

DOCUMENT RESUME

04275 - [B3354611] (Restricted)

[Answers to Questions on the Use of Corporation Funds, Property, and Employees by the Chairman, Board of Directors, Federal Deposit Insurance Corporation]. FOD-77-14; B-114831. November 29, 1977. 2 pp. + enclosure (10 pp.).

Report to Sen. William Proxmire, Chairman, Senate Committee on Banking, Housing and Urban Affairs; by Elmer B. Staats, Comptroller General.

Contact: Field Operations Div.

Budget Function: General Government: Other General Government (806).

Organization Concerned: Federal Deposit Insurance Corp.

Congressional Relevance: Senate Committee on Banking, Housing and Urban Affairs.

Authority: 21 U.S.C. 1802(a). 12 C.F.R. 336.735.

Allegations were made concerning the improper use of Federal Deposit Insurance Corporation (FDIC) funds, property, and employees by Robert E. Barnett, Chairman of the Board of Directors. FDIC's budget is not subject to congressional approval, and it has statutory authority to determine expenses to be paid. Findings/Conclusions: FDIC's travel regulations allow payment for an employee's spouse when this is determined to be in the corporation's best interest. Mr. Barnett's wife accompanied him on 7 of 40 trips he made as corporation chairman at corporation rather than Government expenses. Barnett did not itemize travel expenses according to regulations and he used corporation vehicles for some personal purposes. He did not receive salary advances nor special checks increasing his salary, but he did use the petty cash fund for both personal and corporate expenditures. The corporation paid for installing storm windows and door and window locks as security devices on Barnett's house and for his membership in a private tennis club. No substantiation was found for allegations that employee salary adjustments were related to work performed at the Barnett home or that corporation furniture or other items were taken by him for home use. Some of Mr. Barnett's actions were not clearly within the corporation's standards governing employee responsibilities and conduct. On leaving the corporation, he acknowledged that personal benefits of some expenditures outweighed corporation benefits, and he refunded \$1,667.30 of \$2,461.13 in petty cash expenses and later repaid the remainder of these expenses. Recommendations: The Controller of FDIC should strengthen internal controls and procedures that permit personal use of corporation funds and property to prevent future occurrences of this nature. (HTW)



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04275
Senator William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate

Dear Mr. Chairman:

In your letter of June 1, 1977, and in subsequent discussions with your office, you asked that we review alleged improprieties in the Federal Deposit Insurance Corporation's use of funds. The anonymous allegations were about the use of Corporation funds, property, and employees by Robert E. Barnett, Chairman of the Corporation's Board of Directors, from March 18, 1976, to May 31, 1977.

We reviewed available corporate documents and interviewed employees having direct knowledge of the circumstances surrounding the allegations---several allegations could be substantiated while others could not.

The Corporation does not receive funds appropriated by the Congress, nor is its budget subject to congressional approval. Its operations are financed by assessing insured banks and by investing its reserves in Government obligations. Since the Corporation has statutory authority to determine expenses to be paid (12 U.S.C. 1820(a)), several expenditures related to specific allegations were within the Corporation's authority although it would not have been allowable under most Government agencies' regulations.

For example, the Corporation's travel regulations allow payment for an employee's spouse when this is determined to be in the Corporation's best interest. Mrs. Barnett accompanied her husband on 7 of the 40 trips he made as Corporation Chairman. The Corporation also paid for installing storm windows and door and window locks as security devices on Mr. Barnett's house, and membership in a private tennis club for his use.

The Corporation has regulations covering employee responsibilities and conduct (12 C.F.R. 336.735) that require the maintenance of high standards of honesty, integrity, impartiality, and conduct by employees to assure the proper performance of Corporation business and to assure the maintenance of confidence by citizens in their Government.

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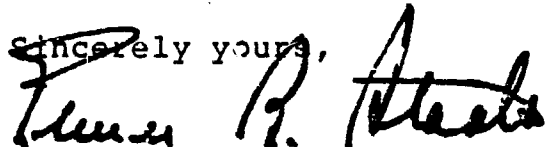
Although it was within the Corporation's authority to prescribe allowable expenses, we believe some of Mr. Barnett's actions are not clearly within the Corporation's standards governing employee responsibilities and conduct. For example, Mr. Barnett used Corporation vehicles for personal purposes on several occasions. He also used his petty cash fund for expenditures that had both personal and corporate purposes. On leaving the Corporation, Mr. Barnett acknowledged that the personal benefits of some expenditures outweighed Corporation benefits and he refunded \$1,667.30 of \$2,461.13 in total petty cash expenses. Later, during our audit, Mr. Barnett repaid the remainder of the petty cash expenses.

We discussed our findings with the Controller of the Corporation, and pointed out weaknesses in some internal controls and procedures that permitted the personal use of Corporation funds and property. We suggested that the controls be strengthened to prevent future occurrences of this nature. The Controller agreed that these controls would be examined and corrective action taken. We plan to review these actions during our audit of the Corporation's fiscal year 1977 financial statements.

The Corporation has the authority to approve all expenses that it believes are necessary. If the Congress wants to exercise some greater degree of oversight, changes in legislation should be considered. For example, although the Federal Home Loan Bank Board has the authority to approve necessary expenses, the Congress limits Federal Home Loan Bank Board expenditures by placing annual restrictions on the total amount spent for administrative expenses. This limitation is set as a result of annual congressional hearings during which detailed justifications describing proposed expenditures are provided to the Congress.

We have included the comments of the Corporation Controller and Mr. Barnett, where appropriate.

Sincerely yours,



Comptroller General
of the United States

Enclosure

ANSWERS TO QUESTIONS ON THE USE OF CORPORATION FUNDS,
PROPERTY, AND EMPLOYEES BY THE CHAIRMAN, BOARD OF
DIRECTORS, FEDERAL DEPOSIT INSURANCE CORPORATION

TRAVEL ALLEGATIONS

Did Mr. Barnett routinely take his wife
on world trips at Government expense?

Mr. Barnett did not routinely take his wife on world trips. When she accompanied him, it was at Corporation, not Government, expense. The Corporation's operations are financed by assessing insured banks and by investing reserves in Government obligations.

Corporation travel regulations issued in 1974 permit paying travel expenses for employees' spouses in some situations. Board members may decide when it is appropriate to take their spouses. Two examples were:

1. "Authorized attendance by Washington principals at certain national conventions where FDIC representatives and their husbands or wives are expected to be present.
2. "Authorized attendance by Washington principals at official meetings sponsored by the Corporation, including Regional or Liquidation Conferences, where the meeting or conference extends more than three days and the principal is required to be in attendance the entire time."

From March 18, 1976, through May 31, 1977, Mr. Barnett made 40 out-of-town trips. His wife accompanied him on seven of these trips: to Albany, New York; Oconomowoc, Wisconsin; San Juan, Puerto Rico (two trips); Manila, Philippines; Mexico City, Mexico; and Dallas, Texas. Total expenses claimed by Mr. Barnett for the seven trips were:

Transportation (note a)	\$3,829.92
Car rental	264.39
Lodging	1,098.90
Meals	687.00
Gratuities, taxis, miscellaneous	<u>229.00</u>
Total	<u>\$6,109.21</u>

a/Includes only \$234.92 for the Manila trip. The remaining \$4,808 for plane fare was paid by the Philippine Government.

Spouse travel is permitted by the Corporation's travel regulations, unlike most Government agencies that are subject to travel regulations issued by the General Services Administration.

Did Mr. Barnett inappropriately
use travel funds?

As Chairman, Mr. Barnett authorized and approved his travel expenses that were based on actual subsistence. We reviewed vouchers submitted by him for the 40 out-of-town trips, and found the typical voucher would show that he

- flew first class;
- attached the hotel bill (which included all charges incurred during his stay) to the voucher and listed the bill's total as his lodging expense;
- listed the term "meals" and claimed an even-dollar amount--no mention as to whether it was for breakfast, lunch, or dinner or the number of meals; and
- listed other expenses--gratuities, tips, and taxis--in total even-dollar amounts without specific details.

Under Corporation travel regulations beginning January 1, 1977, Mr. Barnett should have itemized his travel expenses on a special form submitted with his travel voucher. Mr. Barnett said he was unaware of this requirement; therefore, he filed for travel reimbursement under only general expense categories. The following is a sample voucher as submitted by Mr. Barnett:

Meals	\$78.00
Gratuities	24.00
Miscellaneous	<u>23.00</u>

Total claimed \$125.00

Did Mr. Barnett use Corporation
vehicles for personal purposes?

Mr. Barnett used Corporation vehicles for some personal purposes. These instances were identified by employees. Trip logs maintained by the Corporation did not show how the Chairman's vehicle was used or the purpose of trips made with other vehicles.

An employee informed us that on several occasions Mr. Barnett took a station wagon home over the weekend. This

employee did not know whether the vehicle was being used for official or personal reasons.

Corporation personnel identified the following instances when vehicles were used for personal purposes:

- Several times Mrs. Barnett was driven by the Chairman's vehicle to the doctor.
- Mrs. Barnett, her children, and another person were driven to the Hirshhorn Museum.
- On occasion, the Barnett children were picked up at home in a station wagon and driven to Rehoboth, Delaware, by an employee, who returned the station wagon to the Corporation garage.
- Surplus carpeting purchased by Mr. Barnett before he became Chairman was transported to his home in a station wagon, using a driver and two employees.

Using vehicles for personal purposes is contrary to the Corporation's regulations governing employee responsibilities and conduct. The subsection on use of Corporation property states:

"An employee shall not directly or indirectly use, or allow the use of, Corporation property of any kind, including property leased to the Corporation, for other than officially approved activities. An employee has a positive duty to protect and conserve Corporation property, including equipment, supplies, and other property entrusted or issued to him."

Mr. Barnett acknowledged using a station wagon on numerous weekends and during vacations to Delaware. He explained that the vehicle was used for official purposes and was taken only when the possibility existed for his return to the Corporation during a weekend or vacation. Because the Barnetts owned only one vehicle, Mr. Barnett did not want to leave his wife without transportation should he be called back to the office. He could not recall using the vehicles for his personal benefit.

SALARY AND OTHER FUND ALLEGATIONS

Did Mr. Barnett routinely receive salary advances?

Did Mr. Barnett receive special checks increasing his salary above statutory limitations?

Mr. Barnett did not receive salary advances, nor did he receive special checks increasing his salary above

statutory limits. He did receive his monthly salary in two payments, neither of which were in advance of earnings.

The Corporation made arrangements for Mr. Barnett's first salary payment to be paid on the 15th of the month. This payment was not a salary advance because it was less than actual earnings. He received the remaining balance of his monthly salary at the end of the month. Mr. Barnett said he preferred this method as opposed to a single monthly salary check.

Did Mr. Barnett receive special checks from the Corporation?

Mr. Barnett did not receive special checks from the Corporation; however, he did have access to other funds for corporate expenses.

The Corporation established a petty cash fund for Mr. Barnett to pay miscellaneous corporate expenses. While Chairman, he used the fund for \$2,461.13 of expenses all of which he later repaid to the Corporation. In a May 17, 1977, letter to the Controller, Mr. Barnett explained:

"Enclosed is a check for expenditures which I regard, after review, as both corporate and personal but perhaps more personal than corporate; these were funded through the petty cash fund provided for my office. Upon reflection, I have concluded that the payments represented by this check provided personal benefits to me as well as benefits to the Corporation, and I would feel better absorbing those costs myself."

The Controller believed that Mr. Barnett was repaying more than personal expenses. The Controller reviewed the petty cash documents and determined that \$793.83 of Mr. Barnett's reimbursement was for corporate expenses such as business luncheons. Therefore, the Controller accepted only \$1,667.30 from Mr. Barnett. The Controller then destroyed the documents specifying each individual expenditure. As a result, we could not verify the type of expenses incurred by Mr. Barnett.

In late July 1977 Mr. Barnett told the Controller that he wished to repay the \$793.83 of petty cash expenditures. The Controller, in an August 5, 1977, memorandum to the Corporation's cashier, stated:

"As you know, I authorized you to charge \$793.83 to the Corporation in the process of balancing and closing the Petty Cash account used by Chairman Barnett during his term. He then paid the Corporation the balance of the funds made available to that account in the amount of \$1,667.30.

"Mr. Barnett has now written to me to say that, notwithstanding my conclusion about the validity of the expenditures totaling \$793.83, he wishes also to repay the Corporation that amount. I believe this is unnecessary and that it finds him paying costs which were clearly undertaken as Corporation business. This is his decision, however, and so I am acquiescing."

On April 12, 1976, Mr. Barnett was advanced \$1,500 for travel expenses. He was not required to repay this advance as long as he traveled on a regular basis. He repaid the Corporation on June 13, 1977.

Mr. Barnett said that other than the funds mentioned he did not receive further compensation or special checks from the Corporation, nor did we find evidence of any further checks.

SUPPLIES AND EQUIPMENT ALLEGATIONS

Did the Corporation purchase and install locks and other security devices at the Barnett residence?

The Corporation spent \$1,379.95 in June and July 1976 to increase the Barnett home's security. To discuss what steps Mr. Barnett might take to buttress his and his family's safety and security, the Corporation arranged an April 1976 meeting with the Secret Service. At this meeting suggestions were made regarding

"* * * changes in regular travel routes, frequent assessment of the FDIC building security, additions to, corrections to, and installation of sophisticated security devices at the Barnett residence, and so on."

The Corporation's concern about security was explained as follows:

"At the time Chairman Barnett took office, there had been a wave of kidnappings of bank officers and other public figures (or their family members) who were held for ransom. The Corporation is a very wealthy organization and Chairman Barnett, properly sensitive about the welfare of his small children and wife, wanted to do what he could to remove them from threat in a home he had just purchased."

The Secret Service agent who met with Mr. Barnett said that he made no specific recommendations for increased security at the Barnett home. As a courtesy, he gave

Mr. Barnett general suggestions from the Secret Service's training division.

We believe that the security devices installed at the Barnett home were not sophisticated. Mr. Barnett described them as window and door locks and locking storm windows but said he would not have installed these devices had he not been Chairman. He added that bars were not installed on any basement windows because they would make his home look like a jail.

Did employees install carpeting and perform other work at the Barnett home on Corporation time and at the Corporation's expense?

Mr. Barnett had employees per and unroll (not install) surplus carpeting purchased from the Corporation. According to an employee, prior to becoming Chairman Mr. Barnett purchased some surplus Corporation carpeting for \$.50 per square yard. This employee and two others then put the carpeting in a Corporation station wagon and drove it to the Barnett home, where they moved some furniture and unrolled the carpeting.

In July 1976 a storm caused a tree limb to puncture the roof of Mr. Barnett's former home, that had been sold to a Corporation employee. Since the employee was away on a vacation, neighbors called Mr. Barnett who, in turn, called the insurance company. He was told that it would be a month before the company could take care of the damage; therefore, Mr. Barnett called the Corporation's Controller to see what could be done. The Controller said he had an employee remove the limb and temporarily cover the hole to prevent further damage. According to the Controller this would have been done for any Corporation employee.

Mr. Barnett recalled the purchase of some surplus carpeting after he came to the Corporation in 1970. He did not remember how the carpeting was transported to his home. He said an employee once helped in removing a house awning. Mr. Barnett added that a small porch was being constructed at his home by a Corporation employee. The materials were purchased with personal funds and the employee was performing the work on his own time, not Corporation time. Also, Mr. Barnett personally made a dollhouse for one of his children using the Corporation shop. Materials were brought from home and the work was done during his free time.

Did the supervisor of the employees who allegedly performed work on the Barnett home receive a \$1,000 bonus?

The individual alleged to have supervised Corporation employees working at the Barnett home received two recent salary increases and the 1976 Chairman's Award--which included a \$1,000 savings bond. There was no evidence indicating that either form of compensation was a bonus for work allegedly performed at the Barnett home.

The salary adjustments were approved by the Corporation in July 1976 and April 1977. These adjustments, which were recommended by the Controller, increased the individual's salary from GS-12 step 4 to step 6 and then from step 6 to step 8. In addition, this individual received a \$1,000 savings bond as the Corporation's recipient of the 1976 Chairman's Award.

Although two salary increases and a cash award in less than 1 year may seem unusual, we found no evidence that the award selection was based on anything other than exceptional performance of duty. Mr. Barnett said that this individual's selection for the Chairman's Award was not based on any work performed at the Barnett residence. According to Mr. Barnett, the salary increases were well deserved and reflected work performed for the Corporation.

Did Mr. Barnett take furniture or other items from the Corporation for home use?

Based on discussions with employees, we could not substantiate instances of Mr. Barnett taking Corporation furniture or other items for home use. We were told the last accountable property inventory showed no items missing from Mr. Barnett's office. At the time he left the Corporation Mr. Barnett purchased two Corporation paintings that hung in his office. He paid the Corporation the original purchase price for the paintings (\$550 each). He also had several items moved in his office in Washington, D.C.; including a large standup desk, some paintings, and packed boxes. All items were Mr. Barnett's personal property according to the employee who supervised the move. We verified that the desk belonged to him but we could not do so for the other items.

Mr. Barnett confirmed the purchase of the two paintings. He also stated that two end tables were taken home from the Corporation's executive dining room. The dining room was going to be refurbished and he wanted to see if his wife would like to purchase the tables when they became surplus property. He thought the tables were returned but said later that they were still stored in his garage. He returned the end tables to the Corporation after meeting with us.

Mr. Barnett also purchased a portrait photograph of himself that the Corporation displayed in its executive offices. Prior to leaving on June 1, 1977, he took the portrait to his home. In late July he paid the Corporation \$1,000, or \$52.99 less than the portrait's original cost.

OTHER ALLEGATIONS

Was the appointment of the Corporation's General Counsel contingent on his purchasing the Barnett home?

We found no evidence that the current Corporation General Counsel secured his appointment by agreeing to purchase Mr. Barnett's home. The General Counsel accepted his position in late March 1976. He looked at many homes in Washington before he decided to purchase the Barnett residence on April 9, 1976, for \$88,800.

When asked what influenced the decision, he stated that it was a good buy. Under Mr. Barnett's agreement with the real estate firm, no commission would be involved if the home was sold to certain named individuals. Since the General Counsel's name was among those listed in the agreement, the Counsel paid a lower price.

Mr. Barnett confirmed that there was no connection between this sale and the General Counsel's appointment. The General Counsel was named in the real estate agreement as a potential buyer because Mr. Barnett knew the Counsel would be looking for a home in Washington.

Did the Corporation purchase leather briefcases, silk ties, and scarves to be given as gifts?

Did every employee receive a silk tie?

During May and June 1977 the Corporation paid \$5,397.11 for 360 monogrammed silk ties and 261 scarves to be given as service mementos. As of July 19, 1977, 201 ties and 78 scarves had been presented to long-term or supervisory personnel. The assertion that each employee received a tie was not accurate.

We did not find that briefcases were purchased to be given as gifts. The Corporation, however, presented a \$520 painting to the Comptroller of the Currency upon his retirement in 1976.

Mr. Barnett did not recall buying or presenting any leather briefcases. Mr. Barnett gave a set of book ends

having the Corporation's insignia to a Philippine official during his January 1977 trip. After returning to the United States, Mr. Barnett sent books and other unspecified gifts to his hosts. The Corporation paid for these gifts but Mr. Barnett reimbursed \$156.17 for these expenses in late July 1977. He preferred " * * * to have no question raised about their validity."

Did the Corporation pay for Mr. Barnett's use of a private tennis court in Virginia?

Since the early 1970s the Corporation has paid for an indoor tennis club membership for its chairmen to provide a facility for regular exercise. When Chairman Barnett left office he took over the membership and reimbursed the Corporation for \$447.91 in fees it had advanced for the 1977-78 season.

Was the Corporation's building used by Mr. Barnett to hold a private party for viewing the July 4, 1976, fireworks display?

On July 4, 1976, when the Corporation building was officially closed to employees, Mr. Barnett held a private party to view the fireworks display from the cafeteria balcony. The cafeteria manager said no employees, food, or utensils were provided for the Barnett party.

During prior fireworks displays, the Corporation building was open for the use of employees and their guests to view the display from the cafeteria balcony. Because of the bicentennial, an unusually large number of employees expressed interest in using the building in July 1976. According to a Corporation employee, there was concern that too many people pressing against the balcony railing might be unsafe. Therefore, it was decided to keep the building closed on July 4, 1976.

In Mr. Barnett's opinion, a party was not held at the Corporation's building on July 4, 1976. He said he had a party at his home and that he took some children and others to the Corporation building to view the fireworks display. No refreshments were served. Although the building was officially closed, Mr. Barnett noticed other Corporation employees (building guards and maintenance personnel) viewing the fireworks display. He could not recall the names of these employees.

Did Mr. Barnett ask Corporation employees not to use the Hyatt Hotel chain?

The Corporation's Controller--not Mr. Barnett--instructed employees to avoid using the Hyatt Hotel chain as a result of Mr. Barnett's experience with the Hyatt Regency in San Francisco.

Upon arriving at the Hyatt Regency on Sunday, March 27, 1977, Mr. Barnett found that he had left Washington with one blank check and little cash. He asked that the hotel bill the Corporation for his room. A hotel official told Mr. Barnett this was contrary to policy; without established credit arrangements, Mr. Barnett would have to pay the first night's charges in advance. The following day the Controller asked the billing department to send the bill to the Corporation. He was told that it was hotel policy not to bill organizations for personal rooms.

On April 1, 1977, the Controller wrote to the president of the Hyatt Corporation and restated the problems encountered by Mr. Barnett. Then, in a memorandum to division and office heads, the Controller stated:

"As a matter of Corporation policy and to the extent possible in connection with Corporation-related business, please avoid the use of Hyatt hotel rooms, and Hyatt conference and other facilities henceforth."

Did Mr. Barnett borrow money from an employee and have him submit a claim for repayment from the Corporation?

During a January 1976 trip for the Corporation Mr. Barnett borrowed \$25 from an employee. When the employee requested repayment Mr. Barnett had him seek reimbursement from the Corporation. The employee did this on May 26, 1976. His voucher had the following statement:

"Neglected to claim expenses for Mr. Barnett, per his instructions, on previous voucher submitted (#668582)."

Mr. Barnett acknowledged that this incident occurred and said that the money was used for official corporate business. However, he agreed that the voucher should have been submitted by him and not the employee.