
Office of Inspector General

Audit Report

ACTIONS NEEDED TO ENHANCE CONTROLS OVER TRAVEL CARDS

Department of Transportation

Report Number: FI-2014-129

Date Issued: September 18, 2014





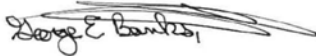
Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **INFORMATION**: Actions Needed To Enhance
Controls Over Travel Cards
Department of Transportation
Report Number FI-2014-129

Date: September 18, 2014

 for
From: Louis C. King
Assistant Inspector General for Financial and
Information Technology Audits

Reply to
Attn. of: JA-20

To: Assistant Secretary for Budget and Programs/Chief Financial Officer
Federal Aviation Administrator

In fiscal year 2012, Department of Transportation (DOT) employees spent \$175 million using Government-issued travel cards. DOT issues travel cards to its employees to pay expenses related to Government travel including transportation, hotel and meal costs. Cash may be used as a secondary payment method.¹ DOT considers use of the cards for anything other than official Government travel to be misuse or abuse.² In prior audits,³ we identified instances of DOT employees' abuse and misuse of their travel cards, including purchases for personal use, excessive cash advances,⁴ and late payments.

The Government Charge Card Abuse Prevention Act of 2012⁵ requires the Office of Inspector General (OIG) to perform periodic audits or reviews of travel card programs. Accordingly, our audit objective was to determine whether DOT's internal controls were properly designed and implemented to prevent and detect travel card abuse or misuse.

¹ DOT cardholders must use their travel cards for all expenses related to Government travel, wherever accepted, unless specifically exempted by Federal Travel regulations.

² DOT defines travel card misuse as a cardholder's unintended use of a travel card for transactions unrelated to Government travel. In this report, we refer to travel card purchases as misuse when we were unable to determine the cardholder's actual intent. We identified travel card abuse occurred when the cardholder collected a cash advance using the card and a personal identification number.

³ *Audit of Use of Government Travel Charge Cards, DOT* (OIG Report Number FI-2003-049) Aug. 28, 2003; *Follow-Up Audit on DOT Government Travel Card Delinquencies and Charge-Offs* (OIG Report Number SC-2004-067) June 29, 2004. OIG reports are available on our Web site: www.oig.dot.gov.

⁴ In general, a cash advance that exceeds the daily meals and incidentals expense (M&IE) rates multiplied by the length (in days) of the trip.

⁵ Public Law 112-194 (2012).

We conducted this audit in accordance with generally accepted Government auditing standards. As part of our work, we selected 2 samples—a statistical sample of 400 cash advances from a universe of 48,554 transactions and a sample of 400 purchases from a universe of 890,132 transactions. These samples allowed us to project the total amount of cash advances and purchases, taken or made during fiscal year 2012 that were not related to Government travel. We also tested for excessive cash advances, and due to inherent high risk, we expanded our review to include all 218 cash advances taken at casinos during fiscal year 2012. Exhibit A details our scope and methodology.

RESULTS IN BRIEF

DOT has effective controls to prevent cardholders from making purchases at businesses that do not provide transportation, lodging or meals and to minimize delinquent cardholder accounts. However, excessive or unauthorized cash advances and instances of travel card misuse are going undetected because DOT lacks robust internal controls to prevent these transactions. Specifically, while DOT's Travel Card Policy prohibits such misuse, it does not specifically require program officials to monitor for excessive cash advances, which increase the risk that cash advances are used for non-Government travel expenses. Out of the 400 cardholder cash advance transactions we tested, 24 were excessive, and none were detected by program officials. Program officials also did not detect all unauthorized cash advances that DOT employees collected while not on Government travel because they lack an effective process for reviewing transactions for potential abuse. Program officials have access to an effective screening tool from the travel card provider; however, they do not use it because DOT's Travel Management Policy does not require them to do so. As a result, we estimate that program officials did not detect that cardholders collected \$ 183,000⁶ in cash advances unrelated to Government travel during fiscal year 2012. Finally, DOT also lacks an automated control to help program officials identify non-Government travel purchases. From our sample of 400 purchases, program officials did not detect 8 unauthorized purchases. As a result, we estimate that program officials did not detect that cardholders made purchases worth an estimated \$2.1 million⁷ who were not on Government travel during fiscal year 2012.

We are making recommendations to strengthen controls and reduce program costs in DOT's travel card program.

⁶ We estimate with 90-percent confidence that DOT officials did not detect the cash advances collected by cardholders not on Government travel totaled \$ 183,000 (2.3 percent of the universe). Our 90-percent confidence limits range from \$ 41,000 to \$ 324,000 and have a margin of error of +/- 1.8 percent.

⁷ We estimate with 90-percent confidence that DOT officials did not detect the purchases made by cardholders not on Government travel totaled \$2.1 million (2.0 percent of the universe). Our 90-percent confidence limits range from \$796,000 to \$3.3 million and have a margin of error of +/-1.2 percent.

BACKGROUND

The Office of Management and Budget's (OMB) Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, dated January 15, 2009, prescribes policies and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and error in Government charge card programs. It also requires each agency to develop and maintain written policies and procedures consistent with the Circular's requirements.

All Operating Administrations follow DOT's Financial Management Travel Card Management Policy. The policy outlines the use of reports to track delinquencies and establishes risk management controls and practices, and prescribes disciplinary action for travel card abuse and misuse. Agency program coordinators (APC) at each Operating Administration serve as points of contact for cardholders and are responsible for ensuring proper use of travel cards in accordance with policy.

DOT used the General Services Administration's (GSA) SmartPay® Program to select a travel card provider.⁸ JP Morgan Chase, the current provider, issues travel cards to DOT employees to pay for travel expenses related to Government travel (airline, hotels, meals, incidentals). During fiscal year 2012, DOT cardholders made 1.2 million purchases using their travel cards. These cardholders are responsible for all charges on their travel cards and for remitting payments on time. JP Morgan Chase provides reports which assist APCs in identifying travel card delinquencies, unauthorized cash advances and purchases.

PROGRAM OFFICIALS DID NOT DETECT ALL TRAVEL CARD ABUSE AND MISUSE

DOT has implemented effective controls to block purchases at merchants that do not provide travel services⁹ and to ensure delinquent cardholder accounts are held to a minimum. However, DOT lacks a robust system of internal controls to detect instances of travel card abuse and misuse, such as excessive cash advances, cash advances taken while not on government travel, and purchase misuse.

Program Officials Did Not Detect Excessive Cash Advances

Program officials did not detect excessive cash advances obtained by Agency cardholders. As a general rule, DOT's Travel Card Policy limits cash advances for a single trip to the total amount needed for meals and incidental expenses

⁸ The GSA SmartPay® program provides charge cards to U.S. Government agencies/departments through master contracts that are negotiated with major national banks.

⁹ Transportation, Lodging, and Meals.

(M&IE).¹⁰ Also, DOT policy requires travelers to use their cards for all expenses related to official travel wherever accepted, unless otherwise exempted. However, the policy does not require program officials to review travel claims for excessive cardholder cash advances. We found that 24 of 400 tested cardholder cash advance transactions were excessive. For example:

- A Federal Aviation Administration (FAA) cardholder traveled to Houston, Texas, for 3 days and withdrew a \$301 cash advance on the last day of the trip at an automated teller machine located 40 miles from his residence. This advance exceeded the maximum M&IE allowance by \$123. In addition, the authorized M&IE allowance for the last travel day was only \$53.
- Another FAA cardholder traveled to Atlanta, GA, for 4 days and withdrew a \$403 cash advance, which exceeded the maximum M&IE allowance by \$151. In addition, the traveler should have considered the widespread acceptance of the card at restaurants before collecting this advance amount. He used the card to purchase \$227 of meals during this trip which reduced his actual need for cash to no more than \$25 (the maximum MI&E allowance of \$252 less the amount of meals purchased of \$227 is \$25).

Excessive cash advances reduce the amount of rebates DOT receives from the credit card vendor for purchases because cardholders are using cash rather than their Government credit cards for purchases. Also, the lack of controls for detecting excessive cash advances also increases the risk that cash advances are used for expenses unrelated to Government travel.

DOT Officials Did Not Detect All Cash Advances Taken While Not On Government Travel

Program officials did not detect all cash advances that DOT employees obtained when not on Government travel,¹¹ which is prohibited by DOT's Travel Card Policy. DOT had more than 48,000 cash advance transactions during fiscal year 2012. We estimate that cardholders collected \$ 183,000 in cash advances unrelated to Government travel that were not detected by program officials. Of the 400 cash advances¹² that we sampled, program officials did not detect 6 advances obtained by employees who were not on Government travel.

¹⁰ Cardholders should use limited travel card cash withdrawals as a secondary form of payment.

¹¹ Cardholders are allowed to collect advances up to three days prior to Government travel.

¹² Nine of 400 Cash Advances we sampled were made by DOT employees not on Government travel. Program Officials identified three of the nine.

FAA and FRA Program Officials Did Not Use an Effective Exception Report To Help Detect Potential Cash Advance Abuse or Misuse

One reason that prohibited cash advances went undetected is that FAA and Federal Railroad Administration (FRA) program officials lack an effective process for reviewing transactions for potential abuse. Although JP Morgan provided program officials with an effective exception report (VISA Intellilink) to help detect potential cash advance abuse or misuse, they do not use it because DOT's Travel Management Policy does not require them to do so. Instead, they reviewed transactions from a monthly account transaction report¹³ and compared the transaction dates to cardholder travel dates indicated in the GovTrip¹⁴ system. This manual process is both labor intensive and ineffective.

We tested a random sample of 400 FAA cardholder cash advance transactions from the VISA Intellilink report and determined 83 cash advances were collected by cardholders who were not on Government travel. Using FAA's manual process, officials only identified 20 of the 83 transactions. Examples from the 63 transactions missed by FAA include the following:

- Between October 2011 and June 2012, an FAA cardholder collected seven cash advances totaling \$719 while not on Government travel. On one occasion, this employee obtained a \$104 cash advance on a race day at an Alabama Superspeedway.
- Between February and August 2012, another FAA cardholder collected five cash advances totaling over \$1,400 while not on Government travel.¹⁵

We also reviewed all 17 FRA cash advance transactions in the fiscal year 2012 report and found 12 were collected by cardholders that were not on Government travel. FRA APCs did not detect these 12 unauthorized cash advances.

FAA and OIG Program Officials Did Not Detect Cash Advances Taken at Casinos While Not on Government Travel

While reviewing cash advance transactions, we identified cash advances collected at casinos. While DOT's Travel Card Policy does not preclude cardholders from taking cash advances at casinos, this presents another opportunity for abuse to occur. As a result, we expanded our review to test all cash advances taken at casinos. We found 27 of 218 cash advances taken at casinos were made by cardholders not on Government travel. Program officials did not detect 17 of these advances—15 by FAA employees and 2 by a former OIG employee. Several of

¹³ FAA states that it compares 100 percent of its transactions to the monthly account transaction report; FRA states it samples transactions.

¹⁴ GovTrip is a Web based travel claims service operated under contract with Northrop Grumman Mission Systems.

¹⁵ The cash advances for these two examples were repaid by the employees.

these cardholders collected multiple unauthorized cash advances. For example program officials did not identify the following travel card abuses:

- An FAA employee who was not on Government travel visited a casino in Shawnee, OK, and collected three cash advances totaling \$492 from his Government-issued travel card.
- A former OIG employee collected two cash advances totaling \$488, more than 2 years after separating from the Agency. DOT's Financial Management Travel Card Management Policy requires that travel card accounts be closed when an employee leaves the department.¹⁶

After communicating this finding, OIG management implemented additional measures to close travel card accounts for employees by their separation date, and it now reviews reports of cardholders accounts on a monthly basis to ensure only current employees have accounts.

Program Monitoring Did Not Detect all Instances of Purchase Misuse

Program officials did not identify all instances of purchase misuse. While DOT has effective internal controls to prevent cardholders from making purchases at non-travel related businesses, it lacks an automated control to help program officials identify when cardholders are making purchases while not on Government travel, which is prohibited by DOT's Travel Card Policy. Eight of the 400 fiscal year 2012 cardholder purchases we tested were made by employees who were not on Government travel and were not detected by program officials, which we estimate totaled \$2.1 million. For example:

- A Federal Motor Carrier Safety Administration employee made a \$550 purchase at a recreational vehicle resort in Tampa, FL.
- An FAA employee made a \$97 supermarket purchase at a store located 18 miles from her residence.

Because DOT lacks an automated control, program officials must manually compare cardholder purchases to cardholder reimbursement claims to identify unauthorized purchases. This labor intensive process is both costly and ineffective. To illustrate, FAA spent \$684,000¹⁷ to review the propriety of almost 1,014,000 travel card transactions during fiscal year 2012.

¹⁶ These cash advances were repaid by the FAA and former OIG employees. The former OIG employee's travel card account has been closed.

¹⁷ The amount spent by FAA is an OIG calculation of FAA data.

CONCLUSION

Travel cards improve cash management and reduce administrative workloads. While DOT has successfully implemented controls to prevent cardholders from making purchases at businesses that do not provide travel-related services, cash advance abuse and purchase card misuse still go undetected. Strong internal controls must be in place to protect this high volume of transactions from fraud, waste, and abuse. Until DOT takes the necessary actions to further strengthen controls, it will be unable to more effectively detect travel card misuse.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Budget and Programs/Chief Financial Officer:

1. Develop and implement controls to detect employees obtaining excessive cash advances.
2. Provide program officials with quarterly Intellilink reports to help identify cardholder cash advances taken while not on Government travel and develop other cost-beneficial methods to detect unauthorized cash advances.
3. Develop and implement automated controls to detect unauthorized cash advances and purchases.

We recommend that the FAA's Assistant Administrator for Finance and Management:

4. Work with the Department to implement an automated solution, which reduces the costs associated with the labor-intensive process of comparing cardholder travel card activity to travel claims.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided the Office of the Secretary with our draft report on July 29, 2014, and received written comments on August 19, 2014. The complete response is included as an appendix to this report. In addition, we contacted the Office of the Secretary to obtain further clarification on the Department's response. Except for recommendation 2, the Department agreed to implement all of our recommendations as stated. For recommendation 2, the Department will implement as stated only for FAA. For other Operating Administrations, the Department indicated that it has put procedures in place to review all cash advances to ensure they are not excessive and taken only while on official travel.

We consider the Department's plan to review all cash advances for the other Operating Administrations to be practical and an acceptable alternative to using the Intellilink report. Accordingly, we consider all recommendations resolved but open pending completion.

We appreciate the courtesies and cooperation of Department of Transportation representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1407 or George Banks, Program Director, at (410) 962-1729.

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cc: FAA Assistant Administrator for Finance and Management
DOT Audit Liaison, M-1
FAA Audit Liaison, AAE-100

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this audit between November 2012 and July 2014 in accordance with generally accepted Government auditing standards. Those 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.

Our audit objective was to determine whether DOT's internal controls were properly designed and implemented to prevent and detect travel card abuse or misuse. We interviewed the National Program Coordinator and APCs concerning departmental controls for preventing and detecting travel card misuse and abuse. We asked questions about policies and procedures designed to reduce the risk of abuse in the travel card program.

We tested the effectiveness of DOT's controls by reviewing travel card transactions made between October 1, 2011 and September 30, 2012. Specifically, we determined whether DOT (1) prevented employees from making purchases at merchants that do not provide transportation services, lodging or food, (2) detected and minimized delinquent cardholder accounts, (3) detected excessive cash advances, (4) detected unauthorized cash advances, including using a commercially available software program designed to identify potential cash advance abuse, and (5) detected unauthorized purchases.

We also reviewed the completeness of the DOT's electronic control to prevent employees from making purchases at vendors that do not provide food, lodging or transportation. Also, we reviewed the effectiveness of DOT's actions to reduce delinquent accounts.

Our statistical sample testing of cash advances and purchases was based upon files received from JP Morgan Chase, the issuer of the travel cards during our sample period.

To conduct our work, we compared the 400 cash advances received by the employee during a Government trip to the total authorized per diem amounts in the GovTrip to identify excessive employee cash advances. We also compared the transactions in the fiscal year 2012 travel card transaction file to the employee's paper travel voucher or electronic travel voucher (GovTrip) to identify employees collecting cash advances and making purchases while not on Government travel.

To test for cash advance misuse and abuse, we restricted the file to include only manual and automated cash advances collected by cardholders in fiscal year 2012

resulting in a universe file of 48,554 transactions that totaled \$7.9 million. We selected a simple random sample of 400 transactions that totaled \$64 thousand to project the amount of cash advances collected by employees that were unrelated to Government travel. In addition, we tested a random sample of 400 cash advance transactions out of 2,758 from the FAA Intellilink report and all cash advance transactions from the FRA Intellilink report to determine the number of cardholders who were not on Government travel. We also tested all cash advances which were taken at casinos by cardholders to determine the number of cardholders who were not on Government travel.

To test for purchase abuse, we excluded all payments, write-offs, or refunds. We also excluded all airline related charges and fees and travel agent charges and fees. The resulting file included a universe of 890,132 transactions that totaled \$104 million. We selected stratified probability proportional to size sample with replacement where the size was the transaction amount of 400 transactions that totaled \$506 thousand to project the amount of employee purchases unrelated to Government travel.

EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

<u>Name</u>	<u>Title</u>
George Banks	Program Director
Mark Rielly	Project Manager
Brian Frist	Senior Analyst
Gary Fishbein	Senior Auditor
Scott Williams	Auditor
Megha Joshipura	Statistician
Andrea Nossaman	Writer-Editor

APPENDIX. AGENCY COMMENTS




**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

1200 New Jersey Avenue,
SE Washington, DC 20590

August 19, 2014

Subject: **INFORMATION:** Management Comments to
OIG Draft Report on DOT's Travel Card Program

From: 
Sylvia I. Garcia
Chief Financial Officer
and Assistant Secretary for Budget and Programs

To: Louis C. King
Assistant Inspector General for Financial
and Information Technology Audits

The Department of Transportation (DOT) issues travel cards to employees as a convenience for charging official travel related expenses – including transportation, hotel, and meal costs. Instances of travel card use while not on official travel are against policy. When employees receive their monthly travel card bill, expenses are the personal financial responsibility of the individual cardholder. Fortunately, DOT employees have a good record of fully paying their charges and remitting these payments timely. As noted by the Office of Inspector General (OIG) in their report, DOT cardholders made over 1.2 million transactions in FY 2012. DOT monitoring of these transactions assisted in achieving a delinquency rate of only 0.38 percent for FY 2012. This is significantly below the Office of Management and Budget's target delinquency rate of 2.00 percent. In addition to oversight of employee travel card payments, the Department has implemented a series of internal controls that reduce the risk of travel card use for other than official travel.

- DOT Agency/Organization Program Coordinators (A/OPCs), using existing guidance and procedures, actively monitor the travel activity and credit limits of all cardholders to ensure that cardholder credit and cash limits are restricted during periods of inactivity and that cardholder credit balances are paid on time.
- All non-FAA cash withdrawals are now being reviewed by the DOT A/OPCs on a monthly basis to ensure that they are not excessive and only taken while on official travel.
- DOT uses Merchant Category Code restrictions to prevent cardholders from making purchases at businesses that do not provide transportation, lodging or meals. Further, we intend to examine how expanding the use of these code restrictions might better ensure compliance with our travel card policies.

Appendix. Agency Comments

- The Department is committed to using technology to the maximum extent possible to reduce risk in this program. In fact, DOT is in the process of procuring a new e-Travel system which will facilitate the automation of some of the labor intensive processes required to monitor the travel card program and strengthen internal controls. The system will be rolled out across all Operating Administrations between February and August of 2015.

Based upon our review of the draft report, we agree to implement each of the OIG recommendations. Recommendations 1 and 2 will be implemented by December 31, 2014. Recommendations 3 and 4 will be implemented by August 31, 2015.

We appreciate this opportunity to offer an additional perspective on the OIG draft report. Our point-of-contact regarding this program is Arnie Linares, DOT's National Travel Card Program Coordinator. He may be reached at (202) 366-0520 with any questions or if the OIG would like to obtain additional details about these comments.