travel specialist stated it was OFM’s practice to approve travel upgrade requests from a location other than the duty station when a traveler has documentation showing they are scheduled to telework the day of and the day they return from travel.

Based on our audit, however, we were unable to obtain a copy of a telework agreement for Traveler A from OHR, the traveler’s office, or OFM. The traveler’s office told the OIG that the individual had the option

to telework and they thought a telework agreement existed. OHR, however, was unable to verify the existence of such an agreement. Also, Traveler A terminated Trips 1 and 2 at an airport near his residence on a weekend (non-telework day). Additionally, while OFM provided email documentation indicating that Traveler B had a telework agreement in place, OFM did not have a copy of the actual agreement, and Traveler B also terminated his travel at an airport near his residence on a weekend (non-telework day).

An OFM travel specialist provided email documentation showing that the former Chief Financial Officer had discussions with the Office of General Counsel and Office of Human Resources on the issue of telework and travel around August 2005 and decided to hold off on issuing Commission policy until the Office of Personnel Management and the General Services Administration finished work on these issues. The OIG recently contacted a representative from GSA knowledgeable of the FTR and was informed that the FTR has not been updated to discuss rules pertaining to travel from telework locations.

In the absence of specific OMB and GSA guidance, the Commission should strengthen its existing policies and procedures to address situations where travelers propose to leave from a telework location including any additional costs that may arise.

### **Recommendation 5**

The Office of Financial Management should revise current policy to address situations where travelers leave from a telework location and prohibit travel from a telework location if it results in additional cost to the Commission.

### **Travelers Had a Rest Stop En Route or Upon Arrival at Their Duty Station**

We found that travelers often had a rest stop upon arrival back to their duty station or rest stop en route to their destination, although they requested and were approved for business class accommodations on a foreign trip because the flight time was in excess of 14 hours. As a result, this appears to be in violation of the intent of the FTR and OMB guidelines.

FTR Section 301-10.124(h) permits travelers to use business class airline accommodations where the scheduled flight time, including stopovers and change of planes, is in excess of 14 hours. FTR Section 301-10.124(h)

further states that in this instance, a traveler will not be eligible for a rest stop en route or a rest period upon arrival at their duty site.

Out of a sample of 32 trips involving premium air travel, we found 10 instances where travelers returned home on a Friday or Saturday and, therefore, appeared to have a rest period prior to returning to work the following Monday. We also identified three trips where travelers had a rest stop en route on their return trip home. For one of the three trips, the traveler left Montevideo on Thursday, April 3, 2008 at 9:20pm, arrived in Miami at 5:10am the same day, departed Miami on April 4, 2008 (the next day) at 8:15am and arrived back into Washington, DC at 10:39am. Therefore, because the traveler had a rest stop en route, (staying in Miami the night of April 3, 2008), the flight time did not meet the 14 hour requirement (it was approximately 9 hours). The total cost of the airfare for this trip was approximately \$6,300.

An OFM travel specialist stated that OFM's interpretation of the FTR is that a traveler cannot be approved for an upgrade using the 14 hour rule if they have a rest period upon arrival at their temporary duty location (duty site), but they can have a rest period upon returning home, especially if they return home on a Friday or Saturday and normally would be off the following day. With regard to the trips where we found that travelers had a rest stop en route, the OFM travel specialist stated that approval of the airfare upgrade was an oversight. For one of the three trips, the OFM travel specialist did not believe the traveler provided sufficient information on their Unusual Circumstances for Travel form to enable her to make a determination that there was a rest stop en route.

In January 2008, OMB issued Memorandum No. M-08-07, *Use of Premium Class Travel*, requiring agencies to implement certain premium class travel policies. One of those policies was to *restrict* premium class travel for temporary duty when the employee is not required to report to duty the following day. On February 25, 2008, the Executive Director for the Commission provided OMB a response stating, among other things, that they would ensure that business class travel is not approved if the employee is not required to report to work the following day.<sup>10</sup>

Since the memorandum was issued, we only found one instance where a traveler was approved by OFM for a business class upgrade. The traveler returned home on a Friday afternoon and it appears they were not required to report to work the following day. The OFM travel specialist responsible for approving the upgrade request stated that they were

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<sup>10</sup> Memorandum to Danny Werfel, Acting Controller, Office of Management and Budget from Diego Ruiz, Executive Director, Office of Executive Director, SEC, dated Feb. 25, 2008, Subject: Use of Premium Class Travel.

aware of the OMB memorandum, but did not specifically remember the subject requirement or receiving a copy of the Commission's response to OMB.

The OIG believes that the Commission should comply with the OMB requirement to "restrict" premium class travel when an employee is not required to report to work the following day and develop appropriate policy to clarify how the Commission will enforce the requirement. The policy should address situations where travelers return on a weekday as well as on a weekend, where the traveler would normally have the next day off.

### **Recommendation 6**

The Office of Financial Management should immediately begin to enforce the Office of Management and Budget's requirement to restrict premium class travel for temporary duty when the employee is not required to report to duty the following day and include this requirement in its travel policies and procedures.

## Acronyms

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OIG	Office of Inspector General
OFM	Office of Financial Management
OED	Office of the Executive Director
TMC	Travel Management Center
OMB	Office of Management and Budget
FTR	Federal Travel Regulation
GAO	General Accountability Office
SEC	Securities and Exchange Commission
GSA	General Services Administration

## Scope and Methodology

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

**Scope.** The audit's scope encompassed travel upgrade requests for airfare (business and first class) and lodging approved by OFM during FY 07 and FY 08 (up to April 30, 2008). During FY 07 and FY 08, OFM approved 42 and 14 business class air upgrades, respectively. They reported no first class travel for this period. OFM also approved approximately 1,095 and 564 lodging upgrades for FY 07 and FY 08, respectively. OFM provided data showing they disapproved two airfare upgrades during FY 07. Fieldwork was performed from May 2008 through August 2008.

**Methodology.** We interviewed applicable Commission staff in the Office of Financial Management as well as the General Services Administration; reviewed applicable internal operating procedures and laws and regulations, reviewed available operational data pertaining to travel upgrade approvals; reviewed travel vouchers and supporting documentation for a judgmental sample of travel upgrade requests processed during the audit period; and interviewed officials from EDS to gain an understanding of applicable application controls in the new FedTraveler system. We also determined if all recommendations from a prior related audit had been closed.

**Internal/Management Controls.** We reviewed management controls as they pertained to the audit objectives.

**Judgmental Sampling.** Our judgmental sample of 32 out of 56 total travel upgrade requests for the audit period consisted of the following:

FY 08 - We sampled 9 out of a population of 14 (64%) airfare travel upgrades, two of which also had upgraded lodging.

FY 07- We sampled 23 out of a population of 42 (55%) airfare travel upgrades, ten of which also had upgraded lodging.

The judgmental sample was based on the following three criteria.

- Airfare upgrades where the total cost of the upgraded airfare appeared to be in excess of \$8,000.
- Airfare upgrades where the traveler also upgraded lodging.
- Airfare upgrades where the justification was other than travel being over 14 hrs or the traveler having a medical condition permitting the upgrade (e.g. coach class was not available, necessary for agency mission, etc.).

The rationale for the criteria was to look at the highest dollar travel upgrades as well as those upgrades that pose the greatest risk.

**Prior Audit Coverage.** The OIG reviewed the Commission's process for processing travel upgrades in a prior audit, No. 281, *Travel Upgrades* (June 5, 1998), and made several recommended enhancements to the controls over upgrades and other travel expenditures.



## Criteria

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**Federal Travel Regulation, 41 C.F.R. § 301-1.1, etc.-** The FTR implements statutory requirements and Executive branch policies for travel by Federal civilian employees and others authorized to travel at Government expense.

**OMB Memorandum M-08-07, Use of Premium Class Travel (Jan. 8, 2008)-** Requires agencies to implement certain internal controls over premium class travel.

**SEC February 2, 1998 Memorandum, Travel Policy Update-** Contains guidance on the process for requesting travel upgrades, as well as the criteria for approval.

**SEC August 8, 2006 Memorandum, Travel Policy Update:** Contains updated guidance regarding a variety of travel areas including premium travel.

## List of Recommendations

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### Recommendation 1

The Office of Financial Management (OFM) should revise its current policies and procedures pertaining to travel upgrades to ensure they are comprehensive and current. The policies and procedures should (1) clarify when travelers can upgrade airfare according to the Federal Travel Regulation and Commission policy, (2) communicate what constitutes an acceptable written justification for airfare and lodging upgrades, (3) include a required lead time for travelers to submit travel upgrade requests for approval and an average turnaround time for review and approval of requests by OFM, (4) identify the responsibilities of the authorizing official with regard to approval of a travel upgrade request, (5) explain how travel upgrades are handled in the new electronic FedTraveler system, and (6) include internal control requirements specified in the Office of Management and Budget Memorandum M-08-07, *Use of Premium Class Travel*.

### Recommendation 2

The Office of Financial Management should update its current travel website to ensure all travel policies and procedures, including those that discuss travel upgrades, are maintained electronically in one location for easy retrieval by Commission employees.

### Recommendation 3

The Office of Financial Management (OFM) in conjunction with the FedTraveler developer needs to enhance the system to produce travel upgrade data and implement procedures to periodically obtain data from the Travel Management Center on business class travel, in addition to any first class travel, and compare that data with OFM approvals in FedTraveler to ensure all airfare upgrades are receiving proper approval prior to travel.

### Recommendation 4

The Office of Financial Management should implement a policy prohibiting subordinates from approving their supervisors' travel and require Office Heads, Division Directors, and other senior management officials to obtain approval from a peer or higher level for travel related matters.

**Recommendation 5**

The Office of Financial Management should revise current policy to address situations where travelers leave from a telework location and prohibit travel from a telework location if it results in additional cost to the Commission.

**Recommendation 6**

The Office of Financial Management should immediately begin to enforce the Office of Management and Budget's requirement to restrict premium class travel for temporary duty when the employee is not required to report to duty the following day and include this requirement in its travel policies and procedures.

# Management Comments

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OFFICE OF  
FINANCIAL MANAGEMENT

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

## MEMORANDUM

September 24, 2008

**TO:** Jacqueline M. Wilson  
Assistant Inspector General for Audits

**FROM:** *SK* Kristine M. Chadwick *Zamaldok*  
CFO & Associate Executive Director  
Office of Financial Management

**SUBJECT:** OFM Response to Report No. 447, *Audit of Premium Travel*

This memorandum provides the Office of Financial Management's (OFM) response to OIG Report No. 447, *Audit of Premium Travel*, dated September 12, 2008. With one potential exception (Recommendation #6), OFM concurs with the substance of the recommendations provided in the above referenced report, and has provided specific comments for each recommendation below. In addition to the OIG recommendations, OFM will be taking several additional steps to strengthen internal controls and provide SEC staff with greater visibility to federal travel regulations. OFM will take the following steps:

1. Work with the Office of Human Resources (OHR) to incorporate Federal Travel Regulations (FTR) as a component of new employee orientation. This will provide new staff with information regarding SEC travel policy and procedures, as well as providing contact information for key travel officials.
2. Consider options to reinforce the FTR, such as the development and distribution of a travel card jacket that can fit in a traveler's wallet or purse that will provide valuable information when an SEC employee is on travel status.

Below are OFM's comments for each report recommendation. If you have any questions regarding our response, please contact Alan DiGuardia of my staff at (202) 551-7864.

## OFM Response to Report No. 447 Recommendations

**Recommendation #1:** The OFM should review its current policies and procedures pertaining to travel upgrades to ensure they are comprehensive and current. The policies and procedures should 1) clarify when travelers can upgrade airfare according to the Federal Travel Regulations (FTR) and Commission policy, 2) communicate what constitutes an acceptable written justification for airfare and lodging upgrades, 3) include a required lead time for travelers to submit travel upgrade requests for approval and average turnaround time for review and approval of requests by OFM, 4) identify the responsibilities of the authorizing official in regards to approval of a travel upgrade request, 5) explain how travel upgrades are handled in the new electronic FedTraveler system, and 6) include internal control requirements specified in the Office of Management and Budget (OMB) Memorandum M-08-07, Use of Premium Class Travel.

**OFM Response:** OFM concurs that the current inventory of memoranda describing the Commission's travel policy should be reviewed. OFM will replace the various memoranda with one comprehensive travel policy using the FTR as its foundation. This policy will incorporate any guidance provided by the OMB, and documentation addressing areas of agency discretion within the FTR.

**Recommendation #2:** The OFM should update its current travel website to ensure all travel policies and procedures, including those that discuss travel updates, are maintained electronically in one location for easy retrieval by Commission employees.

**OFM Response:** OFM concurs with this recommendation. OFM will update the website as travel policy is updated and developed including a direct link to the FTR website.

**Recommendation #3:** The OFM in conjunction with the FedTraveler developer needs to enhance the system to produce travel upgrade data and implement procedures to periodically obtain data from the Travel Management Center on business class travel, in addition to any first class travel, and compare the data with OFM approvals in FedTraveler to ensure all airline upgrades are receiving proper approval prior to travel.

**OFM Response:** OFM concurs with this recommendation. OFM will work with the SEC Travel Management Center to provide premium class travel data for OFM management review. With regard to making modifications to the FedTraveler software, it must be noted that SEC does not own this software, but is receiving travel management service from a federal e-travel provider under a General Services Administration (GSA) contract. Unless the requirement to track premium travel is specifically written in the FTR, the software owner is under no contractual obligation to make the change as stipulated in the

GSA master contract. OFM will aggressively attempt to solicit GSA, the FedTraveler vendor and work with other agencies to prioritize this software change request.

**Recommendation #4:** The OFM should implement a policy prohibiting subordinates from approving their supervisors' travel and requiring Office Heads, Division Directors, and other senior management officials to obtain approval from a peer or higher level for travel related matters.

**OFM Response:** OFM concurs with this recommendation. OFM will incorporate the requirement that senior level officials obtain approval for travel related matters from a peer or higher level official in its policy update (see the OFM response to Recommendation #1) unless there is a delegation of authority in place.

**Recommendation #5:** The OFM should review current policy to address situations where travelers leave from a telework location and prohibit travel from a telework location if it results in additional cost to the Commission.

**OFM Response:** In conjunction with OHR, OFM will develop a commission-wide policy regarding telework that is consistent with the FTR. Since agency discretion is currently permitted, OFM will solicit comments regarding the provisions of a travel telework policy, and consider not only cost, but any potential impact in achieving the Commission's mission.

**Recommendation #6:** The OFM should immediately begin to enforce the OMB requirement to restrict premium class travel for temporary duty when the employee is not required to report to duty the following day and include this requirement in its policies and procedures.

**OFM Response:** FTR §301-10.124(h) states: "*Where the origin and/or destination are OCONUS, and the scheduled flight time, including stopovers and change of planes, is in excess of 14 hours. (In this instance you will not be eligible for a rest stop en route or a rest period upon arrival at your duty site.)*" The term "rest period" is not defined in the FTR. Similarly, Memorandum M-08-07 titled 'Use of Premium Class Travel' (dated January 8, 2008) restricts premium class for temporary duty when the employee is not required to report to duty the following day. The use of "following day" could be interpreted as the "next business day" or the next "calendar day". The OFM has contacted GSA to clarify the term "rest period" and their interpretation of the above cited OMB Memorandum. OFM will modify its travel policy upon authoritative guidance from GSA.

## **Office of Inspector General Response to Management's Comments**

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The Office of Financial Management (OFM) generally concurred with all 6 recommendations and indicated that it would take action to implement all of the recommendations. The Office of Inspector General believes that OFM's proposed actions are responsive to our findings and recommendations.

# Audit Request and Ideas

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The Office of Inspector General welcomes your input. If you would like to request an audit in the future or have an audit idea, please contact us at:

U.S. Securities and Exchange Commission  
Office of Inspector General  
Attn: Assistant Inspector General, Audits (Audit Request/Ideas)  
100 F Street, N.E.  
Washington D.C. 20549-2736

Tel. # 202-551-6061  
Fax # 202-772-9265  
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## Hotline

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contact the Office of Inspector General at:

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Web-Based Hotline Complaint Form:  
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