



POSITION PAPER

Lump Sum Entitlements versus Actual Expense Reimbursement in An Age of Scrutiny on Government Requirements and Technological Advancements

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1.0 Introduction

mLINQS, LLC presents the view that the Federal Government *should continue to emphasize the use of reimbursement of “actual” expenses to its employees rather than lump sums.*

This opinion is based on experience in government travel over the past fifteen years. During this time, we have seen a revolution of change in temporary duty travel (TDY) and the moderate change in relocation travel. In many respects, the current state of relocation automation is similar to the state of TDY in the late-1990's. Like former opinions of TDY, some believe that relocation may be 'too complex' to automate and 'too cumbersome' to administer, hence the main stream view that lump sums will provide a solution. This is incorrect, and, just as TDY was reinvented using technology to promote better accountability at a lower cost, relocation travel can undergo the same reinvention with equally impressive results.

2.0 Background

The General Services Administration (GSA) released a proposed rule to the Federal Travel Regulations (FTR) in November 2004 that stated “much of private industry uses lump sum relocation payments for all relocation expenses except real estate expenses. Thus, temporary quarters, miscellaneous expenses, and other payments have a small one-time administrative cost and do not need to be reconciled in a post-payment audit. The administrative savings and efficiency improvements of such systems are clear.” This opinion echoes changes from 1997, when the FTR was modified to allow “fixed” reimbursement as an option for house hunting trips and temporary quarters.

3.0 Why Not Lump Sum?

The proposed rule (excerpt above) provides two arguments in favor of adopting lump sum:

- Reduction of administrative costs, and
- Adherence to private industry practices.

The following subsections dissect each of these points and provide alternative views.

3.1 Reduction of Administrative Costs

The proposed rule states that lump sums will reduce administrative costs. This is certainly true for agencies where relocation processing is a manual process; however, if an agency has an automated relocation process, the administrative savings may not be worth the negative aspects of this approach (see Section 4.0).

There is a wide range of automation capabilities found in government agencies when it comes to relocation. In agencies where their relocation processing is the most advanced, the agencies use automated tools to create detailed authorizations and vouchers. These automated tools can enforce policy such as per diem rates, personal conveyance rates, and tax rates, while ensuring simple things like correct mathematical operations. Because the obligation document (i.e., authorization) is linked to the liquidation document (i.e., voucher), there is a reduction in rekeying data by administrative personnel.

Since most items are pre-approved in the authorization, agencies may investigate their capability of examining vouchers based solely on statistical sampling. As mentioned above, the automated tools ensure that per diem/ tax rates and mathematical operations are done correctly. This removes much of the auditor's work. Using this approach, the administrative savings may still be realized without resorting to lump sums.

Besides automated tools in the hands of agency personnel, agencies can utilize relocation service providers. These relocation service providers- with automated tools of their own- can provide the same services stated above at market driven prices.

3.2 Adherence to Private Industry Practices

The proposed rule also references that private industry uses lump sum in large measure. Unlike most private industry corporations, the Federal Government moves massive numbers of employees, possibly over 40,000 per year in civilian agencies. Because of these large numbers, the civilian government codifies its practices in Chapter 302 of the FTR, as well as defines travel system requirements in JFMIP SR-99. This succinct documentation provides agencies and interested industry partners with the requirements to build automated products. Once built, the products can be marketed to multiple agency customers. With well over twenty large government agencies, the market is large enough to support several vendors; this enables the government to receive products at competitive prices.

The same cannot be true for an application built for a typical corporation. For example, if General Motors (GM) published its relocation policy guide for industry to build an automated product, industry would not invest in building a comprehensive detailed product specifically for GM. This is because the same product could not be easily marketed as a “shrink wrap” application for resale to other corporations. Because of this, most automated tools for corporate customers are more generic in nature, so that “one size can fit all”. This more general approach leads corporations to use lump sums since automated tools cannot handle their specific rules.

4.0 The Downside to Lump Sum

The discussion above (Section 3) disputes the premises for lump sum transactions, and there are other reasons that lump sums may be inadvisable for the Federal Government. Some reasons are:

- Potential to overpay or underpay
- Lost accountability
- Lost data for vendor negotiation.

4.1 Potential to Overpay or Underpay

When an employee elects to accept a Lump Sum payment, one of two outcomes inevitably occurs: (1) the employee is overpaid, or (2) the employee is underpaid. In the first situation, where the employee is overpaid, the government has reimbursed the employee more than the actual expenses incurred. In this case, unless the perceived administrative savings equal the overage, the taxpayers have been inadvertently overcharged by the government employee for the move. We would stop short of calling this an abuse of taxpayer funds; however, repeated and systematic reimbursements of this kind would not be tolerated if they were revealed by audit.

In the other outcome, the employee has received a lump sum and, due to unforeseen circumstances, incurs expenses that exceed the lump sum. This outcome may lead to extreme hardship for the employee. There is also the danger that the employee, after being advised of their future lump sum entitlement, may use his or her charge card improperly and incur debt that cannot be repaid.

4.2 Lost Accountability

The Federal Government spends billions each year relocating employees. An accurate amount is not known because there is no governmentwide data warehouse. Because of this fact, congressional pressure has demanded that agencies develop better methods to collect accurate data.

Lump sum transactions, by their very nature, will not assist this process; a lump sum transaction will reveal very little data to the government other than the employee’s name and the amount of the reimbursement. Detailed data, on the other hand, will assist government in assessing whether employees are complying with regulations and identify areas for further process improvement.

4.3 Lost Data for Vendor Negotiation

One of the principal reasons to collect detailed data about employee relocations is to gather vendor data. In this multi-billion dollar government relocation market, this data would reveal which vendors are providing the services. The government, in turn, could use this data to improve its overall process in many ways, such as:

- negotiate better deals with vendors so overall cost is reduced
- understand the demographics of vendors so the government can encourage small business participation where appropriate, and
- establish direct payment relationships with some vendors so overall cost is reduced due to vendor discounts and reduced administrative handling.

5.0 Recommendation

We applaud the Federal Government's efforts to streamline government relocation processes and simplify regulations. Our position is that the government should emphasize reimbursements based on actual expenditures, rather than based on lump sums. This is because technology exists that can automate enforcement of government regulations thereby reducing administrative costs. This approach will also provide the government with better accountability of its relocation reimbursements and better data for reporting and vendor negotiations.

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