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TRAVEL CARDS

Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse

Statement of Gregory D. Kutz
Director, Financial Management and Assurance

John J. Ryan
Assistant Director, Office of Special Investigations

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Mr. Chairman, Members of the Subcommittee, and Senator Grassley:

Thank you for the opportunity to discuss the Department of the Navy's (including the United States Marine Corps) internal controls over the government travel card program. This subcommittee held a hearing in May 2001 that identified substantial delinquencies and charge-offs related to the Department of Defense (DOD) travel card. As a result of your hearing and our work on internal control over purchase card transactions at two Navy sites,[1] and continuing concern about fraud, waste, and abuse in DOD's use of both travel and purchase cards, you requested more comprehensive audits of both programs. We previously testified on the Army travel card program in July 2002.[2] This written statement discusses the results of our Navy travel card program audit. We plan to follow up on this testimony and issue a detailed report with recommendations on the results of our audit. We will report to you separately on the results of our Air Force travel card audit.

The intent of the travel card program, which is administered by a contractor (Bank of America), was to improve convenience for the traveler and to reduce the government's costs of administering travel. During fiscal year 2001, the Navy had about $510 million in travel card charges and about 395,000 individually billed travel card accounts at the end of fiscal year 2001.[3] The individually billed travel card program is significantly different from the purchase card program in that cardholders are directly responsible for all charges incurred on their travel cards and the monthly bill is sent to the cardholder for payment. The cardholder is responsible for submitting a properly documented voucher and is reimbursed by the Navy for all valid expenses related to official

[1]U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-01-995T (Washington, D.C.: July 30, 2001); *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-02-32 (Washington, D.C.: Nov. 30, 2001); and q*Purchase Cards: Continued Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-02-506T (Washington, D.C.: Mar. 13, 2002).

[2]U.S. General Accounting Office, *Travel Cards: Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse*, GAO-02-863T (Washington, D.C.: July 17, 2002).

[3]The travel card program includes both individually billed accounts—that is, accounts held by and paid by individual cardholders based on reimbursement of expenses incurred while on official government travel—and centrally billed accounts that are used to purchase transportation or for the travel expenses of a unit and are paid directly by the government. This testimony covers transactions charged to individually billed accounts only.

government travel. In contrast, all purchase card charges are billed directly to the government for monthly payment.

Today, I will provide my perspective on (1) the reported magnitude and impact of delinquent and charged-off Navy travel card accounts for fiscal year 2001 and the first 6 months of fiscal year 2002, along with an analysis of related causes, (2) potentially fraudulent and abusive activity related to the Navy travel card during the same period, (3) whether abusive activity associated with the travel card is effectively linked to disciplinary actions and security clearances, (4) the effectiveness of the overall control environment and key internal controls for the Navy's travel program, and (5) the status of DOD and Navy corrective actions. Details on our scope and methodology are included in appendix I.

In summary, the Navy's average delinquency rate of about 12 percent over the last 2 years is nearly identical to the Army's, which has the highest delinquency rate in DOD, and about 6 percentage points higher than that of federal civilian agencies. The Navy's overall delinquency and charge-off problems, which have cost the Navy millions in lost rebates and higher fees, are primarily associated with lower-paid, enlisted military personnel. In addition, lack of management emphasis and oversight has resulted in management failure to promptly detect and address instances of potentially fraudulent and abusive activities related to the travel card program. For example, during fiscal year 2001 and the first 6 months of fiscal year 2002, over 250 Navy personnel might have committed bank fraud by writing three or more nonsufficient fund (NSF) checks to Bank of America, while many others abused the travel card program by failing to pay Bank of America charges and/or using the card for inappropriate transactions such as for prostitution and gambling. However, because Navy management was often not aware of these activities, disciplinary actions were not consistently taken against these cardholders. We also found a significant relationship between travel card fraud, abuse, and delinquencies and individuals with substantial credit history problems. For example, many cardholders whose accounts were charged off or put in salary offset[4] had bankruptcies and accounts placed in collection prior to receiving the card. The Navy's practice of authorizing a travel card to be issued to virtually anyone who asked for it compounded an already existing problem by giving those with a history of bad financial

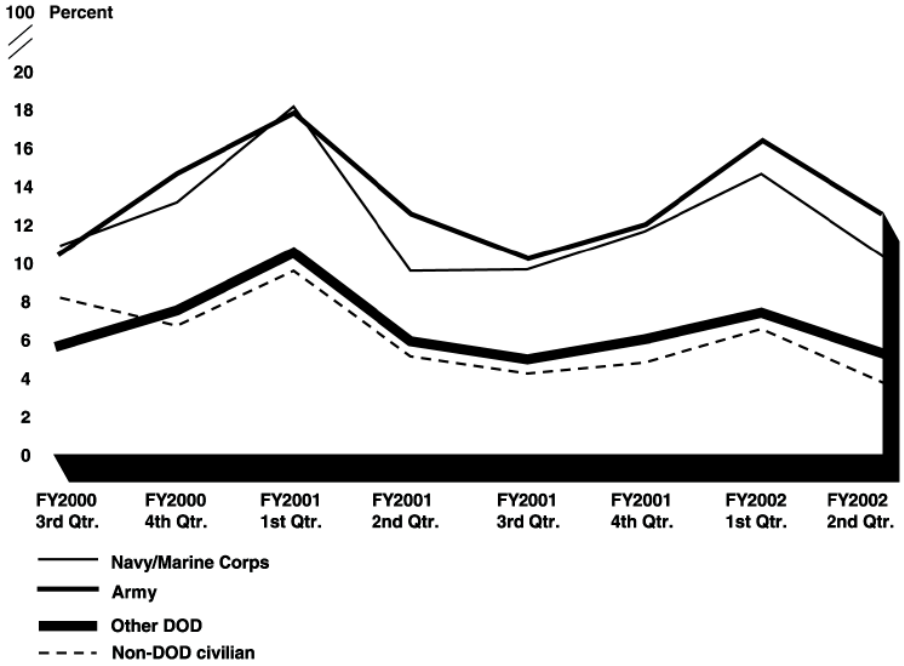
[4]This program, similar to a garnishment, allows DOD to collect amounts owed by payroll deduction.

management additional credit. While we found that Navy management had taken some corrective actions to address delinquencies and misuse, additional preventive solutions are necessary if Navy is to effectively address these issues.

Travel Card Delinquencies and Charge-offs

Most Navy cardholders properly used their travel cards and paid amounts owed to Bank of America in a timely manner. However, as shown in figure 1, the Navy's average delinquency rate was nearly identical to the Army's, which, as we have previously testified, is the highest delinquency rate in the government. The Navy's quarterly delinquency rate fluctuated from 10 to 18 percent, and on average was about 6 percentage points higher than that of federal civilian agencies. As of March 31, 2002, over 8,400 Navy cardholders had $6 million in delinquent debt.

Figure 1: Navy/Marine Corps v. Army, Other DOD, and Non-DOD Civilian Agencies' Travel Card Delinquency Rates for the 2 Year Period Ending March 31, 2002



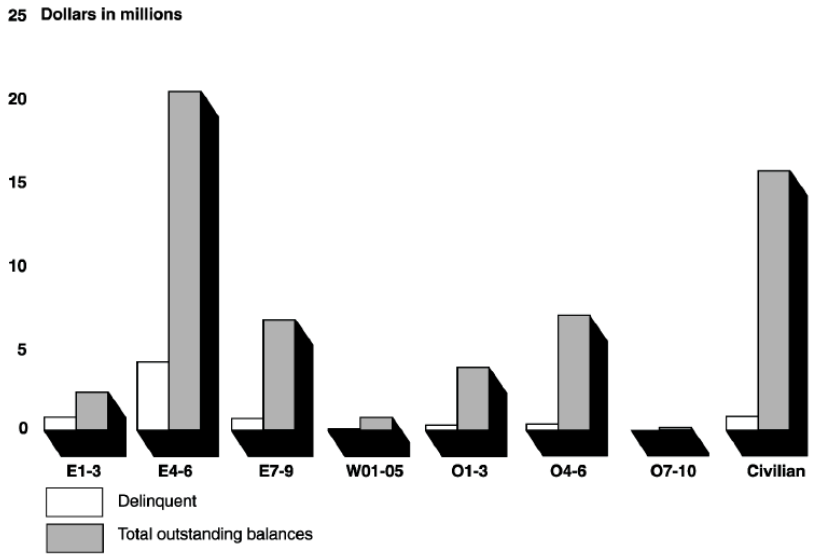
Source: Bank of America and General Services Administration data.

We also found substantial charge-offs of Navy travel card accounts. Since the inception of the travel charge card task order between DOD and Bank of America on November 30, 1998, Bank of America has charged off over 13,800 Navy travel card accounts with $16.6 million of bad debt. Recent task order modifications allow Bank of America to institute a salary offset against DOD military personnel members whose travel card accounts were previously charged off or are more than 120 days past due. As a result, as of July 31, 2002, Bank of America had recovered $5.2 million in Navy government travel card bad debts. The high level of delinquencies and charge-offs have also cost the Navy millions of dollars in lost rebates, higher fees, and substantial resources spent pursuing and collecting past due accounts. For example, we estimate that in fiscal year 2001, delinquencies and charge-offs cost the Navy $1.5 million in lost rebates,

and will cost about $1.3 million in increased automated teller machines (ATM) fees[5] annually.

As shown in figure 2, the travel cardholder's rank or grade[6] (and associated pay) is a strong predictor of delinquency problems. We found that the Navy's overall delinquency and charge-off problems are primarily associated with young, low- and mid-level enlisted military personnel with basic pay levels ranging from $12,000 to $27,000.

Figure 2: Navy Delinquent and Total Outstanding Travel Card Balances for Military and Civilian Employees as of September 30, 2001



Source: GAO analysis of Bank of America data.

According to Navy officials, low- and mid-level enlisted military personnel comprise the bulk of the operational forces and are generally young, often deployed, and have limited financial experience and resources. It is therefore not surprising to see a higher level of outstanding balances and delinquent amounts due for these personnel. Figure 2 also shows that, in

[5]For each cash withdrawal at ATMs, cardholders are charged a fee of a set amount or percentage of the amount of the withdrawal.

[6]A more detailed explanation of each of these grades along with their associated basic pay rates is provided in appendix II.

contrast, the delinquency rate for civilians employed by the Navy is substantially lower. As of September 30, 2001, the delinquency rate of low- and mid-level enlisted personnel was almost 22 percent, compared to a Navy civilian rate of slightly more than 5 percent. This rate is comparable to the non-DOD civilian delinquency rate of 5 percent.

The case study sites we audited exhibited this pattern. For example, at Camp Lejeune, a principal training location for Marine air and ground forces, over one-half of the cardholders are enlisted personnel. Representative of the Navy's higher delinquency rate, Camp Lejeune's quarterly delinquency rate for the 18-month period ending March 31, 2002, averaged over 15 percent and was close to 10 percent as of March 31, 2002. In contrast, at Puget Sound Navy Shipyard, where the mission is to repair and modernize Navy ships, civilian personnel earning more than $38,000 a year made up 84 percent of total government travel card holders and accounted for 86 percent of total fiscal year 2001 travel card transactions. This site's delinquency rate had declined to below 5 percent as of March 31, 2002.

In combination with these demographic factors, a weak overall control environment, flawed policies and procedures, and a lack of adherence to valid policies and procedures contributed to the significant delinquencies and charge-offs. Further discussion of these breakdowns is provided later in this testimony.

Potentially Fraudulent and Abusive Travel Card Activity

Our work identified numerous instances of potentially fraudulent[7] and abusive activity[8] related to the travel card. During fiscal year 2001 and the first 6 months of fiscal year 2002, over 5,100 Navy employees wrote at least one nonsufficient fund (NSF), or "bounced" check, to Bank of America as payment for their travel card bills. Of these, over 250[9] wrote 3 or more NSF checks, a potentially fraudulent act.[10] Appendix III provides a table summarizing 10 examples, along with more detailed descriptions of selected cases in which cardholders might have committed fraud by writing 3 or more NSF checks to Bank of America. These 10 accounts were subsequently charged-off[11] or placed in salary offset or voluntary fixed payment agreements with Bank of America.

We also found that the government cards were used for numerous abusive transactions that were clearly not for the purpose of government travel. As discussed further in appendix I, we used data mining tools to identify transactions we believed to be potentially fraudulent or abusive based upon the nature, amount, merchant, and other identifying characteristics of the transaction. Through this procedure, we identified thousands of suspect transactions. Table 1 illustrates a few of the types of abusive transactions and the amounts charged to the government travel card in fiscal year 2001 and the first 6 months of fiscal year 2002 that were not for valid government travel. Government travel cards were used for purchases in categories as diverse as legalized prostitution services, jewelry,

[7]We considered any scheme or pattern of activity related to the use of the travel card, in apparent violation of federal or state criminal code, as a potentially fraudulent activity.

[8]We considered abusive travel card activity to include (1) personal use of the card—any use other than for official government travel—regardless of whether the cardholder paid the bill and (2) cases in which cardholders were reimbursed for official travel and then did not pay Bank of America, thus benefiting personally. In both types of activities in which the cardholder did not pay the bill, we considered abuses to include those situations in which cardholders' accounts were eventually charged off by Bank of America, or referred to salary offset or a fixed pay agreement. Some of the travel card activity that we categorized as abusive would be potentially fraudulent if it can be established that the cardholder violated any element of federal or state criminal code.

[9]Of the over 250 cardholders who wrote 3 or more NSF checks, 100 had accounts that were eventually charged off or put in salary offset.

[10]Knowingly writing checks against closed accounts or writing three or more NSF checks is potential bank fraud under 18 U.S.C. 1344. Further, it is a violation of the Uniform Code of Military Justice article 123a when a soldier makes, draws, or utters (verbally authorizes) a check, draft, or order without sufficient funds and does so with intent to defraud.

[11]Some cardholders whose accounts were charged off have since been referred to the salary offset program or entered into fixed payment agreement with Bank of America.

gentlemen's clubs, gambling, cruises, and tickets to sporting and other events. The number of instances and amounts shown includes both cases in which the cardholders paid the bills and instances in which they did not pay the bills.

Table 1:Examples of Navy-wide Abusive Travel Card Activity, Fiscal Year 2001 through March 31, 2002

Category	Examples of vendors	Number of transactions	Dollar amount
Legalized brothels	James Fine Dining, Chicken Ranch	80	$13,250
Jewelry	Kay Jewelers, Zales Jewelers	199	20,800
Gentlemen's clubs	Spearmint Rhino, Mr. Magoo's Lounge, Cheetah's Lounge	247	28,700
Gambling, including Internet	www.proccy2, Seinpost Holding, GCA (cash advance)	80	34,250
Cruises	Carnival, Disney, Norwegian, Princess	72	38,300
Entertainment (sporting events, theatre, concerts)	NY Yankees, LA Lakers, Atlanta Braves, Phantom of the Opera, other Ticketmaster purchases	502	71,400

Source: GAO analysis of Bank of America data.

We found that 50 cardholders used their government travel card to purchase over $13,000 in prostitution services from two legalized brothels in Nevada. Charges were processed by these establishments' merchant bank, and authorized by Bank of America, in part because a control afforded by the merchant category code (MCC),[12] which identifies the nature of the transactions and is used by DOD and other agencies to block improper purchases, was circumvented by the establishments. In these cases, the transactions were coded to appear as restaurant and dining or bar charges. For example, the merchant James Fine Dining, which actually operates as a brothel known as Salt Wells Villa, characterizes its services as restaurant charges, which are allowable and not blocked by the MCC control. According to one assistant manager at the establishment, this is done to protect the confidentiality of its customers. Additionally, the account balances for 11 of the 50 cardholders purchasing services from these establishments were later charged off or put into salary offset. For

[12]MCCs are established by the banking industry for commercial and consumer reporting purposes. Currently, about 800 category codes are used to identify the nature of the merchants' businesses or trades, such as airlines, hotels, ATMs, jewelry stores, casinos, gentlemen's clubs, and theatres.

example, one sailor, an E-2 seaman apprentice, charged over $2,200 at this brothel during a 30-day period. The sailor separated from the Navy, and his account balance of more than $3,600 was eventually charged off.

We also found instances of abusive travel card activity where Navy cardholders used their cards at establishments such as gentlemen's clubs, which provide adult entertainment. Further, these clubs were used to convert the travel card to cash by supplying cardholders with actual cash or "club cash"[13] for a 10 percent fee. For example, we found that an E-5 second class petty officer circumvented ATM cash withdrawal limits[14] by charging, in a single transaction, $2,420 to the government travel card and receiving $2,200 in cash. Subsequently, the club received payment from Bank of America for a $2,420 restaurant charge. Another cardholder, an E-7 chief petty officer, obtained more than $7,000 in cash from these establishments. For fiscal year 2001 and through March 2002, 137 Navy cardholders made charges totaling almost $29,000 at these establishments.

These transactions represented abusive use of the travel cards that were clearly unrelated to official government travel. There should be no misunderstanding by Navy personnel that personal use of the card is not permitted. In fact, the standard government travel card used by most Navy personnel is clearly marked "For Official Government Travel Only" on the face of the card. Additionally, upon receipt of their travel cards, all Navy cardholders are required to sign a statement of understanding that the card is to be used only for authorized official government travel expenses.

However, as part of our statistical sampling results at the three sites we audited, we estimated that personal use of the government travel card ranged from almost 7 percent of fiscal year 2001 transactions at one site to over 26 percent at another site.[15] As shown in appendix V, cardholders who

[13]Club cash is used to tip dancers, waitresses, and bartenders, but cannot be exchanged for currency.

[14]Typically, the ATM limit for a 1-month cycle is set at $500 for a standard card and $200 for a restricted card.

[15]We considered personal use to include (1) any transaction charged to the government travel card that was not supported by a valid travel order and (2) any transaction for which the Navy was unable to provide supporting documentation. The following are the personal use estimates for the 3 case study locations: Camp Lejeune, U.S. Marine Forces Atlantic, 26.6 percent; Patuxent River Air Station, Air Systems Command, 10.8 percent; and Puget Sound Naval Shipyard, Sea Systems Command, 6.6 percent.

abused the card but paid the bill also used the government travel cards for the same transaction types discussed in table 1.

Personal use of the card also increases the risk of charge-offs related to abusive purchases, which are costly to the government and the taxpayer. Our work found that charged-off accounts included both those of (1) cardholders who were reimbursed by the Navy for official travel expenses but failed to pay Bank of America for the related charges, thus pocketing the reimbursement, and (2) those who used their travel cards for personal purchases for which they did not pay Bank of America. Appendix IV provides a summary table and supporting narrative describing examples of abusive travel card activity where the account was charged off or placed in salary offset or voluntary fixed payment agreements with Bank of America.

Furthermore, as detailed by the 10 examples in appendix V, we also found instances in which cardholders used their travel cards for personal purposes, but paid their travel card bills when they became due. For example, an E-5 second class petty officer reservist, whose civilian job was with the U.S. Postal Service, admitted making phony charges of over $7,200 to operate his own limousine service. In these transactions, the sailor used the travel card to pay for bogus services from his own limousine company during the first few days of the card statement cycle. By the second day after the charges were posted, Bank of America would have deposited funds—available for the business' immediate use—into the limousine business' bank account. Then, just before the travel card bill became due, the limousine business credited the charge back to the sailor's government travel card and repaid the funds to Bank of America. This series of transactions had no impact on the travel card balance, yet allowed the business to have an interest-free loan for a period. This pattern was continued over several account cycles. Navy officials were unaware of these transactions until we brought them to their attention and are currently considering what, if any, action should be taken against the cardholder.

Abusive Travel Card Activity Not Consistently Linked to Disciplinary Action and Security Clearances

We did not always find documented evidence of disciplinary actions taken by Navy commanders and supervisors against cardholders who wrote NSF checks or had their accounts charged off or placed in salary offset. Of the 57 cardholders fitting these categories that we selected through data mining, we did not find any documented evidence that 37 had been disciplined. For example, a lieutenant commander (O-4) with the Naval Air Reserve used his travel card for personal purchases in California and frequent personal trips to Mexico. The individual did not pay his account when due and was placed in salary offset in October 2001. Although the agency program coordinator (APC) responsible for program oversight had apprised management of this officer's abuse of the travel card, and had initiated actions to take away the cardholder's security clearance, management had not taken any administrative action against this cardholder. In addition, of the 10 individuals who abused the card but paid their bills, only 1 was disciplined. Appendixes III, IV, and V provide further details of the extent of disciplinary actions taken against some of the cardholders we examined.

In addition, we found that 27 of these same 57 travel cardholders we examined whose accounts were charged off or placed in salary offset as of March 31, 2002, still had active secret or top-secret security clearances in August 2002. Some of the Navy personnel holding security clearances who have had difficulty paying their travel card bills may present security risks to the Navy. DOD rules provide that an individual's finances are one of the factors to be considered in whether an individual should be entrusted with a security clearance. However, we found that Navy security officials were unaware of these financial issues and consequently could not consider their potential effect on whether these individuals should continue to receive a security clearance. We have referred cases identified from our audit to the U.S. Navy Central Adjudication Facility (commonly referred to as Navy CAF) for its continued investigation.

Key Internal Control Breakdowns

For fiscal year 2001, we identified significant breakdowns in key internal controls over individually billed travel cards. The breakdowns stemmed from a weak overall control environment, a lack of focus on oversight and management of the travel card program, and a lack of adherence to valid policies and procedures. These breakdowns contributed to the significant delinquencies and charge-offs of Navy employee account balances and potentially fraudulent and abusive activity related to the travel card. In contrast, one Navy unit we audited with a low average delinquency rate (4 percent) attributed its relative success to constant monitoring of delinquencies and to some monitoring of inappropriate travel card use.

We found that in fiscal year 2001, management at the three case study locations we audited focused primarily on reducing delinquencies. In general, management placed little emphasis on controls designed to prevent, or provide for early detection of, travel card misuse. In addition, we identified two key overall control environment weaknesses: (1) the lack of clear, sufficiently detailed Navy travel card policies and procedures and (2) limited internal travel card audit and program oversight. First, the units we audited used DOD's travel management regulations (*DOD Financial Management Regulation*, volume 9, chapter 3) as the primary source of policy guidance for management of Navy's travel card program. In many areas, the existing guidance was not sufficiently detailed to provide clear, consistent travel management procedures to be followed. Second, as recognized in the DOD Inspector General's March 2002 summary report[16] on the DOD travel card program, "[b]ecause of its dollar magnitude and mandated use, the DOD travel card program requires continued management emphasis, oversight, and improvement by the DOD. Independent internal audits should continue to be an integral component of management controls." However, no internal review report had been issued since fiscal year 1999 concerning the Navy's travel card program.

We found that this overall weak control environment contributed to design flaws and weaknesses in a number of management control areas needed for an effective travel card program. For example, many problems we identified were the result of ineffective controls over issuance of travel cards. Although DOD's policy allows an exemption from the requirement to use travel cards for certain groups or individuals with poor credit histories, we found that the Navy's practice was to facilitate Bank of America issuing travel cards—with few credit restrictions—to all applicants regardless of whether they have a history of credit problems. For the cases we reviewed, we found a significant correlation between travel card fraud, abuse, and delinquencies and individuals with substantial credit history problems. The prior and current credit problems we identified for Navy travel card holders included charged-off credit cards, bankruptcies, judgments, accounts in collections, and repeated use of NSF checks.

[16]Department of Defense Office of Inspector General, *Acquisition: Summary of DOD Travel Card Program Audit Coverage,* D-2002-065 (Washington, D.C.: Mar. 18, 2002).

Also, a key element of internal control, which, if effectively implemented, may reduce the risk and occurrence of delinquent accounts, is frequent account monitoring by the APC. However, some APCs, who have the key responsibility for managing and overseeing travel card holders' activities, were essentially set up to fail in their duties. Some were assigned APC responsibilities as collateral duties and given little time to perform these duties, while other full-time APCs had responsibilities for a large number of cardholders. When an APC is unable to focus on managing travel card usage because of the high number of cardholders or the extent of other duties, the rate of delinquency and potentially abusive and fraudulent transactions is adversely affected. For example, at Camp Lejeune, where the delinquency rate was over 15 percent, the six APCs we interviewed were given the role as "other duty as assigned," with most spending less than 20 percent of their available time to perform their APC responsibilities.

In addition, a lack of management focus and priority on ensuring proper training for APCs resulted in some APCs being unfamiliar with the capabilities of Bank of America's credit card database that would help them to manage and oversee the travel card program. For example, one APC did not know that she could access reports that would help identify credit card misuse and thus enable the responsible supervisors or commanders to counsel cardholders before they became delinquency problems. With the large span of control, minimal time allotted to perform this duty, and lack of adequate training, we found that APCs generally were ineffective in carrying out their key travel card program management and oversight responsibilities.

In contrast, a Navy unit we visited—Patuxent River—showed that constant monitoring of delinquency by a knowledgeable APC contributed to a lower delinquency rate. The APC at this unit had responsibility for approximately 1,200 to 1,500 active travelers monthly, but APC duties were her only responsibility. The APC informed us that she constantly monitored the government travel card program. For example, she reviewed delinquency reports several times a month to identify and promptly alert cardholders and supervisors about the status of delinquent accounts. She also told us that less frequently, but still on a monthly basis, she monitored transactions in the Bank of America database for improper and abusive uses of the card and sent out notices to the cardholders and the cardholders' supervisors if such transactions were identified. She also

emphasized the use of the split disbursement payment process[17] (split disbursements) whenever possible. Consequently, the delinquency rate for this unit was consistently lower than the Navy-wide rate and the civilian agency rate.

Another area of weakness in internal controls relates to the process over the cancellation and/or deactivation of cards in case of death, retirement, or separation from the service. These ineffective controls allowed continued use of the government travel card for personal purposes, which in some instances led to charge-offs, thereby contributing to increased costs to the government. For example,

- In one Navy unit, a cardholder died in October 1999. However, ineffective controls over the notification process resulted in the APC not being aware that this had occurred. Therefore, the APC did not take actions to cancel this individual's government travel card account. Consequently, in October 2000, when the old card was about to expire, Bank of America mailed a new card to the address of record. When the card was returned with a forwarding address, the bank remailed the card and the personal identification number used to activate the card to the new address without performing other verification procedures. The card was activated in mid-December 2000, and within a month, 81 fraudulent transactions for hotel, food, and gas totaling about $3,600 were charged to the card. In January 2001, in the course of her monthly travel card monitoring, the APC noticed suspicious charges in the vicinity of the cardholder's post-of-duty. The APC took immediate action to deactivate the card, thus preventing additional charges from occurring. Upon learning of the cardholder's death from further discussion with the cardholder's unit, the APC immediately reported the case to a Bank of America fraud investigator. Investigations revealed that a family member of the cardholder might have made these charges. No payment was ever made on this account, and the entire amount was subsequently charged off. We referred this case to the U.S. Secret Service Credit Card Task Force for further investigation and potential prosecution.

- A chief warrant officer (W-3) at Naval Air Systems Command Atlantic repeatedly used his travel card after his retirement on December 1, 2000. The cardholder currently works for a private company. The cardholder used the government travel card, since his retirement, to make charges

[17]Split disbursement is a payment method by which cardholders elect to have all or part of their reimbursements sent directly to Bank of America.

totaling $44,000 for hotels, car rentals, restaurants, and airline tickets. In a number of instances, the cardholder was able to obtain the government rate—which can be substantially lower than the commercial rate—for lodging in San Diego, Philadelphia, and Cincinnati. Because the Navy does not routinely monitor cardholders' transaction reports for abusive activity and because this particular account was always paid in full, they did not detect the abusive activity. Bank of America data showed that the cardholder's account was still open in early September 2002 and thus available for further charges.

- In another instance, a mechanic trainee at the Puget Sound Naval Shipyard was convicted of a felony conviction for illegal possession of a firearm in October 2000 and placed on indefinite suspension by his employer in November 2000. However, neither the security office, which took action against the employee, nor the office where the individual worked notified the APC to cancel or deactivate the cardholder's government travel card account. Following his suspension, the cardholder used the government travel card to make numerous cash withdrawals and gas purchases totaling almost $4,700. The APC was not aware of these abusive charges until the monthly delinquency review identified the account as being delinquent. The account balance of $1,600 was subsequently charged off in January 2002. Although security officers at the Puget Sound Naval Shipyard referred the case to Navy CAF in October 2000, our work indicated as of August 2002, the suspended employee continued to maintain a secret clearance, despite the account charge-off and felony conviction.

Table 2 summarizes our statistical tests of four key control activities related to basic travel transaction and voucher processing at three Navy locations. We concluded that the control was effective if the projected failure rate was from 0 to 5 percent. If the projected failure rate was from 6 to 10 percent, we concluded that the control was partially effective. We considered controls with projected failure rates greater than 10 percent to be ineffective.

Table 2: Results of Testing of Key Internal Controls

	Percentage of failure			
Navy unit	Travel orders are approved prior to travel	Travel voucher reimbursements are accurate	Travel vouchers are submitted within 5 days of travel completion	Travel vouchers are paid within 30 days of submission
Camp Lejeune, U.S. Marine Forces Atlantic	11	33	11	3
Patuxent River Air Station, Air Systems Command	3	35	36	1
Puget Sound Naval Shipyard, Sea Systems Command	49[a]	40	34	1

Note: The numbers in the table represent point estimate percentages for the number of failures in the population based on our sampling tests. The confidence intervals for our sampling estimates are presented in appendix I of this testimony.

[a]The high failure rate is attributable to management's failure to maintain copies of the original signed travel orders, which were sent to the travelers.

Source: GAO analysis.

Although we found significant failure rates at all three case study sites for the requirement that vouchers be filed within 5 working days of travel completion, this did not have an impact on these units' delinquency rates. However, we found substantial errors in travel voucher processing that resulted in both overpayment and underpayment of the amount that cardholders should have received for their official travel expenses. At times, these errors were substantial in comparison with the total voucher amounts. For example, we found data entry errors that resulted, in one case, in an overpayment of more than $1,700 to the traveler. In another case, failure to carefully scrutinize supporting documentation resulted in an overpayment to a traveler of more than $1,000 for cell phone calls, for which the traveler did not submit detailed documentation to support what were claimed to be calls made for business purposes. As a result of our work, the Navy unit has taken actions to recover these overpayments.

Corrective Actions

DOD has taken a number of actions focused on reducing delinquencies. For example, the Department of the Navy had established a goal of a delinquency rate of no more than 4 percent.[18] Beginning in November 2001,

[18]For this delinquency rate calculation, the Navy is using the number of delinquent accounts compared to the total number of active accounts. The dollar amount method we used to calculate delinquency rates is the industry standard and was also used by the DOD Charge Card Task Force.

DOD implemented a system of wage and retirement payment offset for many employees. It also began encouraging the use of split disbursements—a payment process by which cardholders elect to have all or part of their reimbursements sent directly to Bank of America. This payment method is a standard practice of many private sector employers. Although split disbursements have the potential to significantly reduce delinquencies, this payment process is strictly voluntary at DOD. According to Bank of America, split disbursements accounted for 30 percent of total payments made by Navy employees in June 2002. This rate represented a large increase over fiscal year 2001, when only 16 percent of Navy payments were made through split disbursements. As a result of these actions, the Navy experienced a significant drop in charged-off accounts in the first half of fiscal year 2002.

The Navy has also initiated actions to improve the management of travel card usage. The Navy has a three-pronged approach to address travel card issues: (1) provide clear procedural guidance to APCs and travelers, available on the Internet, (2) provide regular training to APCs, and (3) enforce proper use and oversight of the travel card through data mining to identify problem areas and abuses. Further, to reduce the risk of card misuse, the Navy has also begun to deactivate cards while travelers are not on travel status and close a number of inactive cards, and plans to close inactive cards semi-annually to eliminate credit risk exposure. The Navy is also pursuing the use of "pre-funded" debit or stored value cards for high-risk travelers—funds would be available on the cards when travel orders were issued in an amount authorized on the order.

Further, the DOD Comptroller created a DOD Charge Card Task Force to address management issues related to DOD's purchase and travel card programs. We met with the task force in June 2002 and provided our perspectives on both programs. The task force issued its final report on June 27, 2002. To date, many of the actions that DOD has taken primarily address the symptoms rather than the underlying causes of the problems with the program. Specifically, actions to date have focused on dealing with accounts that are seriously delinquent, which are "back-end" or detective controls rather than preventive controls. To effectively reform the travel program, DOD and the Navy will need to work to prevent potentially fraudulent and abusive activity and severe credit problems with the travel card. We are encouraged that the DOD Comptroller recently took action to deactivate the travel cards of all cardholders who have not been on official government travel within the last 6 months. However, additional preventive solutions are necessary if DOD is to effectively address these issues.

To that end, we will be issuing a related report in this area with specific recommendations, including a number of preventive actions that, if effectively implemented, should substantially reduce delinquencies and potentially fraudulent and abusive activity related to Navy travel cards. For example, we plan to include recommendations that will address actions needed in the areas of exempting individuals with histories of financial problems from the requirement to use a travel card; providing sufficient infrastructure to effectively manage and provide day-to-day monitoring of travel card activity related to the program; deactivating cards when employees are not on official travel; taking appropriate disciplinary action against employees who commit fraud or abuse of the travel card; ensuring that information on travel card fraud or abuse of cardholders with secret or top-secret security clearances is provided to appropriate security officials for consideration in whether such clearances should be suspended or revoked; and moving towards mandating use of the split disbursement payment process. The defense authorization bill for fiscal year 2003 passed by the Senate reflected a move in this direction. This bill would change the voluntary use of split disbursements by authorizing the Secretary of Defense to require that any part of an employee's travel allowance be disbursed directly to the employee's travel card issuer for payment of official travel expenses. The defense authorization bill for fiscal year 2003 passed by the House does not contain comparable authority. As of September 12, 2002, the bill (H.R. 4546) was in conference.

Mr. Chairman, Members of the Subcommittee, and Senator Grassley, this concludes my prepared statement. I would be pleased to respond to any questions that you may have.

Contact and Acknowledgments

For further information regarding this testimony, please contact Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov or John J. Ryan at (202) 512-9587 or ryanj@gao.gov.

Appendix I: Scope and Methodology

We used as our primary criteria applicable laws and regulations, including the Travel and Transportation Reform Act of 1998,[1] the General Services Administration's *Federal Travel Regulation*,[2] and the *DOD Financial Management Regulations*, Volume 9, *Travel Policies and Procedures*. We also used as criteria our *Standards for Internal Control in the Federal Government*[3] and our *Guide to Evaluating and Testing Controls Over Sensitive Payments*.[4] To assess the management control environment, we applied the fundamental concepts and standards in our internal control standards to the practices followed by management at our three case study locations.

To assess the magnitude and impact of delinquent and charged-off accounts, we compared the Navy's delinquency and charge-off rates to those of other DOD services and agencies and federal civilian agencies. We also analyzed the trends in the delinquency and charge-off data from the third quarter of fiscal year 2000 through the first half of fiscal year 2002. In addition, we obtained and analyzed Bank of America data to determine the extent to which Navy travel card holders wrote NSF checks to pay their travel card bills. We also obtained documented evidence of disciplinary action against cardholders with accounts that were in charge-off or salary offset status or had NSF checks written in payment of those accounts. We accepted hard copy file information and verbal confirmation by independent judge advocate general officials as documented evidence of disciplinary action.

[1]Travel and Transportation Reform Act of 1998 (Public Law 105-264, Oct. 19, 1998) includes requirements that federal employees use federal travel charge cards for all payments of expenses of official government travel and that employees be reimbursed within 30 days of submitting proper travel vouchers. The act also allows for the offset of pay for employees with undisputed travel card charge delinquencies in an amount up to 15 percent of the amount of disposable pay of the employee for a pay period.

[2]*Federal Travel Regulation*, 41 Code of Federal Regulations, chapters 300-304, issued by the Administrator of General Services, governs travel and transportation allowances and relocation allowances for federal civilian employees.

[3]*Standards for Internal Control in Federal Government* (GAO/AIMD-00-21.3.1) was prepared to fulfill our statutory requirement under 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act, to issue standards that provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

[4] *Guide to Evaluating and Testing Controls Over Sensitive Payments* (GAO/AFMD-8.1.2) provides a framework for evaluating and testing the effectiveness of internal controls that have been established in various sensitive payment areas.

We also used data mining to identify Navy individually billed travel card transactions for audit. Our data mining procedures covered the universe of individually billed Navy travel card activity during fiscal year 2001 and the first 6 months of fiscal year 2002, and identified transactions that we believed were potentially fraudulent or abusive. However, our work was not designed to identify, and we did not determine, the extent of any potentially fraudulent or abusive activity related to the travel card.

To assess the overall control environment for the travel card program at the Department of the Navy, we obtained an understanding of the travel process, including travel card management and oversight, by interviewing officials from the Office of the Undersecretary of Defense (Comptroller), Department of the Navy, Defense Finance and Accounting Service (DFAS), Bank of America, and the General Services Administration, and by reviewing applicable policies and procedures and program guidance they provided. We visited three Navy units to "walk through" the travel process, including the management of travel card usage and delinquency, and the preparation, examination, and approval of travel vouchers for payment. We also assessed actions taken to reduce the severity of travel card delinquencies and charge-offs. Further, we contacted one of the three largest U.S. credit bureaus to obtain credit history data and information on how credit scoring models are developed and used by the credit industry for credit reporting.

To test the implementation of key controls over individually billed Navy travel card transactions processed through the travel system—including the travel order, travel voucher, and payment processes—we obtained and used the database of fiscal year 2001 Navy travel card transactions to review random samples of transactions at three Navy locations. Because our objective was to test controls over travel card expenses, we excluded credits and miscellaneous debits (such as fees) from the population of transactions used to select a random sample of travel card transactions to audit at each of the three Navy case study units. Each sampled transaction was subsequently weighted in the analysis to account statistically for all charged transactions at each of the three units, including those that were not selected.

We selected three Navy locations for testing controls over travel card activity based on the relative amount of travel card activity at the three Navy commands and at the units under these commands, the number and percentage of delinquent accounts, and the number and percentage of charged-off accounts. Each of the units within the commands was selected because of the relative size of the unit within the respective command.

Table 3 presents the sites selected and the universe of fiscal year 2001 transactions at each location.[5]

Table 3: Universe of Fiscal Year 2001 Travel Transactions at Navy Units Tested

Navy unit tested	Number of fiscal year 2001 travel transactions[a]	Dollar value of fiscal year 2001 travel transactions[a]
Camp Lejeune, U.S. Marine Forces Atlantic	14,209	$ 1,747,316
Patuxent River Air Station, Air Systems Command	179,547	20,335,864
Puget Sound Naval Shipyard, Sea Systems Command	80,583	11,025,669

[a]Transactions represent charges for sales and cash advances and exclude credits and fees.

Source: GAO analysis based on Bank of America data.

We performed tests on statistical samples of travel card transactions at each of the three case study sites to assess whether the system of internal control over the transactions was effective, as well as to provide an estimate, by unit, of the percentage of transactions that were not for official government travel. For each transaction in our statistical sample, we assessed whether (1) there was an approved travel order prior to the trip, (2) the travel voucher payment was accurate, (3) the travel voucher was submitted within 5 days of the completion of travel, and (4) the travel voucher was paid within 30 days of the submission of an approved travel voucher. We considered transactions not related to authorized travel to be abuse and incurred for personal purposes. The results of the samples of these control attributes, as well as the estimate for personal use—or abuse—related to travel card activity, can be projected to the population

[5]The universes from which we selected our samples included some transactions that were not supported by travel orders or vouchers, such as personal charges made by a cardholder. We excluded such transactions from our selections used to test travel order, voucher, and payment process controls. However, we included such transactions to project the percentage of personal use transactions.

of transactions at the respective test case study site only,[6] not to the population of travel card transactions for all Navy cardholders.

Table 4 shows the results of our test of the key control related to the authorization of travel (approved travel orders were prepared prior to dates of travel).

Table 4: Estimate of Fiscal Year 2001 Transactions That Failed Control Tests for Approved Travel

	Approved travel order	
Navy unit tested	**Number of failed Transactions**	**Estimated failure rate (95% confidence interval)**
Camp Lejeune	11 of 96	11.5% (5.9%, 19.6%)
Patuxent River Air Station	3 of 96	3.1% (0.6%, 8.9%)
Puget Sound Naval Shipyard	47 of 96	49.0% (38.6%, 59.4)%

Source: GAO analysis

Table 5 shows the results of our test for effectiveness of controls in place over the accuracy of travel voucher payments.

[6]At Camp Lejeune, we found that 38 of 143 transactions appeared to be personal (projecting to an estimated 26.6 percent with a 95 percent confidence interval from 19.5 percent to 34.6 percent). At Patuxent River Air Station, we found that 13 of 120 transactions appeared to be personal (projecting to an estimated 10.8 percent with a 95 percent confidence interval from 5.9 percent to 17.8 percent). At Puget Sound Naval Shipyard, we found that 8 of 121 transactions appeared to be personal (projecting to an estimated 6.6 percent with a 95 percent confidence interval from 2.9 percent to 12.6 percent).

Table 5: Estimate of Fiscal Year 2001 Transactions that Failed Control Tests for Accurate Travel Voucher Payments

	Effective voucher review and accurate reimbursement to traveler	
Navy unit tested	Number of failed transactions	Estimated failure rate (95% confidence interval)
Camp Lejeune	14 of 43	32.6% (19.1%, 48.5%)
Patuxent River Air Station	34 of 96	35.4% (25.9%, 45.8%)
Puget Sound Naval Shipyard	38 of 96	39.6% (29.8%, 50.1%)

Source: GAO analysis

Table 6 shows the results of our tests of two key controls related to timely processing of claims for reimbursement of expenses related to government travel—timely submission of the travel voucher by the employee and timely approval and payment processing.

Table 6: Estimate of Fiscal Year 2001 Transactions that Failed Control Tests for Timely Submission and Processing of Travel Vouchers

	Timely voucher submission by employee (5-day rule)		Timely reimbursement to the traveler (30-day rule)	
Navy unit tested	Number of failed transactions	Estimated failure rate (95% confidence interval)	Number of failed transactions	Estimated failure rate (95% confidence interval)
Camp Lejeune	11 of 96	11.5% (5.9%, 19.6%)	3 of 96	3.1% (0.6%, 8.9%)
Patuxent River Air Station	35 of 96	36.5% (26.9%, 46.9%)	1 of 96	1.0% (0.03%, 5.7%)
Puget Sound Naval Shipyard	33 of 96	34.4% (25.0%, 44.8%)	1 of 96	1.0% (0.03%, 5.7%)

Source: GAO analysis

To determine if cardholders were reimbursed within 30 days, we used payment dates provided by DFAS. We did not independently validate the accuracy of these reported payment dates.

We briefed DOD managers, Navy managers, including the Assistant Secretary of the Navy (Financial Management and Comptroller) officials, unit commanders, and APCs; and Bank of America officials on the details

of our audit, including our findings and their implications. We incorporated their comments where appropriate. We did not audit the general or application controls associated with the electronic data processing of Navy travel card transactions. We conducted our audit work from January 2002 through September 2002 in accordance with U.S. generally accepted government auditing standards, and we performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency. Following this testimony, we plan to issue a report, which will include recommendations to DOD and the Navy for improving internal controls over travel card activity.

Appendix II: Navy Personnel Grade, Rank, and Associated Basic Pay Rates

Tables 7, 8, and 9 show the grade, rank (where relevant), and the associated basic pay rates for fiscal year 2001 for the Navy's and Marine Corp's military personnel and civilian personnel.

Table 7: Navy Military Grades, Ranks, and Associated Basic Pay Rates for Fiscal Year 2001

Military grade	Military rank	Fiscal year 2001 pay
Enlisted personnel		
E-1 to E-3	Seaman recruit to seaman	$11,976 to $14,973
E-4 to E-6	Petty officer 3rd class to 1st class	$17,931 to $26,860
E-7 to E-9	Chief petty officer to master chief petty officer	$31,739 to $45,514
Officers[a]		
WO-2 to WO-4	Warrant officer	$37,722 to $53,514
O-1 to O-3	Ensign to lieutenant	$27,398 to $44,649
O-4 to O-6	Lieutenant commander to captain	$54,476 to $83,982
O-7 to O-10	Admiral	$98,257 to $127,695

[a]Officers' ranks include warrant officers (denoted by WO) and commissioned officers (denoted by O)

Source: U.S. Navy.

Table 8: Marine Corp Military Grades, Ranks, and Associated Basic Pay Rates for Fiscal Year 2001

Military grade	Military rank	Fiscal year 2001 pay
Enlisted personnel		
E-1 to E-3	Private to lance corporal	$11,871 to $15,093
E-4 to E-6	Corporal to staff sergeant	$17,675 to $26,018
E-7 to E-9	Gunnery sergeant to sergeant major or master gunnery sergeant	$31,533 to $46,646
Officers[a]		
WO-1 to WO-5	Warrant officer	$32,098 to $59,587
O-1 to O-3	2nd lieutenant to captain	$25,653 to $45,120
O-4 to O-6	Major, lieutenant colonel, and colonel	$56,951 to $85,628
O-7 to O-10	General	$98,484 to $130,200

[a]Officers' ranks include warrant officers (denoted by WO) and commissioned officers (denoted by O)

Source: U.S. Navy.

Table 9: Navy Civilian Grades and Associated Basic Pay Rates for Fiscal Year 2001

Civilian grade	Fiscal year 2001 pay
General schedule employees	
GS-1 to GS-3	$16,181 to $20,093
GS-4 to GS-5	$22,559 to $25,241
GS-6 to GS-8	$28,131 to $34,625
GS-9 to GS-12	$38,240 to $55,455
GS-13 to GS-15	$65,949 to $91,667
Senior executive service	
ES-01 to ES-06	$111,650 to $125,700

Note: Basic pay rates shown are the midpoint of the range of pay for each grade and does not factor in locality pay received in geographic areas with higher cost-of-living.

Source: Office of Personnel Management.

Appendix III: NSF Checks Written to Bank of America

Table 10: Examples of Cases in Which Cardholders Wrote Three or More NSF Checks During Fiscal Year 2001 and the First 6 Months of Fiscal Year 2002 and Accounts Were Subsequently Charged Off or Referred to Salary Offset or Voluntary Fixed Pay Terms

Card-holder	Total amount (number) of NSF checks	Total amount charged-off (CO), in salary offset (SO) or voluntary fixed pay (FP)	Grade	Unit	Credit history problems	Documented disciplinary action
1	$61,004 (12)	SO — $20,535	E-5	U.S. Pacific Fleet, Honolulu	Multiple bankruptcies and numerous charge-offs prior to card issuance	Administrative counseling/warning
2	37,150 (15)	FP — $4,094	E-6	Naval Recruiting, Omaha	Multiple judgments and merchandise repossession prior to card issuance	None
3	23,894 (9)	SO — $11,310	E-6	U.S. Marine Corps, Marine Aircraft Group 12, Japan	Charged-off and referral to collection prior to card issuance; one account in collection and one charged off prior to card issuance	Dishonorable discharge for misconduct directly related to travel card misuse
4	22,873 (11)	CO — $2,579	E-4	U.S. Transportation Command, Illinois	None prior to card issuance	Prosecution pending for travel card misuse and absence without leave
5	20,052 (9)	CO — $4,589; account in SO	E-5	Mobile Inshore Undersea Warfare, San Jose	Charged-off account prior to card issuance; delinquencies since card issuance	None; promotion to E-6 after charge-off; pending investigation for desertion, theft and issuance of NSF checks
6	18,148 (13)	CO — $7,229	GS-11	Navy Inventory Control Point – Mechanicsburg	Bankruptcies and charge-offs prior to card issuance; delinquencies since card issuance	None; cardholder retired
7	10,908 (16)	CO — $1,381	E-5	Navy Seals, San Diego	None prior to card issuance; delinquencies since card issuance	Administrative action related to travel card abuse; honorable discharge
8	8,231 (6)	SO — $4,530; account paid off Sept. 2002	E-8	U.S. Marine Corps, Camp Lejeune	Charged-off account prior to card issuance	Counseling; article 15 pending for credit card misuse
9	5,785 (4)	CO — $4,923	E-4	Navy and Marine Corps Reserve Center, Bessemer	Bankruptcies and judgment prior to card issuance; serious delinquencies since card issuance	None
10	3,250 (12)	CO — $5,347; account in FP	E-4	Naval Air Warfare Center, Patuxent River	Bankruptcy and charged-off account prior to card issuance; delinquencies since card issuance	None

Note: NSF includes those accounts with nonsufficient funds, closed accounts, stop payment orders, and those accounts not located.

Source: GAO analysis.

The 10 cardholders in table 10 wrote a total of 107 checks that were returned by Bank of America because they were NSF, drawn on closed accounts, and/or had payments stopped for other reasons. These checks totaled over $211,000. Eight of the 10 cardholders had significant credit problems prior to card issuance, such as charged-off multiple bankruptcies, charged-off credit card accounts, accounts in collection, and serious delinquencies. Two of the cardholders did not have credit problems prior to card issuance, one of which, experienced serious financial problems after issuance of the Bank of America travel card. The following provides detailed information on some of these cases.

- Cardholder #1 was a petty officer second class with the U.S. Pacific Fleet in Honolulu. The cardholder wrote 12 NSF checks totaling more than $61,000 for payment on his Bank of America travel card account. These checks were written partly to cover charges incurred while on official travel, but records showed that the cardholder made many more charges at convenience stores, restaurants, gas stations, and travel agencies in the vicinity of his hometown. An examination of the cardholder's credit history also revealed that, prior to receiving his government travel card in May 2000, the cardholder filed multiple bankruptcies and had multiple charge-offs. Despite his financial history, the cardholder was issued a standard card, with a credit limit of $5,000, instead of a restricted card with a lower credit limit.

  From March 2001 through December 2001, the cardholder wrote about one NSF check a month, with three of these NSF checks totaling more than $12,500 written in the month of December 2001 alone. Industry regulations require that an account be credited immediately upon receipt of a check. Consequently, when Bank of America posted the NSF checks, the accounts appeared to have been paid, which provided credit to the cardholder to make additional purchases. Thus, by writing NSF checks, and submitting NSF payments over the phone, which Bank of America had to credit to his travel card account, the petty officer was able to, in effect, increase his credit limit to more than $20,000—a practice known as "boosting." He used each of these successive increases in his effective credit limit to charge additional items on his travel card. However, despite the repeated NSF checks written throughout 2001, the individual was able to continue making charges through December 2001.

  Bank of America subsequently notified the cardholder's APC of the NSF check problems. Because the cardholder was considered a good sailor, he was given administrative counseling for potential fraud and abuses related to his travel card. The terms of the administrative counseling specified that

the cardholder would face a court-martial and be separated from the Navy in case of continued abuse of the credit card or any other misconduct.

- Cardholder #5 is a petty officer (E-05) assigned to the Naval Reserve Forces in San Jose. Prior to receiving the Bank of America travel card in June 2000, the individual had a number of unpaid accounts with other creditors. The individual was given a restricted card with a credit limit of $2,000, which should have been issued in "inactive" status and only activated when needed for travel. However, records showed that the cardholder was able to make about 130 separate purchases and ATM transactions in the vicinity of his hometown while not on official travel. These transactions totaled more than $5,000. In addition, from September 2000 through December 2001, the cardholder wrote eight NSF checks and one stop payment check totaling $20,051 to Bank of America. During fiscal year 2001, not a single valid payment was made to the Bank of America for this account. The cardholder had an unpaid balance of $4,922 at the time his account was charged off in July 2002. The cardholder also had three other unrelated charge-offs in July 2002.

  We found no documentation that disciplinary actions had been taken against the cardholder. The APC assigned to the cardholder told us that he had received little training for his APC responsibility, which is a collateral duty. He recalled advising the cardholder once to pay off his travel card balance. Although a Bank of America official informed us that access to NSF check information had been available to APCs since 2000, the APC said he was not aware of the NSF checks written by the cardholder. The APC also informed us that he was not aware that the cardholder's account was charged off until he was notified by Bank of America. Despite having his Bank of America account charged-off and other financial problems, the cardholder was recently promoted from petty officer second class (E-5) to petty officer first class (E-6).[1] His account had been referred to salary offset.

[1]Subsequent to his promotion, the cardholder did not report to duty. His command is taking action to declare him a deserter. He is also a subject of law enforcement agencies' investigations.

Appendix IV: Abusive Travel Card Activity Where Accounts Were Charged Off or Placed in Salary Offset

Table 11:Examples of Abusive Travel Card Activity Where Accounts Were Charged-Off or Placed in Salary Offset

Card-holder	Grade	Unit	Total amount charged-off (CO) or in salary offset (SO)	Transactions contributing to charge-off or salary offset	Credit history problems	Documented disciplinary action
1	E-5	U.S. Marine Corps Reserve, Camp Lejeune	CO – $19,971	Did not use reimbursement to pay travel card charges; numerous large cash withdrawals	Account charge-offs, referral to collection agency, and other account delinquency prior to card issuance	None; court-martial being considered
2	E-7	Naval Shore Intermediate Maintenance Activity, Mayport	SO – 11,190	ATM withdrawals totaling $15,000 from October 2000 through July 2001; nearly $7,000 in cash and other expenses at Platinum Plus and Mr. Magoo gentlemen's clubs	Bankruptcy, account charge-offs and serious credit card delinquency prior to card issuance	None
3	E-4	LeMoore Naval Air Station	CO – 8,036	Over $6,250 of computer equipment from Best Buy and other Web sites	Numerous unpaid accounts prior to card issuance and charge-off on the American Express card	Administrative discharge in lieu of court-martial for misuse of the travel card and other offenses
4	O-5	Naval and Marine Corps Reserve Center, Washington, D.C.	SO – 5,678	Over $700 worth of candles and cookware; over $1,400 charged to D.B. Entertainment, which owns Baby Dolls and other adult entertainment clubs	Numerous account charge-offs, delinquencies, and bankruptcy prior to card issuance	None
5	E-3	Marine Forces Reserve, San Diego	CO – 4,041	$3,800 at local restaurants and $1,400 in ATM withdrawals over a 2-month period	Serious delinquencies, unpaid accounts, and referrals to collection agencies prior to card issuance	Court-martialed for misuse of the government travel card; appeal ongoing
6	O-6	Naval and Marine Corps Reserve Center, Washington, D.C.	CO – 3,511	$2,000 in cash withdrawals and nearly $1,500 at local grocery and drug stores	None	None
7	WS-10[a]	Puget Sound Naval Shipyard, Naval Sea Systems Command	CO - 3,243	Numerous personal charges, including groceries, gasoline, cash advances, and $150 at Bethel Animal Hospital	None prior; serious credit card delinquencies and mortgage foreclosure in 2001 and 2002	Removal from employment due to unauthorized absence and travel card misuse
8	GS-12	Naval Air Systems Command, Patuxent River	SO – 1,202	Airline tickets totaling $608	Serious delinquencies, account charge-offs, mortgage foreclosure in 2000, bankruptcies prior to and since card issuance	None

Card-holder	Grade	Unit	Total amount charged-off (CO) or in salary offset (SO)	Transactions contributing to charge-off or salary offset	Credit history problems	Documented disciplinary action
9	O-05	Marine Forces Reserve, New Orleans	SO – 1,674	Car rental transactions and numerous charges at local restaurants	Serious delinquencies prior to and since card issuance	None
10	E-06	U.S. Marine Corps, Camp Lejeune	CO – 672	Unauthorized use of card for charges associated with permanent change of station move	Serious delinquency and bad debts at the time of card issuance	None

[a]Wage supervisors designation used to denote supervisory workers on hourly salary.

Source: GAO analysis.

Eight of the 10 cardholders included in table 11 had significant credit problems prior to card issuance, such as charged-off credit card accounts, mortgage foreclosures, bankruptcies, serious delinquencies, unpaid accounts, and referrals to collection agencies. One cardholder had similar problems subsequent to issuance of the Bank of America travel card.

- Cardholder #1 was a sergeant (E-05) with the U.S. Marine Corps Reserve assigned at Camp Lejeune. Despite a history of credit problems, which included several charged-off and delinquent commercial credit accounts, Bank of America issued the cardholder a standard card, with a credit limit of $10,000, in March 2000. The cardholder was deployed to Europe in August 2000 and his credit limit was increased to $20,000. Within a month of his deployment, the cardholder had charged $10,700 to the card, including $8,500 in ATM withdrawals. Although the cardholder received reimbursements for his travel expenses, he failed to settle his account in full. In December 2000, the cardholder informed the APC that his account was 30 days past due and promised to pay the full outstanding balance. He again failed to do so and his account balance of $11,467 went delinquent in January 2001. The APC did not deactivate the travel card account but put the cardholder in "mission critical" status and raised the credit limit to $25,000 so the cardholder would have access to funds to return to the United States. Consequently, when the account was closed on February 8, 2001, the outstanding balance had increased to $19,971. The APC admitted to us that he failed to carefully monitor this account. No disciplinary action was taken against the cardholder, who had returned to civilian life; however, judicial action against the cardholder is pending. We have referred this matter to the DOD's Office of Inspector General for appropriate action.

In addition, our review indicated that the cardholder might have filed a fraudulent travel voucher in January 2001. This travel voucher claimed reimbursement for expenses in Germany over the holiday period from late December 2000 to early January 2001, allegedly for official purposes. However, Bank of America data showed that the government travel card belonging to this cardholder was used to make transactions in the vicinity of the traveler's hometown during this holiday period. It appeared that the cardholder might have returned to the United States for the holiday, yet continued to claim expenses as if he was still in Germany, a potentially fraudulent act.

- Cardholder # 3 was a petty officer third class assigned to the LeMoore Naval Air Station in California. Our review indicated that the cardholder had numerous unpaid cable, medical, and communication accounts and serious delinquency of more than $5,000 on his personal credit card account prior to receiving the travel card. The unit to which the cardholder was assigned had a policy of activating the government travel card only when a cardholder travels. However, from February through April 2001, while not on travel, the cardholder purchased over $6,250 worth of electronic and computer equipment from Best Buy and various Web sites using the government travel card. The cardholder did not pay his balance and thus came to the attention of the APC when his name appeared in the delinquency report. Upon determining that the cardholder was able to use the card when not on travel, the APC contacted Bank of America, which was unable to inform the APC as to who had activated the account. The cardholder's balance of more than $8,000 was charged off, and he was granted an administrative separation in lieu of a court-martial for offenses unrelated to the travel card misuse, including absence without leave, making false statements, and stealing government property of less than $100.

- Cardholder #4 was a commander (O-05) with the Naval Reserves assigned to the Naval and Marine Corps Reserve Center in Washington, D.C. Our review showed that Bank of America issued the cardholder a standard card in May 2000, although the cardholder's credit history indicated serious financial problems before and at the time of card issuance. For example, in October 1998, the cardholder filed Chapter 7 bankruptcy with only $37,169 in assets against $542,063 in liabilities. Further, in January 2000, right before the Bank of America card was issued, an account with a balance of more than $30,000 was charged off. This high-ranking Navy officer continued, since the issuance of the government travel card, a pattern of delinquencies on numerous accounts, and in one instance had merchandise repossessed for nonpayment.

During fiscal year 2001 and the first 3 months of fiscal year 2002, the cardholder used the government travel card to make numerous personal transactions. Transactions included more than $1,400 to D.B. Entertainment, which owns Baby Dolls Saloon, a gentlemen's club in Dallas, and more than $700 to Wearever cookware and Partylite Gifts, a manufacturer of candles and candle accessories. A delinquency letter was sent to the cardholder on August 9, 2002, when the account was 120 days past due; however, no documentation existed to indicate that any action was taken prior to this date. Although the cardholder had been placed in salary offset, no other disciplinary action had been taken against the cardholder.

Appendix V: Abusive Travel Card Activity Where Cardholders Paid the Bills

Table 12 shows cases of travel card use for personal expenses where the cardholder paid the bill.

Table 12: Examples of Abusive Travel Card Activity Where the Cardholders Paid the Bills

Card-holder	Unit	Grade	Vendor	Amount	Nature of transaction	Documented disciplinary action
1	PEO Theatre Air and Surface, Naval Sea Systems Command, Washington D.C.	GS-15	Seinpost Holdings	Over $23,000 in charges	35 transactions for Internet gambling	Written reprimand
2	Mobile Inshore Undersea Warfare, Newport	E-5	Cardholder's Limousine Service	8,622	Bogus charges of $7,222 to cardholder's own limousine company	None
3	Portsmouth Naval Shipyard	WG-10[a]	Herbal Life	6,758	17 purchases of vitamins and health supplements	None
4	Naval Undersea Warfare Center, Newport	ND-05[b]	Carnival Cruise	3,790	Alaskan cruise for 2 for 7 nights	None
5	U.S. Naval Academy, Annapolis	MIDN[c]	Best Buy	2,442	Home electronics	None
6	U.S. Marine Corps, Camp Pendleton	E-07	United Vacation	1,326	United Airlines plane ticket for cardholder's spouse	None
7	U.S. Marine Corps, Camp Pendleton	E-06	DeAngelo Tax Service	800	For preparation of 1997 through 2000 tax returns	None
8	Naval Reserves Forces Command, Virginia	E-07	Ticketmaster	460	4 concert tickets to the Backstreet Boys	None
9	Norfolk Naval Air Station	E-04	Fredricks of Hollywood	184	Women's lingerie	None
10	Naval Medical Research Center, San Antonio	E-4	GTEAir	148	Airplane telephone call	None

[a]Wage grade system used for workers who are on hourly salary.

[b]Scientific and engineering career path equivalent to GS-14 to GS-15.

[c]Midshipmen are cadets in training to become Navy officers. They may receive stipends while in college.

Source: GAO analysis.

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