

October 2002

TRAVEL CARDS

Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse



G A O

Accountability * Integrity * Reliability

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United States General Accounting Office
Washington, D.C. 20548

October 11, 2002

The Honorable Charles E. Grassley
Ranking Minority Member
Committee on Finance
United States Senate

The Honorable Stephen Horn
Chairman
The Honorable Janice D. Schakowsky
Ranking Minority Member
Subcommittee on Government Efficiency, Financial Management
and Intergovernmental Relations
Committee on Government Reform
House of Representatives

On July 17, 2002, we testified¹ before the Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, House Committee on Government Reform, on the results of our audit of internal controls over travel activity associated with about 430,000 individually billed Army travel card accounts, and \$619 million in related travel card charges for fiscal year 2001. The individually billed travel card program is significantly different from the purchase card program in that the cardholder is directly responsible for all charges incurred on his or her travel card account 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 Army for all valid expenses related to official government travel. In contrast, all purchase card charges are billed directly to the government for monthly payment. The intent of the travel card program was to improve convenience for the traveler and to reduce the government's costs of administering travel. Appendix I provides additional background information on the Army's travel card program.

This work was performed in response to your request for a comprehensive examination of the Department of Defense's (DOD) and the military services' purchase and travel card programs. This report provides details and results of our Army travel card audit, which was summarized in our recent testimony.

¹U.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).

The objectives of our audit of the Army's travel card program were to determine (1) the reported magnitude and impact of delinquent and charged-off Army travel card accounts for fiscal year 2001 and the first 6 months of fiscal year 2002, along with an analysis of related causes and DOD and Army corrective actions, (2) whether indications existed of potentially fraudulent and abusive activity² related to the Army travel card during fiscal year 2001, and (3) the effectiveness of the overall control environment and key internal controls for the Army's travel program. We analyzed the Army's account delinquency and charge-off information and compared it to non-Army DOD components and other federal agencies. In addition, we evaluated the adequacy of selected, specific internal control policies, procedures, and activities at four Army installations, representing 3 of the Army's 13 major commands.

We selected the four installations we audited based on the relative amount of travel card activity, the number and percentage of accounts past due, and the number and percentage of accounts charged off. For these installations, we tested a statistical sample of travel card transactions and conducted other audit work to evaluate the design and implementation of key internal control procedures and activities. Our statistical sample test results can be projected only to the individual installations where we performed the testing and cannot be projected to the command level or to the Army as a whole. Through auditing travel card transactions at the four installations and data mining of fiscal year 2001 transactions incurred by units throughout the Army, we identified numerous examples of potentially fraudulent and abusive travel card activity. However, our work was not designed to identify, and we cannot determine, the extent of potentially fraudulent and abusive activity.

²We defined potentially fraudulent activity as any scheme, or pattern of activity, related to the use of a travel card in apparent violation of federal or state criminal code. For purposes of this report, the only cases we characterized as potentially fraudulent were those where cardholders wrote three or more nonsufficient fund checks, or wrote checks on closed accounts to pay their Bank of America bills. These cases are potentially fraudulent because they indicate a pattern of activity in apparent violation of one or more elements of federal or state criminal code. In addition, for purposes of this report, 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, and thus benefiting personally. 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.

We conducted our audit work from December 2001 through July 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. We received comments on a draft of this report from the Under Secretary of Defense (Comptroller) dated September 30, 2002. We addressed DOD's comments in the "Agency Comments and Our Evaluation" section and reprinted them in appendix V. See appendix II for details on our scope and methodology.

Results in Brief

For fiscal year 2001, the Army had significant breakdowns in key internal controls over individually billed travel cards. These breakdowns contributed to the significant delinquencies and charge-offs of Army employee account balances and potentially fraudulent and abusive activity related to the travel card. The breakdowns resulted primarily from a weak overall control environment, flawed policies and procedures, and a lack of adherence to valid policies and procedures.

We found substantial delinquencies and charge-offs of Army travel card accounts during fiscal year 2001, and delinquencies continued into the first half of fiscal year 2002. Upon receipt of their travel cards, all cardholders are required to sign a statement of understanding that the card is to be used only for authorized official government travel expenses. Most Army cardholders properly used their travel cards and paid amounts owed to Bank of America timely. However, we found that the Army's delinquency rate is higher than that of any other DOD component or executive branch agency in the federal government. For the eight quarters ending March 31, 2002, the Army's delinquency rate fluctuated between 10 and 18 percent, and on average was about 5 percent higher than the rest of DOD and 7 percent higher than federal civilian agencies.

In addition, from November 1998 through March 2002, over 23,000 Army travel card accounts totaling about \$34 million were charged off by Bank of America. Our analysis of available data shows a correlation between delinquency problems and the travel cardholder's age and pay grade. We found that the Army's delinquency and charge-off problems are primarily associated with young, low- to midlevel enlisted military personnel. In addition, a weak control environment compounded by instances of delays in processing travel reimbursements to Army military and civilian personnel contributed to the high delinquency rates. These delinquencies and charge-offs have cost the Army millions of dollars in lost rebates,

higher fees, and substantial resources spent pursuing and collecting past due accounts.

The Army and DOD have taken action to address and focus command- and installation-level attention on management of delinquent travel card accounts. Beginning in November 2001, the Army began offsetting wages of certain military and civilian employees and the retirement benefits of military retirees who had either delinquent or charged-off accounts. These and other actions have begun to significantly reduce the number and dollar value of charge-offs during fiscal year 2002. However, these actions are primarily focused on treating the symptoms or “back-end” problems, such as delinquencies and charge-offs, rather than the “front-end” or preventative controls, such as the weak overall internal control environment and specific travel program control weaknesses.

Our work identified numerous instances of potentially fraudulent and abusive activity related to the travel card. During fiscal year 2001, about 1,200 of the over 4,200 Army account holders who had written at least one nonsufficient funds (NSF) check to pay their travel card bill had their accounts charged off. In the same period, more than 200 cardholders whose accounts were eventually charged off may have also committed bank fraud by writing three or more NSF checks to Bank of America. In one case, an Army employee, who had been convicted for writing NSF checks prior to receiving the government travel card, wrote over 86 NSF checks to Bank of America. Further, as part of our statistical sampling results at the four sites we audited, we estimated that personal use of the travel card ranged from 15 percent of fiscal year 2001 transactions at one site to 45 percent at another site. Cardholders used their travel cards for a wide variety of personal goods or services. For example, government travel cards were used for adult entertainment; dating and escort services; casino and Internet gambling; cruises; tickets to musical and sporting events; personal clothing; closing costs on a home purchase; and, in one case, the purchase of a used automobile. We found that charged-off accounts included those of both (1) cardholders who were reimbursed by the Army for official travel expenses but failed to pay Bank of America for the related charges, and thus pocketed the reimbursement, and (2) those who used their travel cards for personal purchases for which they did not pay Bank of America.

We also found several instances of abusive travel card activity where Army cardholders used their cards at establishments, such as gentlemen’s clubs, which provide adult entertainment. Further, in some cases, these clubs

were used to convert the travel card to cash by supplying cardholders with actual cash or “club cash” for a 10 percent fee. To illustrate, a cardholder who charged \$330 to the government travel card at one of these clubs would receive \$300 in cash. Subsequently, the club receives a reimbursement from Bank of America for a \$330 restaurant charge. For fiscal year 2001, we identified about 200 individuals who charged almost \$38,000 at these establishments. For example, we found that one cardholder obtained more than \$5,000 in cash from these establishments.

We found little evidence of documented disciplinary action against Army personnel who misused the card. Further, in many cases, evidence was lacking that Army travel program managers or supervisors were even aware that Army personnel were using their travel cards for personal use. For example, a civilian employee working at the Pentagon on a classified program used her travel card for personal purchases of \$3,600 and subsequently wrote two NSF checks for over \$7,700 to Bank of America. The cardholder’s account was subsequently charged off when the cardholder failed to pay the bill. The employee’s supervisor was not aware of any potentially fraudulent and abusive activity related to the travel card. In another example, a California National Guard employee with a \$5,400 charge-off associated with authorized travel, for which the Army reimbursed the cardholder, was subsequently promoted from Major to Lieutenant Colonel.

In addition, we found that 38 of 105 travel cardholders we reviewed who had their accounts charged-off still had active secret or top-secret clearances as of June 2002. Some of the Army personnel holding security clearances who have had difficulty paying their travel card bills may present security risks to the Army. Army regulations provide that an individual’s finances are one of the key factors to be considered in determining whether an individual should continue to be entrusted with a secret or top-secret clearance. However, we found that Army security officials were unaware of these financial issues and consequently could not consider their potential effect on whether these individuals should continue to have security clearances.

Our audit found that weaknesses in the Army’s overall control environment, including a number of specific controls that were either flawed in their design or in their implementation, are the root causes of the Army’s inability to prevent and/or effectively detect the numerous instances of potentially fraudulent and abusive travel card related activity previously discussed. Our work demonstrated that the Army has not

provided for an adequate control infrastructure—primarily human capital related—to effectively manage its travel card program. At the four units we audited, we found that management was focused primarily on delinquencies and often only after severe problems were discovered and major commands began demanding improved performance in reducing such delinquencies. There were few indications that management emphasized controls designed to prevent or provide for early detection of travel card misuse.

Our audit of seven controls relied on to manage the Army’s travel card program revealed critical weaknesses. For example, many problems we identified were the result of ineffective controls over issuance of travel cards. Although DOD’s policy allows exemptions from the use of travel cards for certain groups or individuals, we found that without exception the Army issued travel cards to all personnel who requested cards regardless of their travel or credit history. 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 Army travel cardholders included charged-off credit card and automobile loans, defaulted and foreclosed home mortgages, bankruptcies, and convictions for writing NSF checks.

Also, agency program coordinators (APC), who have the key responsibility for managing and overseeing travel cardholders’ activities, are essentially set up to fail in their duties because they are given substantial responsibility for a large number of cardholders—for example up to 1,000 cardholders per APC—and little time to do this collateral duty. Military personnel who are responsible for and rated on other job responsibilities—such as airport security—are given the APC role as “other duty as assigned.” With a high level of APC turnover (particularly military APCs, which at the locations we audited were reassigned about every 6 months), and only minimal time allotted to perform this collateral duty, we found that APCs generally were ineffective in carrying out their key travel card program management and oversight responsibilities.

Further, our statistical tests of key internal controls and processes in place at four Army locations showed errors in travel voucher processing that resulted in both overpayment and underpayment of the amounts that travelers should have received for their official travel expenses. In addition, substantial delays in travel reimbursements contributed to the high delinquency rates for at least one of these locations. Delays in reimbursement were often due to the traveler not submitting a travel

voucher within the required 5 days of completion of travel, and/or the paying office not making payment within the required 30 days. We also found a substantial number of California National Guard employees and several employees at other units audited who should have been paid late fees for late reimbursements. However, the Defense Finance and Accounting Service (DFAS) does not have the systems in place to identify late payments and thus reported that it made no late fee payments for fiscal year 2001.

This report includes a matter for congressional consideration that would provide DOD the ability to require the split disbursement payment process for all of its employees. We also provide recommendations to the Army to strengthen the overall control environment for the Army's travel card program and improve internal controls. Our recommended actions are in the areas of travel card issuance; monitoring, review, and disciplinary actions; and travel voucher and payment processes.

In written comments on a draft of this report, DOD concurred with 23 of our recommendations and partially concurred with the remaining 3 recommendations and described actions completed, under way, or planned to implement them. DOD partially concurred with our recommendations regarding (1) training APCs to refer cardholders who write NSF checks for disciplinary actions, (2) establishing an Army-wide disciplinary action policy for abusive travel card activity, and (3) developing a process to identify travel reimbursements that exceed the 30-day requirement so that individuals not paid within the statutory period are paid late fees in accordance with the law. With regard to the first two issues, DOD's response indicated that they have taken or plan to take actions that we believe will address the intent of our recommendations. With regard to the third issue, DOD agreed that the current systems for processing and computing travel vouchers for the Army do not provide for automated means of calculating interest due on voucher payments exceeding the 30-day requirement. DOD also stated that the Defense Travel System (DTS) currently being deployed automates the voucher submission process and should reduce the instances where reimbursements extend beyond 30 days. However, according to the DOD Office of Inspector General, DTS remains at high risk of not being an effective solution in streamlining the DOD travel management process and is not expected to be deployed until fiscal year 2006. Based on this evaluation, we do not consider DTS to be a timely or viable solution for identifying those reimbursements outside of the 30-day requirement. We continue to recommend that, until DTS is fully implemented and operational, DOD develop an interim process to identify

late reimbursements and pay cardholders the appropriate fees in accordance with the law.

In addition, in one area, although DOD concurred with our recommendation, we do not believe that its response indicates full agreement or understanding of the intent of the recommendation. Specifically, with regard to our recommendation that credit check results be used to make decisions on travel card applicants, DOD responded that those with prior credit problems are issued a restricted card and that mandatory use of the government travel card is required by TTRA. This is not correct. Both the DOD FMR and TTRA provide for exemptions from the mandatory use requirements under certain conditions, including evidence of financial irresponsibility. We continue to believe that until the Army takes action to consider past credit problems in determining whether to issue government travel cards, it will continue to increase the risk that individuals will repeat a pattern of fraud, abuse, and delinquency or nonpayment.

Finally, in concurring with our recommendations regarding the lack of segregation of duties and other voucher processing problems at the California Army National Guard, DOD indicated that it had a number of detective and compensating controls in place. While these appear responsive to our recommendations, we have not evaluated the effectiveness of their implementation and therefore cannot determine whether these measures will resolve the problems we identified.

Army Has Highest Delinquency and Charge-off Rates but Recent Actions Have Resulted in Some Improvements

The Army's travel card delinquency rate and amounts charged-off are substantially higher than non-Army DOD components and civilian agencies in the federal government. Cumulative Army charge-offs since the inception of the travel card program with Bank of America in November 1998 are nearly \$34 million. Our analysis of available data shows the travel cardholder's age and pay rate are strong predictors of delinquency problems. We found that the Army's delinquency and charge-off problems are primarily related to young, low- and midlevel enlisted military employees. Further, as discussed in the following sections of this report, weaknesses in the Army's overall control environment and delays and errors in processing and paying valid travel vouchers exacerbate the Army's delinquency problems. The Army's high delinquency and default rates have also resulted in contentious relations with Bank of America. The bank threatened to end its participation in the program, but eventually agreed to contract modifications that included increased fees. The

delinquencies and charge-offs have cost the Army, the federal government, and the taxpayers millions of dollars in lost rebates, higher fees, and substantial resources spent pursuing and collecting on past due accounts.

The Army has taken a number of positive actions to address its high delinquency and charge-off rates, and results from the first half of fiscal year 2002 show a significant drop in charged-off accounts. Most of this reduction is attributable to a salary and military retirement offset program—similar to garnishment. These offsets began in November 2001. Other Army actions included encouraging the use of a split disbursement payment process, in which DFAS sends a portion of the traveler’s reimbursement directly to the bank rather than the cardholder, and increased management attention and focus on the delinquency issue. The Army’s actions, however, primarily address the symptoms or “back-end” result of delinquency and charge-offs after they have already occurred. As noted in the remaining sections of this report, the Army’s control weaknesses that are the root cause of the problem are generally related to the “front-end” management of the travel card program, such as issuing the cards and overseeing the proper use of the cards.

The Army’s Delinquencies and Charge-offs

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 23,000 Army travel card accounts with nearly \$34 million of bad debt. As of March 31, 2002, over 11,000 Army cardholders had \$8.4 million in delinquent debt. The amount of delinquencies and charge-offs at the Army is the highest in DOD. Table 1 provides a comparison of cumulative charge-offs and delinquencies by military service as of March 31, 2002.

Table 1: Cumulative Charge-offs and Delinquencies by Military Service as of March 31, 2002

Dollars in millions

DOD service	Total cumulative charge-offs ^a	Cumulative recoveries ^{a, b}	Net cumulative charge-offs ^a	Delinquencies as of March 31, 2002 ^c
Army	\$33.5	\$12.9	\$20.6	\$8.4
Air Force	11.6	4.7	6.9	5.0
Navy ^d	16.6	6.2	10.4	6.0

^aCumulative charge-offs and recoveries are from November 1998 through March 2002.

^bRecoveries represent amounts recovered through collection actions on accounts that have been charged off by Bank of America.

^cDelinquencies represent amounts not paid within 60 days of the travel card monthly statement closing date, which is the cutoff date for charges to be included in the monthly statement. Under the terms of the travel cardholder's agreement with Bank of America, payment of the travel card statement is due to Bank of America within 25 to 30 days of the statement closing date.

^dIncludes Marine Corps.

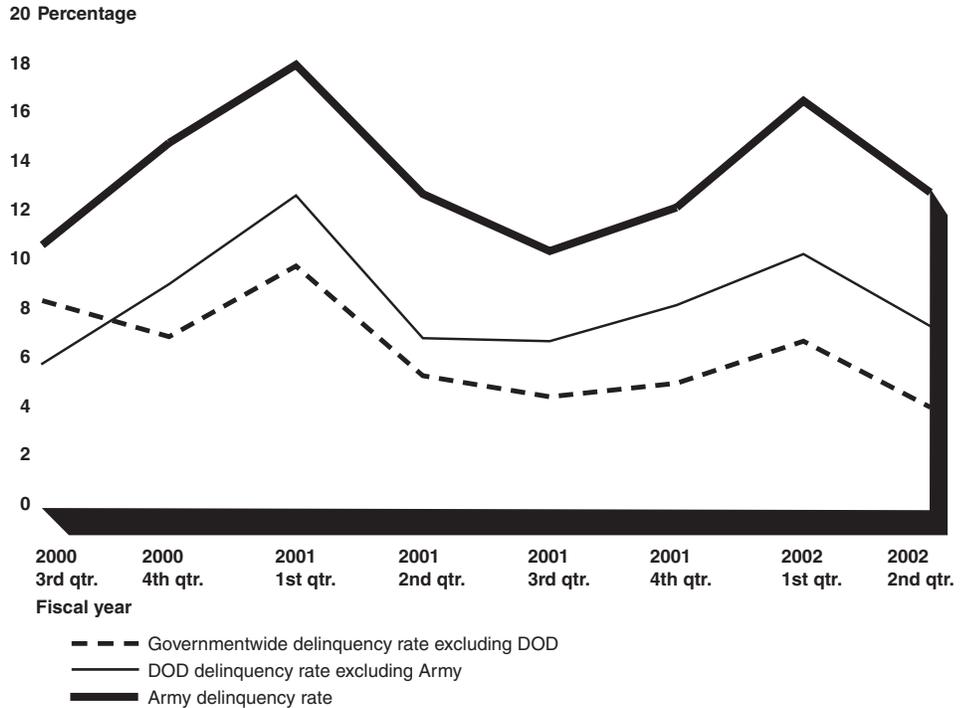
Source: GAO analysis of Bank of America and General Services Administration data.

Figure 1 compares delinquency rates³ among the Army, non-Army DOD components including the other military services, and the 23 largest civilian agencies.⁴

³Throughout this report, we calculated delinquency rates using the proportion of dollars of accounts delinquent to the total dollars of accounts outstanding according to industry standards set by the Federal Financial Institutions Examination Council.

⁴The civilian agencies included in our analysis are the 23 executive branch agencies covered under the Chief Financial Officers (CFO) Act, as amended by the Government Management Reform Act.

Figure 1: Army, Non-Army DOD, and Civilian Agency Travel Card Delinquency Rates for the 2-Year Period Ending March 31, 2002



Source: GAO analysis of General Services Administration data.

As of March 31, 2002, the Army had the highest delinquency rate in the federal government. Army’s delinquency rate over the last 2 years fluctuated between 10 and 18 percent, and on average was about 5 percent higher than the other non-Army DOD components and about 7 percent higher than the federal civilian agencies.⁵ According to Army officials, the nature of the Army’s mission, which includes extensive travel for extended periods in remote, often hostile locations around the world, contributes, at least in part, to the Army’s high delinquency rate. Appendix III provides a breakdown of the Army’s delinquency rates by major command.

⁵We did not analyze in detail the reason that the Army delinquency rates are substantially higher than those of the non-Army DOD component delinquencies. However, we will be issuing separate reports that include analysis of delinquency rates for the departments of the Navy and the Air Force.

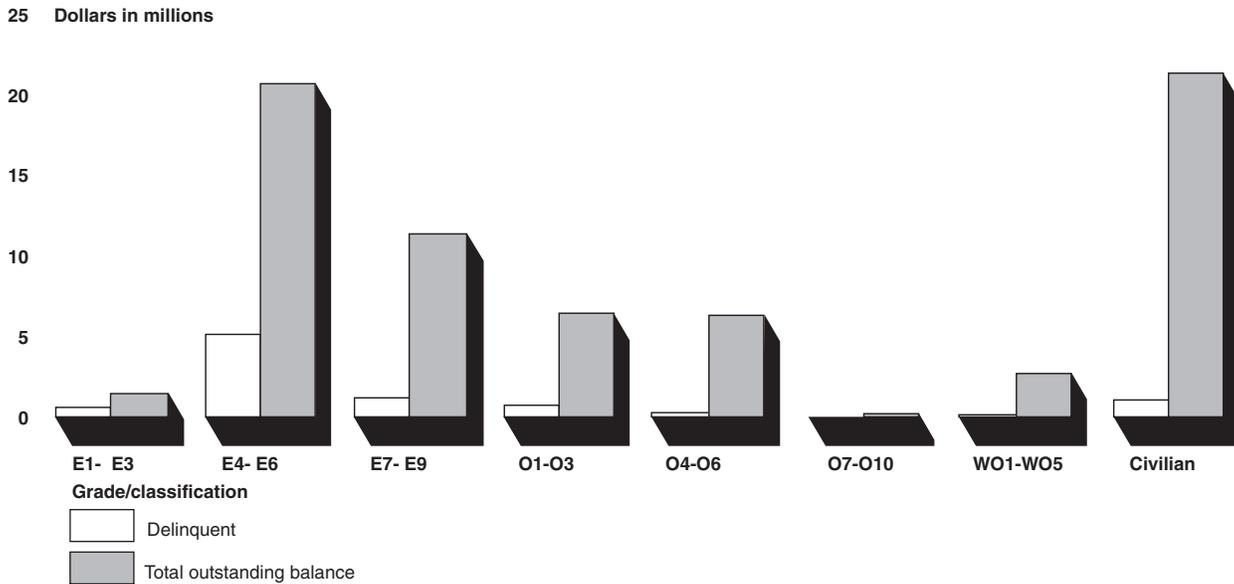
Age and Pay Grade Are Correlated to Delinquency and Charge-off Problems

A number of factors contributed to the Army's high delinquency rates. Many of the problems related directly to the control environment at the Army and at the sites we visited. Other problems related to the implementation of the travel card program and a lack of controls over travel card use and travel processing. A detailed discussion of the control environment and specific internal control issues is provided in the following sections of this report. Without proper management control, demographics such as the age and pay rates of Army personnel also contributed to delinquencies and charge-offs.

Our analysis of available data showed that there was a correlation between certain demographic factors and high delinquency and charge-off rates. According to Army representatives, and based on our analysis, most Army travel cardholders responsible for delinquencies and charge-offs were young (generally married), low- and midlevel enlisted military personnel (E-1-privates to E-6-staff sergeants),⁶ with relatively low incomes and little experience in handling personal finances. If these individuals get into financial difficulty, they have fewer resources at their disposal to pay their travel card balances in full every month.

⁶Appendix IV provides a description of each of these military grades and their associated military rankings and pay, along with corresponding civilian grade and pay data.

Figure 2: Army Delinquent and Total Outstanding Travel Card Balances by Military Grade and Total Civilian Populations as of September 30, 2001

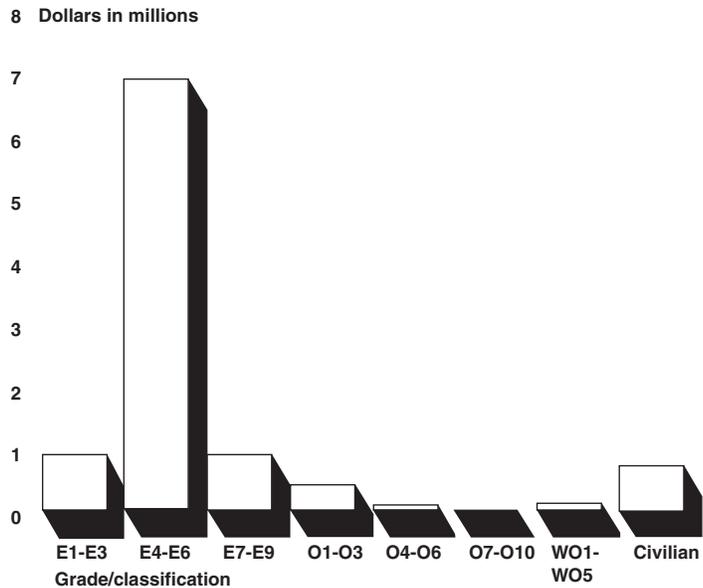


Source: GAO analysis of Bank of America data.

In the Army, grades E-1 through E-6 account for about 73 percent of all military personnel. Consequently, it is not surprising that they have the highest outstanding travel card balance. As shown in figure 2, the travel cardholder's grade (and associated pay) is a strong predictor of delinquency problems. We found that the Army's delinquency and charge-off problems are primarily associated with young, low- and midlevel enlisted military personnel with basic pay levels ranging from \$11,000 to \$26,000. Delinquency rates were as high as 40 percent and 25 percent for E-1 to E-3 and E-4 to E-6, respectively, compared to Army civilians whose delinquency rate is consistent with rates for federal civilian agencies, as shown in figure 1.

As shown in figure 3, personnel in grades E-1 through E-6 account for about \$8 million of the \$10 million in total Army charge-offs for fiscal year 2001.

Figure 3: Fiscal Year 2001 Army Charge-offs by Military Grades and Total Civilian Populations



Source: GAO analysis of Bank of America data.

Enlisted personnel in the E-1 to E-6 grade level range in rank from privates to staff sergeants, respectively, and receive basic pay ranging from \$11,033 to \$26,253. Although these basic pay rates are supplemented with amounts such as housing and food allowances, these salaries may not permit payment of excessive personal charges on travel cards. Also, if cardholders in these lower grade levels do not receive their travel card reimbursements promptly because of either delays in filing their vouchers or in voucher processing, they may lack the financial resources to make timely required payments on their travel card accounts. Further, as discussed later, because of the Army's failure to take any action to exempt personnel with poor credit histories from required use of travel cards, these low- and midlevel enlisted military personnel are often issued travel cards even though they may already be in serious financial trouble and, therefore, may not have been appropriate credit risks. The failure to provide proper training and monitoring of travel card use, as well as maintain firm credit limits, may also have exacerbated the delinquency rates for these individuals.

High Delinquency and Charge-off Rates Have Resulted in Increased Costs to the Government

Although the bank generally absorbs the losses associated with delinquencies and charge-offs, this problem has significant consequences to the Army. The high delinquency and charge-off rates resulted in increased costs in terms of increased fees imposed by Bank of America following a contract dispute with DOD and the loss of potential refunds associated with the program. Other costs are real but not easily measurable, such as the increased administrative burden to the Army associated with additional resources required to address delinquent and charged-off accounts. For example, to effectively manage the travel card program, employees with delinquent accounts must be identified, counseled, disciplined, and closely monitored. In addition, employees with financial problems who also have access to sensitive data may pose a security risk, as discussed later in this report. While most employees properly manage their travel card accounts and pay their bills on time, the high delinquency and charge-off rates may undermine the professional image of the Army and its personnel.

Dispute between Contractor and DOD

Unexpectedly high defaults by DOD's travel cardholders, including the Army's, resulted in a 5-month legal dispute with DOD's contractor, Bank of America, over the continuation of the travel card contract. In 1998, under the provisions of the General Services Administration's (GSA) master contract with Bank of America, DOD entered into a tailored task order for Bank of America to provide travel card services for a period of 2 years, ending November 29, 2000. Under the terms of the task order, DOD had three 1-year options to unilaterally renew the Bank of America contract. On September 29, 2000, prior to the expiration of the initial task order, DOD gave notice to Bank of America that it intended to exercise its option to extend the task order for an additional year. In November 2000, Bank of America contested the provisions of the DOD task order with the GSA contracting officer. Bank of America claimed that the task order was unprofitable because of required "contract and program management policies and procedures" associated with higher-than-anticipated credit losses. Bank of America officials estimated that 43,000 DOD employees defaulted on more than \$59 million in debts. Bank of America only agreed to drop its legal dispute with DOD after GSA renegotiated the terms of the master contract and DOD renegotiated the related tailored task order for travel card services in April 2001. Specifically, under the renegotiated master contract and related task order Bank of America was able to reduce its financial risk by instituting additional fees, such as higher cash advance and late payment fees; offsetting credit losses against rebates; facilitating the collection of delinquent and charged-off amounts through salary and

military retirement pay offset; and participating in the split disbursement payment process, in which the government pays the bank directly.

Effect of Increased Fees

One of the terms of the renegotiation of the task order between Bank of America and DOD was an increase in travel card cash advance fees from 1.9 percent to 3 percent, or \$2, whichever would be the higher fee amount, effective August 10, 2001. The Army reimburses cash advance fees⁷ incurred by a traveler while on authorized travel. We estimate that this contract modification will result in approximately \$1.4 million of increased costs to the Army each year for the reimbursement of cash advance fees. Our estimate was made by applying the increase in the advance fees to cash advances made during fiscal year 2001. Other fee increases agreed to in the renegotiation increased the cost to the Army, such as the fee for expedited travel card issuance, and to delinquent cardholders, such as the increase in late fees from \$20 to \$29.

⁷Cash advance fees are also referred to as automated teller machine (ATM) fees. ATMs allow cardholders to withdraw cash with a travel card. For each cash advance withdrawal, cardholders are charged a fee of a set amount or percentage of the amount of the withdrawal.

Delinquent Account Payment Affects Rebates to the Army

The GSA master contract modification also changed the rebate calculation, making it imperative that the Army improve its payment rates to receive the full benefits of the program. Under the GSA master contract, credit card companies are required to pay a quarterly rebate, also known as a refund, to agencies and GSA as a result of a combination of both individually billed and centrally billed card usage. The rebate to the agency is reduced, or eliminated, if significant numbers of an agency's individual cardholders do not pay their accounts timely. Specifically, credit losses or balances that reach 180 calendar days past the closing date on the statement of account reduce the rebate amounts. Effective January 2001, one of the terms of the contract modification changed the way that rebates are calculated and how credit losses are handled. If the credit loss of an agency's individually billed travel card accounts exceeds 30 basis points—or 30 one-hundredths of a percent (.003)—of net sales⁸ on the card, the agency is assessed a credit loss fee, or rebate offset, against the rebate associated with both individually billed and centrally billed travel card accounts.

This credit loss fee, or rebate offset, which resulted solely from individually billed account credit losses, significantly affected the amount of rebate that the Army received as a result of combined individually and centrally billed net sales in fiscal year 2001. The Army collected approximately \$635,000 of the \$3 million in rebates for fiscal year 2001 that we estimated that the Army would have received, based on fiscal year 2001 dollar volume, had individually billed account payments been timely. Prior to the change in the way the rebates were calculated, in fiscal year 2000, the Army received approximately \$2.7 million in rebates from the travel card program, net of \$450,000 that was paid to GSA for an industrial funding fee (contract administration fee).

GSA receives a contract administration fee of four basis points or four one-hundredths of a percent (.0004)—of net sales on both the individually and centrally billed accounts. For fiscal year 2001, GSA received approximately \$485,000 for the Army's net sales. Bank of America pays this fee to GSA regardless of whether the agency or service receives any rebates. For example, for the last three quarters of fiscal year 2001, the Army had negative rebates after the credit loss fees were deducted and GSA received approximately \$386,000 from Bank of America for those three quarters.

⁸Net sales consist of all purchases and other charges less any credits, such as returns, other than payments to the accounts. Other charges include ATM use, traveler's checks, and any other fees.

The negative net rebates are carried over to subsequent quarters until they can be offset by positive net rebates that the agency earns.

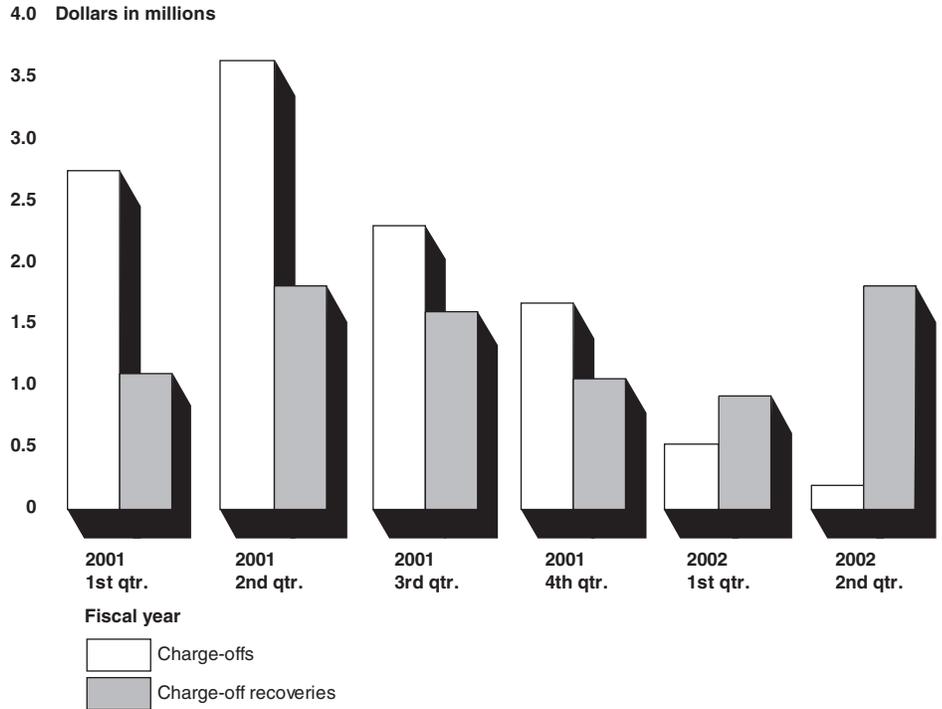
Army and DOD Have Taken Some Steps to Reduce Delinquencies and Charge-offs, but Additional Actions Are Needed

The Army has taken a number of positive actions to address its high delinquency and charge-off rates, and results from the first half of fiscal year 2002 show a significant drop in charged-off accounts. Most of this reduction may be attributed to a salary and military retirement payment offset program—similar to garnishment. This program began to offset amounts from delinquent cardholders' salaries and military retirement benefit payments in November 2001. Other Army actions include a limited split disbursement payment plan, in which DFAS disburses a portion of a travel reimbursement directly to the bank (instead of disbursing the entire amount of the reimbursement to the cardholder), and increased management attention and focus on the delinquency issue. The Army's actions, however, primarily address the symptoms or "back-end" result of delinquency and charge-offs after they have already occurred. As noted in the remaining sections of this report, the Army has significant control weaknesses, particularly with respect to the front-end management of the travel card program, such as issuing the cards and overseeing the proper use of the cards, which it has not yet effectively addressed.

Charge-offs Have Decreased

As shown in figure 4, the Army's charge-offs have decreased substantially.

Figure 4: Army Travel Card Charge-off and Recovery History from October 1, 2000, to March 31, 2002



Source: GAO analysis of Bank of America data.

Specifically, although Army delinquency rates have not changed substantially in the last 2 years, the total dollars charged off by Bank of America have decreased for each of the last four quarters. Figure 4 also shows that recoveries of charge-offs increased markedly in the second quarter of fiscal year 2002. The primary causes of the decrease in charge-offs and recent increase in recoveries are DOD's new salary and military retirement benefit offset program as well as other positive steps, including encouraging the use of split disbursements and increased management focus and attention.

Salary and Military Retirement
Offset Program

Starting in fiscal year 2002, DOD began to offset the salary of certain civilian and military employees and retired military members for all services, including the Army, for the amounts delinquent or charged off on travel card accounts. The DOD salary offset program⁹ implements a provision of the Travel and Transportation Reform Act of 1998 (TTRA)¹⁰ that allows any federal agency, upon written request from the travel card contractor, to collect by deduction from the amount of pay owed to an employee (or military member) any amount of funds the employee or military member owes to the contractor, as a result of delinquencies not disputed by the employee, on his or her travel card.¹¹

With the task order modification, DOD agreed with Bank of America to implement an offset program. From April 2001 through August 2001, DOD worked with the Bank of America to establish protocols and to set up the program. In August 2001, Bank of America sent demand letters to cardholders with accounts over 90 days delinquent. DFAS processed the initial offsets of delinquent accounts in October 2001 in the various DOD pay systems. The first deduction was made from the November pay period. Collections were paid to Bank of America starting in early December 2001. Bank of America can also use the offset program to recover amounts that were previously charged off. January 2002 was the first month in which Bank of America requested offsets for charged-off accounts.

The process takes approximately 2 months from initiating the offset through payment to the bank. Specifically, after 90 days delinquency, Bank of America sends a demand letter to the individual cardholder that requests payment in full within 30 days. The demand letter provides for initiating offset if payment is not made in full within 30 days. The cardholder may negotiate an installment agreement or may dispute the charges with the bank. The cardholder has a right to review all records, such as invoices, and to request a hearing if he or she is not satisfied with the bank's disposition of the dispute.

⁹DOD's salary offset program includes individuals' salaries paid by DOD through its active duty, reserve, and civilian pay systems, and retirement benefits paid through its military retirement pay system.

¹⁰Sec. 2(d), Public Law 105-264, 112 Stat. 2350 (5 U.S.C. 5701 note).

¹¹Cardholder debts to Bank of America are not subject to the Debt Collection Improvement Act of 1996, which is limited to the collection of certain debts owed the federal government.

After the 30 days have passed, if payment is not made and the cardholder does not dispute the debt, the bank includes the account in the list of accounts requested for offset. Individuals in the following categories cannot be accepted for offset.

- Civilian employees in bargaining units that have not agreed to offset cannot be accepted. According to a DFAS official, as of the end of April 2002, 789 of 1,227 DOD bargaining units have agreed.
- Individuals with debts to the federal government or other garnishments already being offset at 15 percent of disposable pay are considered to be in protected status and are not eligible for the offset program.
- Individuals who cannot be located in the various payroll and military retirement (active, reserve, retired military, or civilian) systems cannot be accepted for offset.
- Civilian retirees are not currently subject to offset. The authorizing statutes for both the Civil Service Retirement System¹² and the Federal Employee's Retirement System¹³ specify that retirement benefits may be offset only to the extent expressly authorized by federal statutes. TTRA, Section 2, provides authority to offset salaries of "employees" of agencies but does not provide such authority for civilian employee retiree annuitants.

Once an individual is accepted for offset, the related debt is established in the respective pay system and DFAS can deduct up to 15 percent of disposable pay. Disposable pay is defined in GSA's Federal Travel Regulation¹⁴ as an employee's compensation remaining after the deduction from an employee's earnings of any amounts required by law to be withheld (e.g., tax withholdings and garnishments). The amounts collected are paid to the bank monthly for military personnel and retirees and biweekly for civilian personnel.

According to DFAS, from October 2001 through April 2002, Bank of America referred 49,014 DOD-wide cases with debt of \$72.4 million to DOD

¹²5 U.S.C. section 8346.

¹³5 U.S.C. section 8470.

¹⁴41 C.F.R. section 301-54.2.

for offset. DOD accepted and started offset for 73 percent of the cases and 68 percent of the debt amounts referred. The number and debt amount of Army cases forwarded by Bank of America were not available. From November 2001 through April 2002, DFAS collected \$6.3 million from Army military and retired military members through the offset program. DFAS was unable to provide the amount of collections for civilian employees by military service. However, the amount of total collections from November 2001 through April 2002 for civilian employees of DOD services and agencies was about \$702,000.

Split Disbursement Payment Process

DOD has recently encouraged cardholders to make greater use of the split disbursement payment process. This payment method, by which cardholders elect to have all or part of their reimbursement sent directly to Bank of America, has the potential to significantly reduce delinquencies. Split disbursements are a standard practice of many private sector companies. DOD reported that for about 27 percent of the travel vouchers paid in April 2002 at one of its major disbursing centers, cardholders elected this payment option.

However, the use of the split disbursement payment process by employees is currently voluntary, as shown by DOD's low participation rate. The defense authorization bill for fiscal year 2003 passed by the Senate would change this 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 early October 2002, the bill (H.R. 4546) was in conference.

Management Focus and Attention

In response to the excessive delinquency rate, in October 2000, the Vice Chief of Staff of the Army issued a directive to cut the Army's delinquencies by 50 percent by the end of March 2001. Further, the Vice Chief of Staff established a goal of a delinquency rate of no more than 4 percent of active cardholders as soon as possible and ordered commanders throughout the Army to provide additional attention to the government travel card program.¹⁵ Army officials emphasized setting goals, monitoring results,

¹⁵For performance measurement purposes, the Army is calculating delinquency rates using the number of delinquent accounts compared to the total number of active accounts. The dollar amount method we used is the industry standard and is also used by the CFO Council and by the DOD Charge Card Task Force.

providing feedback, providing training, and coordinating efforts with DOD and Bank of America. We have also seen increased management attention and focus on reducing delinquencies at the Army command level. For example, commanders at both Ft. Bragg locations we audited told us they hold monthly meetings to discuss the status of any outstanding delinquencies and related corrective actions.

Further, the DOD Under Secretary of Defense (Comptroller) created a DOD-wide Charge Card Task Force in March 2002 to address management issues related to DOD's purchase and travel card programs. The task force issued its final report on June 27, 2002. We have reviewed the report and believe that many of the actions proposed by the task force will improve the controls over the travel card program. For example, as previously discussed, we support the provision of the fiscal year 2003 defense authorization bill that would authorize DOD to require the use of the split disbursement payment process. If enacted and required DOD-wide, this authority has the potential to significantly reduce DOD's and the Army's delinquency rates. Other important task force recommendations include canceling inactive accounts and expanding the salary offset program. However, actions to implement additional "front-end" or preventive controls, such as strengthening the critical role of the APCs and denying cards to individuals with prior credit problems, were not addressed in the report. We believe that strong preventive controls will be critical if DOD is to effectively address the high delinquency rates and charge-offs, as well as the potentially fraudulent and abusive activity discussed in this report.

Potentially Fraudulent and Abusive Travel Card Activity

Our review identified numerous instances of potentially fraudulent and abusive activity associated with the Army's travel card program during fiscal year 2001. Failure to implement controls to reasonably prevent such transactions can increase the Army's vulnerability to additional delinquencies and charge-offs. As discussed previously, about \$34 million associated with over 23,000 Army accounts was charged off since the inception of the travel card program with Bank of America.

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. For purposes of this report, the only cases we characterized as potentially fraudulent were those where cardholders wrote three or more NSF checks or wrote checks on closed accounts to pay their Bank of America bills. These cases are potentially fraudulent because they indicate a pattern of activity in violation of one or more

elements of federal or state criminal codes. In addition, some of the travel card activity that we categorized as abusive may be fraudulent if it can be established that the cardholder violated any element of federal or state criminal codes.

For purposes of this report, we considered abusive travel card activity to include (1) personal use of the cards—any use other than for official government travel—regardless of whether the cardholders paid the bills and (2) cases in which cardholders were reimbursed for official travel and then did not pay Bank of America and thus benefited personally.

Potentially Fraudulent Transactions

Our review identified numerous examples of potentially fraudulent activity where the cardholders wrote checks against closed checking accounts or repeatedly wrote NSF, or “bounced,” checks as payment for their travel card accounts. Knowingly writing checks against closed accounts or writing three or more NSF checks may be bank fraud under 18 U.S.C. 1344.¹⁶ Further, it is a violation of the Uniform Code of Military Justice (UCMJ)¹⁷ 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. During fiscal year 2001, of the over 4,200 account holders who wrote NSF checks, close to 1,200 Army personnel had their accounts charged off. In the same period, more than 200 personnel whose accounts were eventually charged off may have committed bank fraud by writing three or more NSF checks to Bank of America. Table 2 shows the 10 cases we selected for review where the cardholders wrote three or more NSF checks to Bank of America, and whose accounts were charged off due in part to repeated use of NSF checks.

¹⁶Bank fraud is defined by 18 U.S.C. 1344 as any execution of, or attempt to execute, a scheme or artifice to defraud a financial institution or to obtain any of the moneys, funds, credits, assets, securities, or other assets owned by, or under the custody or control of, a financial institution, by means of false or fraudulent pretenses, representations, or promises.

¹⁷UCMJ is a federal law enacted by the Congress. UCMJ articles 77-134 are known as “punitive offenses,” that is, specific offenses which, if violated, can result in punishment by court-martial.

Table 2: Examples of NSF Checks Written on Charged-off Accounts

Cardholder	Total amount (number) of NSF checks in FY 2001	Total amount charged off	Grade	Unit	Credit history/problems	Documented follow-up/disciplinary action
1	\$269,301 (86)	\$35,883	E-6	Ft. Jackson	Criminal conviction for writing NSF checks and serious credit card delinquency ^a prior to card issuance.	Undergoing court-martial.
2	12,327 (8)	7,942	O-3	Ft. Hood	None.	None.
3	7,737 (4)	3,257	GS -13	Pentagon	Charge-offs and referrals to collection agencies ^b and serious credit card delinquencies prior to card issuance.	None. Bank of America account paid in full after we identified it as a charge-off.
4	6,099 (3)	7,373	GS-12	Ft. McPherson	Serious credit card delinquencies prior to card issuance. Mortgage foreclosure and other charge-offs and referrals to collection agencies since card issuance.	Counseled. Salary offset program.
5	3,995 (3)	5,259	E-7	West Virginia ROTC	Bankruptcy judgment, automobile repossession, and serious delinquencies prior to card issuance.	Letter of reprimand. Salary offset program.
6	4,845 (11)	3,380	E-6	Ft. Hood	Referrals to collection agencies prior to card issuance.	None.
7	2,709 (3)	7,846	E-4	Ft. Drum/ Ft. Lewis	Prior charge-off and referral to collection agency.	Administrative discharge for misconduct directly related to misuse of the travel card.
8	900 (5)	3,104	E-3	Ft. Drum	None prior to travel card issuance. Automobile repossession and delinquencies since 2000.	None. Honorable discharge.
9	840 (3)	2,137	E-7	Army National Guard Utah	Serious delinquencies prior to card issuance.	None. Salary offset program.
10	263 (3)	2,763	GS-5	U.S. Army Europe	Referral to collection agency and serious delinquency before card issuance.	Counseled. Salary offset program.

^aSerious delinquency is defined as 90 or more days past due on payment submission.

^bThese included referrals to collection agencies for unpaid bills from utility companies, cable companies, and department stores.

Source: GAO analysis.

Eight of the 10 cardholders included in table 2 had significant credit problems prior to card issuance, such as charged-off credit card accounts and automobile loans; mortgage foreclosures; bankruptcies; serious delinquencies; referrals to collection agencies for unpaid utility bills, medical fees, and department store accounts; and, in one case, prior criminal convictions for writing NSF checks. The remaining two had similar credit problems subsequent to issuance of Bank of America travel cards. These examples are illustrative of many of the breakdowns in the management and oversight over the Army travel card program, as discussed in the following sections of this report. The following provides detailed information on some of these cases.

- Cardholder #1 was a staff sergeant who wrote 86 NSF checks totaling almost \$270,000 for payment on his Bank of America travel card account for charges incurred when the cardholder was not on official government travel. This cardholder had a previous criminal record for writing NSF checks. The cardholder also had numerous other financial problems, including mortgage foreclosure and claims discharged in December 2001 for Chapter 7 bankruptcy. Among the claims discharged in bankruptcy was a \$2,199 claim on the cardholder's previous government travel card issued by American Express and a \$114,750 real estate loan. This cardholder applied for and received a new Social Security number when he legally changed his name in 1998, and since then has had two Social Security numbers—one under each name. The individual authorized a credit check at the time of his application for a government travel card from Bank of America. However, it appeared that the credit check was not performed and the individual was issued a standard card with a \$10,000 limit in April 1999, instead of a restricted card with a \$2,500 credit limit.

From July 1999 through November 2000, the cardholder wrote approximately 86 NSF checks—some on closed or invalid accounts—to Bank of America. Industry regulations require that an account be credited immediately upon receipt of a check. Consequently, when Bank of America posted the NSF checks, the account appeared to have been paid, which provided credit to the cardholder to make additional purchases. Thus, by writing successively larger NSF checks, which Bank of America credited to his travel card account, the staff sergeant was able to, in effect, successively increase his credit limit to over \$35,000—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. Despite the 86 NSF checks and associated

increases in the cumulative unpaid balance on the cardholder's government travel card account, records we obtained indicate that Bank of America did not close this individual's account until February 2001, when the account was charged off. The cardholder was undergoing court-martial in late May 2002 for NSF checks related to his Bank of America account as well as to the Army and Air Force Exchange Services. Bank of America acknowledged that it erred in not closing this account sooner. This has resulted in the bank changing its policy to require accounts to be closed when a cardholder has written three NSF checks.

- Cardholder #3 currently works at the Pentagon as a GS-13 employee on a classified program. Because of her position, the cardholder has a top-secret clearance. Prior to applying for the Bank of America travel card, the employee had credit problems, including several charged-off accounts. Because the employee did not authorize a credit check on her travel card application, she was given a restricted card with a credit limit of \$2,500, which should have been issued in "inactive" status and only activated when needed for travel. However, Bank of America records showed that in July 2000, immediately after receiving the travel card, the employee used the card to pay for a personal move and other charges totaling more than \$3,600—more than \$1,000 in excess of the credit limit on restricted travel cards. The cognizant APC told us that while a credit check authorization should have been done for the cardholder to exceed the \$2,500 credit limit, she could not confirm that one was done in this case.

In addition, from October 2000 through September 2001, the employee wrote four NSF checks totaling more than \$7,700 to Bank of America. The cardholder's account had an unpaid balance of \$3,257 at the time it was charged off in September 2001. Although the cardholder had a restricted card that should have been activated only for the first official travel, the fact that she was able to use the card immediately upon issuance while not on travel indicated that Bank of America issued the card in an "active" status. Shortly after our investigators contacted this cardholder, she paid her account balance in full.

We also found that no disciplinary action had been taken against this individual. The two APCs were not aware that the employee had problems with her account, much less that the account was charged off, until contacted by our investigators. The APCs told us they had little time to devote to reviewing the over 500 individual accounts for

which they had oversight responsibilities assigned as a collateral duty. In addition, while, according to a Bank of America official, APCs have had access to NSF check information in its database since 2000, one of the APCs told us she only recently received training on how to identify delinquent accounts in Bank of America's database.

- Cardholder #6 exhibited a pattern of writing NSF checks about once a month. During fiscal year 2001, the cardholder wrote 11 NSF checks to Bank of America that ranged from \$250 to \$630. Some checks were written to pay charges that appeared to be for personal travel. The cardholder's account balance of \$3,380 was charged off in February 2002. Further, when the cardholder was assigned from Ft. Hood, Texas, to the U.S. Army Recruiting Command in Tampa, Florida, her travel card account was not transferred and assigned to the APC responsible for travel card oversight in her new unit. Consequently, the APC in Florida was not aware of the cardholder's problems because the cardholder did not appear in any of the Recruiting Command's delinquency reports.

Abusive Travel Card Activity

We found instances of abusive travel card activity by Army cardholders that covered charges for a wide variety of personal goods and services, including cruises; sports and music event tickets; personal clothing items; casino and Internet gambling; transactions to obtain cash at adult entertainment establishments; and, in one case, the purchase of a used automobile. There should be no misunderstanding by Army personnel that personal use of the card is not permitted. The standard government travel card used by most Army personnel is clearly marked, "For Official Government Travel Only" on the face of the card.

In addition, all Army travel card applicants sign a statement that provides, in part, that "I also understand that I am authorized to use the card only for those necessary and reasonable expenses incurred by me for official travel." As part of our statistical sampling tests of travel card activity at four Army locations, we estimated that 15 percent to 45 percent of the fiscal year 2001 travel card transactions at those locations appeared to be for charges not related to official travel and, therefore, were abusive. Further, abusive use of the card related to failure to pay Bank of America was the result of (1) cardholders who were reimbursed for official travel and then did not pay Bank of America and (2) cardholders who used the card for personal charges and failed to pay Bank of America.

Travel Card Abuse due to Failure to Pay Bank of America Charges

Our work at four case study sites and our Army-wide data mining identified numerous examples of abusive travel card use where cardholders failed to pay their travel card bills. This abusive activity included (1) authorized transactions incurred in conjunction with approved travel orders where the cardholders received reimbursement but did not pay the bills, leading to charge off of the cardholders' accounts, or (2) transactions incurred by cardholders that were not associated with approved travel orders where unpaid accounts were also charged off. In all cases, we found that ineffective monitoring contributed to charge-offs. Specifically, many APCs, commanders, and supervisors did not effectively monitor travel card usage or address delinquencies timely. We found little documentation indicating that the APCs, commanders, and supervisors were aware of the problems with individual cardholders, conducted follow-up, and took appropriate disciplinary actions. Table 3 provides examples of the two types of abusive transactions related to nonpayment and the related follow-up and disciplinary actions.

Table 3: Examples of Abusive Activity Where the Account Was Charged Off

Cardholder	Grade	Unit	Total charged-off amount	Transactions contributing to charge-off	Credit history/problems	Documented follow-up/disciplinary action
1 ^a	GS-12	Ft. McPherson	\$7,373	Used reimbursed travel money for closing costs on a house. Wrote NSF checks.	Serious credit card delinquencies prior to travel card issuance; mortgage foreclosure and other charge-offs and referrals to collection agencies since 2000.	Counseled; salary offset.
2 ^b	E-7	ROTC	5,259	\$4,100 to Budget-Rent-A-Car for purchase of a used automobile.	Bankruptcy judgment, automobile repossession, and serious delinquencies prior to travel card issuance,	Letter of reprimand. Salary offset.
3	E-6	Army Forces Command	2,278	\$110 in "club" cash from Spearmint Rhino Adult Cabaret.	Serious credit card and other delinquencies prior to travel card issuance.	None.
4	E-4	Army Reserve Command	1,253	\$500 to Cryptologic, Inc. by spouse for Internet gambling.	Numerous referrals to collection agencies prior to travel card issuance.	None.
5	O-5	California National Guard ^c	5,419	Did not use reimbursement to pay travel card charges.	Serious delinquencies, including delinquency on the American Express government travel card, prior to travel card issuance.	Salary offset. ^c

(Continued From Previous Page)

Cardholder	Grade	Unit	Total charged-off amount	Transactions contributing to charge-off	Credit history/problems	Documented follow-up/disciplinary action
6	E-8	Ft. Bragg, Special Operations	4,704	ATM withdrawals in hometown area without travel order.	Serious delinquency prior to travel card issuance.	Verbal counseling.
7	E-4	Ft. Bragg, Forces Command	8,709	Numerous charges at Wal-Mart Supercenter.	Serious delinquency prior to travel card issuance.	None.
8	E-3	Ft. Drum, Forces Command	1,058	Cash from Dream Girls Escort Service.	None prior. Serious credit card delinquencies in 2002.	None.
9	E-4	Ft. Drum, Forces Command	10,029	Numerous personal charges, including casino gambling.	Referral to collection agency prior to travel card issuance.	None.
10	E-4	Ft Drum, Forces Command	7,643	Numerous charges at local restaurants, gas stations, grocery stores, and hotels in vicinity of Ft. Drum.	Referrals to collection agencies prior to travel card issuance.	None.

^aSame as NSF case #4.

^bSame as NSF case #5.

^cSee disciplinary action section for a discussion of this cardholder.

Source: GAO analysis.

Similar to individuals who wrote NSF checks, many of the 105 cardholders that we reviewed whose accounts were charged off had significant prior credit problems, such as charged-off credit card account balances and automobile loan defaults, and referrals to collection agencies. Many of these individuals experienced further credit problems, including mortgage foreclosure, after issuance of the government travel card. As shown in table 4, some charged-off accounts resulted from the use of the card for transactions that were not proper travel expenses covered by valid travel orders, while others resulted from official travel expenses that were reimbursed but the cardholders failed to pay the bills. The magnitude and range of abusive transactions reflect the poor control environment and other internal control weaknesses discussed later in this report. The following include details of some of these.

- Cardholder #1 was a GS-12 employee in Army Forces Command at Ft. McPherson, Georgia. In August 2000, the cardholder used the card to pay for authorized charges associated with a permanent change of station move from Qatar to Ft. McPherson. The cardholder did not elect split disbursement of his travel reimbursement between himself and

Bank of America when filing travel vouchers. Thus, the entire reimbursement for travel expenses was electronically deposited in the cardholder's checking account. The cardholder did not pay his travel card bill, but instead used the reimbursement to, among other things, pay the closing costs on the purchase of a home. The cardholder was counseled by the APC and his supervisors after his travel card account became delinquent, but no disciplinary action was taken. The cardholder is now in the salary offset program. The cardholder informed us that he was briefed, at the time of card issuance, of his responsibility to make timely payments to Bank of America in payment of expenses claimed on approved travel vouchers.

- Cardholder #2 was a sergeant first class (E-7) with an Army Reserve Officers' Training Corps unit. Army investigative records showed that in January 2001, the cardholder's spouse used his government travel card to make two payments of \$2,050 each to Budget Rent-A-Car for the purchase of a used automobile. The spouse was able to use the travel card because of the general military power of attorney provided to her by the sergeant. In addition, several automated teller machine (ATM) withdrawals were made using the card at times when the sergeant was not on official travel status. The cardholder received a letter of reprimand and subsequently retired. In February 2002, after his account was charged off, the cardholder's account was put into the offset program and a portion of his annuity automatically withheld for repayment to Bank of America.
- Cardholder #9 was an Army specialist (E-4) at Ft. Drum and received a total of three travel card accounts. Shortly after receiving his first card he incurred over \$5,000 in personal charges, including casino gambling. He then notified Bank of America that his wallet, which contained his government travel card and driver's license, had been stolen and that the charges on the card were not made by him and therefore were fraudulent charges. Bank of America closed this account, charged off the amount as a fraud loss, and issued the soldier a second account. The soldier then incurred over \$8,000 in personal charges for casino gambling and notified Bank of America that this card was lost. Bank of America again closed this account and issued a third account to the soldier. The soldier incurred approximately \$5,000 in personal charges on this account, including casino gambling. Bank of America personnel began to question the soldier regarding the transactions made on both the first and second accounts because both accounts showed transactions at the same casino and the signatures on the charge

receipts were similar to the soldier's signature. As of April 17, 2002, the soldier's travel card account was in charge-off status, with an unpaid balance of \$10,029. The soldier told us that he falsified the report to Bank of America that his first card was stolen and that the charges were fraudulent because he could not pay the bill. He also told us that he falsely reported his second card lost again because he could not pay the bill. In addition, the soldier stated that he made personal charges on the third card, including casino gambling, in hopes of winning enough to pay the bill. In October 2000, the soldier received an Article 15 for misuse of his travel cards. He received a reduction in grade from an E-4 to an E-1, forfeited a half-month's pay, and was to serve 45 days of extra duty beyond his November 30, 2000, discharge date. The soldier informed us that the Commander waived the 45 days and he received an honorable discharge as an E-4. In February 2002, the Army enrolled this soldier in the offset program. The soldier is currently an E-5 with the Pennsylvania National Guard. According to the National Guard, the Army's official personnel file for this soldier contains no information concerning any adverse action.

- Cardholder #10, another Army specialist (E-4) at Ft. Drum used his government travel card to make numerous purchases of personal items totaling \$2,841 over a 3-month period from May through July 2000. The personal items included 38 restaurant charges, 37 charges at gas stations, 14 charges at grocery stores, and 5 hotel charges in the vicinity of Ft. Drum. The specialist, who had received a \$10,000 credit limit on his government travel card, had an unpaid balance of \$7,643 as of December 11, 2000. As of April 17, 2002, the travel card was in charge-off status and the specialist no longer worked for the Army. Our review of the soldier's credit report showed that he received his government travel card from Bank of America in May 1999. Since that time, the soldier opened numerous credit card and other consumer accounts with other vendors, almost all of which had unpaid balances and were in collection status or had been charged off. We found no evidence that the APC detected the soldier's personal use of the government travel card. As a result, the Army could not take timely action to cancel or suspend the soldier's travel card account. We also found no evidence that disciplinary action was taken to address personal use of the travel card or the unpaid debt once the Army became aware of the problem.

In contrast to the charged-off accounts discussed above, we found some instances where the failure to pay the travel card bill was attributable to the delays and errors in processing vouchers and reimbursing the travelers.

Travel Card Abuse Where
Cardholder Paid Bank of
America

This issue is discussed in more detail in a later section on testing of key internal controls.

We also found instances in which cardholders used their travel cards for personal purposes, but paid their travel card bills when they became due. These cardholders benefited by, in effect, getting interest-free loans. Personal use of the card increases the risk of charge-offs related to abusive purchases, which are costly to the government and the taxpayer. In addition, the high rate of abuse with respect to travel card activity is indicative of the weak internal control environment and the failure of the APCs to monitor credit card activities, as discussed later in this report.

Table 4 provides examples of the types of abusive charges we found during our review.

Table 4: Examples of Abusive Activity Where the Cardholders Paid the Bill

Cardholder	Unit	Grade	Vendor	Amount	Nature of transaction	Documented disciplinary action
1	U.S. Army Europe Allied Command	E-5	Celebrity Cruises	\$5,192	Reservations for 4 on the <i>Millennium</i> cruise ship, which sails to the Bahamas and Caribbean.	None.
2	U.S. Army Reserve Command	O-5	Purdue University Rose Bowl Tour	3,998	Accommodations for two for 4 nights during the Rose Bowl. Package includes pep rally, New Year's Eve event, and premium seats to the parade.	None.
3	U.S. Army Reserve Command	O-2	Louisiana Superdome	1,395	45 tickets to the Essence Music festival on July 5, 2001.	None.
4	Army Corps of Engineers	GM-15 ^a	Georgetown Prep Tennis Club	826	Tennis club membership.	None.
5	California National Guard	E-4	GEICO	491	Automobile insurance.	None.
6	Ft. Bragg, Special Operations	E-7	Russell's For Men	191	Purchases made through a toll-free number for "fine gifts for men."	None.
7	Ft. Bragg, Forces Command	E-5	Victoria's Secret	172	Women's lingerie.	None.
8	Ft. Bragg, Forces Command	E-4	1-800-CONTACTS	80	Contacts and contact solutions.	None.
9	Ft. Drum, Forces Command	E-5	Gateway Direct	392	Computer equipment.	None.
10	Ft. Drum, Forces Command	E-6	Sunshine Entertainment	275	Personal escort service.	None.

^aEquivalent to GS-15.

Source: GAO analysis.

As shown in table 4, cardholders used their travel cards for a wide variety of personal goods or services, including cruises, sporting and music event tickets, membership dues, and personal clothing items. For example, we were able to determine that, during fiscal year 2001, approximately \$45,000 was spent Army-wide to purchase cruise packages or to pay for a variety of activities or services on cruise ships.

Some individuals who abused their travel card privileges held positions where they may have been responsible for taking appropriate disciplinary action with respect to travel card abuse by personnel within their commands. For example, a Lieutenant Colonel used his travel card to

purchase accommodations and tickets to attend the Tournament of Roses in Pasadena, California, as shown in example 2 in table 4.

Abusive Travel Card Use at Adult Entertainment Establishments

We also found instances of abusive travel card activity in which Army personnel used travel cards to obtain cash at establishments, such as “gentlemen’s clubs,” instead of following prescribed ATM procedures. Specifically, we found cases in which these clubs provided adult entertainment services and helped the cardholders circumvent travel card ATM cash withdrawal limits, by supplying cardholders with actual cash or “club cash” for a 10 percent fee. We were able to identify about 200 Army travel cardholders who during fiscal year 2001 charged almost \$38,000 on their government travel cards at these establishments. Some of these individuals also did not pay their related travel card bills, and their travel card accounts were charged off.

DOD’s travel card policy sets limits on the amount of cash a cardholder can withdraw using ATMs. Typically, the ATM limit is set at \$500 for a standard card and \$200 for a restricted card, meaning that in any 1-month cycle, Army cardholders could only obtain cash up to the limit specified on their cards. However, Army cardholders circumvented these policies by obtaining cash or club cash at a substantial fee from such clubs.

The gentlemen’s clubs typically sell adult entertainment, many sell alcohol, and some sell food. DOD and other federal agencies use merchant category codes (MCC)¹⁸ to identify and block merchants in certain categories from accepting travel cards as payment for goods and services at those establishments. However, some merchants with blocked codes circumvented this control by using an allowable MCC to submit cash transactions at their establishments. For instance, Crazy Horse Too is an entertainment establishment that provides topless dancing and sells alcohol, but not food. This establishment allows customers to use their travel cards to obtain club cash from the bar for a 10 percent fee. Club cash can only be used to tip dancers, waitresses, and bartenders, but cannot be exchanged for currency and cannot be used to purchase alcohol. Crazy Horse Too codes the club cash that it provides to customers as a “bar charge” in the name of its operating company, the Power Company. This

¹⁸MCCs are established by the banking industry for commercial and consumer reporting purposes. Currently, about 800 category codes are used to identify the nature of merchants’ businesses or trades, such as airlines, hotels, ATMs, jewelry stores, casinos, gentlemen’s clubs, and theaters.

coding allows these charges to bypass the MCC blocking control. Other clubs, such as Cheetahs Lounge Club, provide actual cash instead of club cash, and also code the transactions as “bar charges.”

For example, one cardholder used his restricted travel card to obtain more than \$5,000 in cash. As discussed previously, a restricted card has a maximum credit limit of \$2,500 and an ATM cash withdrawal limit of \$200 per monthly statement cycle. In this instance, the cardholder’s restricted travel card was activated about 20 days prior to his official travel. The cardholder used the card to make numerous ATM cash withdrawals and pay for large restaurant and grocery store charges prior to departure for government travel. After arrival at his temporary assignment location, the cardholder requested that his APC raise his credit limit from \$2,500 to \$10,000 based on his “mission-critical status.”¹⁹ The APC took the requested action, without reviewing the cardholder’s account history. The cardholder then frequented gentlemen’s clubs near his temporary assignment location, where he obtained more than \$5,000 in cash. The cardholder told our investigators that he sent approximately \$2,000 to his spouse, leaving him with about \$3,000 for personal use and entertainment. The cardholder also told us the ability to obtain cash from these clubs was common knowledge among military personnel at his temporary assignment location. In this case, the APC subsequently discovered the abuse of the travel card and took steps that resulted in closing the cardholder’s account, and the cardholder received an administrative reprimand for unacceptable behavior.

Few Documented Disciplinary Actions Taken against Cardholders Who Misused the Travel Card

We found that disciplinary actions were taken against the cardholders in less than half of the cases of cardholder abuse that we reviewed. It is critical that cardholders who misuse their travel cards are identified and held accountable for their actions. Lacking such an environment, the Army is likely to continue to experience the types of potentially fraudulent and abusive activity identified in our work. The *DOD Financial Management Regulation* (FMR) states that “commanders or supervisors shall not tolerate misuse of the DOD travel cards and cardholders who do misuse their cards shall be subject to appropriate disciplinary action.” However,

¹⁹Mission-critical status is a determination made by the APC that the cardholder’s credit card limit needs to be increased or the delinquency process needs to be suspended because the cardholder needs the card to travel, but is unable to obtain reimbursement—and, therefore, pay the bill—timely.

DOD and Army policies and procedures do not define appropriate disciplinary action to help ensure that consistent punitive actions are taken against cardholders who abuse their travel cards. Available documentation indicates that commanders or supervisors did not take any disciplinary actions against the majority of individuals who abused or misused their cards during fiscal year 2001. We found little documentation demonstrating that APCs forwarded cardholder delinquency information to appropriate commanders and supervisors to consider in determining whether disciplinary actions were warranted.

For the cardholders we inquired about, the primary action taken when Army officials identified misuse or abuse of the travel card was to counsel cardholders on proper use of the card and responsibility for timely payment of travel card bills. In some cases, APCs took actions to cancel the cardholder's travel card account. To the extent that more severe disciplinary actions were taken, they were often in response to travel card abuse in conjunction with other more serious offenses—such as failing to obey orders or drug abuse. In these instances, documented disciplinary actions included dismissal from the Army and criminal prosecutions resulting in prison sentences.

At the sites we audited, we were not provided any documentation of disciplinary actions taken against cardholders in 65 of 105 charge-off cases we reviewed. For example, we found one instance in which a cardholder (whose account was charged off for more than \$5,000) was not subject to any disciplinary action, and was subsequently promoted from Major to Lieutenant Colonel. As shown in table 3 (cardholder #5), this individual had a history of substantial credit problems, including writing three NSF checks. In this instance, records indicated that the cardholder was reimbursed for official travel, but did not pay the travel card bill. The individual was subsequently placed in the salary offset program.

Also, we found little evidence that cardholders faced adverse consequences for personal use of the card as long as they paid the bills received from Bank of America. For example, we identified cardholder transactions of \$5,192 for a Celebrity Cruise Line vacation for four people, \$2,195 for a stock market investing course, and \$1,395 in tickets to a musical event. In these instances, the cardholders essentially obtained interest-free loans with no adverse consequences. We saw few indications that supervisors were aware that these abusive transactions occurred. To the extent that we saw documentation that APCs or supervisors were

aware of such travel card abuse, we saw little evidence of any disciplinary actions.

Credit Problems Generally Not Referred to Security Officials

We also found many instances in which there was no evidence that Army security officials were informed of travel card charge-offs for consideration in reevaluating security clearances. Army regulations provide that an individual's finances are one of the key factors to be considered in whether an individual should continue to be entrusted with a secret or top-secret clearance. However, we found that Army security officials were unaware of travel card debt problems and, consequently, did not consider this information in determining whether these individuals should continue to receive their security clearances. Our review of the 105 charge-off cases discussed previously showed that of 43 cardholders who had secret or top-secret clearances at the time their accounts were charged off, 38 maintained the same level of clearance as of June 2002. The clearances for the remaining 5 cardholders had expired. These financially troubled individuals may present security risks to the Army.

The U.S. Army Central Personnel Security Clearance Facility (commonly referred to as Army CAF) is responsible for issuing and updating security clearances for Army personnel. Secret clearances are updated every 10 years and top-secret clearances are updated every 5 years. During the interim periods, Army regulations²⁰ require commanders of personnel with clearances, such as secret and top secret, to submit to Army CAF any evidence of financial irresponsibility on the part of the personnel that would affect their clearance. Such evidence would include information on financial impropriety by the security clearance holder, such as excessive indebtedness. Army CAF is to evaluate this information and determine whether to revoke the clearance.

We found that commanders responsible for referring evidence of financial irresponsibility information to Army CAF were, for the most part, unaware of their subordinates' financial problems. We provided the information we collected on individuals with charged-off accounts to Army CAF for its consideration in determining whether to revoke, change, or renew their security clearances.

²⁰U.S. Department of the Army, *Regulation 380-67, Security, Personnel Security Program*, Chapter 8, "Unfavorable Administrative Actions" (Sept. 9, 1988).

Weak Overall Control Environment and Ineffective Travel Card Program Controls

A weak overall control environment and ineffective internal controls over the travel card program contributed to the potentially fraudulent and abusive activity related to the travel card and the Army's high rates of delinquency and charge-offs. The foundation of all other controls, a positive control environment provides discipline and structure as well as the climate that influences the quality of internal controls. Although we observed improvements in the first half of fiscal year 2002, we identified several factors that contributed to a weak overall control environment for fiscal year 2001, including, as discussed previously, few documented disciplinary actions taken against cardholders who abuse the card and a lack of management attention and focus on establishing and maintaining the organizational structure and human capital needed to support an effective Army travel card management program. We found that this overall weak control environment contributed to design flaws and weaknesses in seven management control areas needed for an effective travel card program. Specifically, we identified weaknesses in the Army travel program controls related to (1) travel card issuance, (2) APCs' capacity to carry out assigned duties, (3) limiting card activation to meet travel needs, (4) controls over transferred and "orphan" accounts, (5) procedures for terminating accounts when cardholders leave military service, (6) segregation of duties to ensure that no one individual can control all aspects of a travel transaction, and (7) access controls for Bank of America's travel card database.

All seven of these areas related to two key overall management weaknesses: (1) the lack of clear, sufficiently detailed policies and procedures and (2) limited travel card audit and program oversight. First, the units we audited used DOD's travel management regulations (DOD FMR, Volume 9, Chapter 3) as the primary source of policy guidance for management of Army's travel card program. However, in many areas, the existing guidance was not sufficiently detailed to provide clear, consistent travel management procedures to be followed across all Army units. Second, as recognized in the DOD Inspector General's March 2002 summary report²¹ on the DOD travel card program, "[b]ecause of its dollar magnitude and mandated use, the DOD travel card program remains an area needing continued emphasis, oversight, and improvement. Independent internal audits should continue to be an integral component of

²¹U.S. Department of Defense Inspector General, *Acquisition: Summary of DOD Travel Card Program Audit Coverage*, D-2002-065 (Washington, D.C.: Mar. 18, 2002).

management controls.” However, the DOD Inspector General report noted that only two internal review reports were issued from fiscal year 1999 through fiscal year 2001 concerning the Army’s travel card program. These reports, issued by the Army’s Assistant Secretary for Financial Management (and Comptroller)’s Internal Review Office, covered government travel card usage in the Army during fiscal year 2000. In addition, each of the Army installations we audited had internal review groups that did some level of review of the travel program and identified deficiencies in the Army’s travel program at their installations.

To the extent that oversight reviews were conducted, we saw few indications that management took action to address the deficiencies auditors identified. For example, the Army’s two fiscal year 2000 internal review reports disclosed that existing review procedures were not effective in identifying card misuse and identified additional actions needed to address travel card abuses, such as unauthorized usage of the card and unauthorized cash withdrawals. We identified these same issues in our fiscal year 2001 work.

Ineffective Controls over Issuance of Travel Cards

The Army’s ability to prevent potentially fraudulent and abusive transactions that can eventually lead to additional delinquencies and charge-offs is significantly weakened if individuals who had histories of financial irresponsibility are permitted to receive travel cards. The Army’s practice is to facilitate Bank of America issuing travel cards—with few credit restrictions—to all applicants regardless of whether they have histories of credit problems. DOD guidance in FMR, Volume 9, Chapter 3, provides that all DOD personnel are to use the travel card to pay for official business travel. However, the policy also provides that exemptions from using the travel card may be granted under a number of circumstances, including for personnel who are denied travel cards for financial irresponsibility. However, DOD’s policy is not clear as to what level of financial irresponsibility by a travel card applicant would constitute a basis for such an exemption. In addition, the DOD FMR provides that credit checks are to be performed on all travel card applicants, unless an applicant declines a credit check. We found no evidence that the Army exempted any individuals or groups from required acceptance and use of travel cards, even those with histories of previous credit problems.

In July 1999, Bank of America began obtaining credit checks on DOD travel card applicants and used the credit history obtained through these checks as a basis for determining the type of account—restricted or standard—it

would provide to new DOD travel applicants. An applicant who did not authorize a credit check, or with either no credit history or a history of credit problems, is issued a restricted travel card with a \$2,500 credit limit. All other applicants are issued standard travel cards with a \$10,000 credit limit. DOD policy also permits commanders or supervisors to raise the credit limits and ATM limits of restricted travel cardholders to whatever level they deem necessary to meet mission requirements, except when the cardholder declined a credit check. Our analysis of credit application scoring models and credit risk scores used by major credit bureaus confirmed that applicants with low credit scores due to histories of late payments are poor credit risks. Credit bureau officials told us that if their credit rating guidelines for decisions on commercial credit card application approvals were used to make decisions on travel card applicants, a significant number of low- and midlevel enlisted Army cardholders would not have qualified for credit cards even with the restricted limits. A credit history showing accounts with collection agency action or charge-offs poses an even higher credit risk. Any of these problems can be a reason for denying credit in the private sector.

Consequently, until the Army takes action to prevent applicants with past credit problems from receiving government travel cards, it will continue to unnecessarily increase the risk that individuals will continue a pattern of fraud, abuse, and delinquency or nonpayment. Credit industry research and the results of our work demonstrate that individuals with previous late payments are much more likely to have payment problems in the future. As discussed previously, many of the Army travel cardholders that we audited who wrote numerous NSF checks, were severely delinquent, or had their accounts charged off had histories of delinquencies and charge-offs relating to other credit cards; defaulted automobile loans that resulted in repossession of the vehicles; defaulted mortgage payments and foreclosure proceedings on homes; numerous bankruptcies; and, in several cases, prior arrests and convictions for crimes such as writing bad checks.

Unrealistic APC Performance Expectations

DOD policy provides that APCs are the primary focal points for day-to-day management of the travel program. However, APC duties are generally “other duties as assigned.” As discussed in the following sections, the sheer number of responsibilities assigned to APCs, coupled with issues concerning APC span of control, selection, turnover, training, and performance evaluation, result in unrealistic expectations for the effectiveness of APCs in carrying out their critical duties. Consequently,

we found that APCs were generally ineffective in performing their key travel program management oversight duties.

APC Responsibilities

As prescribed by DOD's FMR guidance, APCs "are responsible for the day-to-day operations of the DOD Travel Card Program." DOD FMR Volume 9, Chapter 3, provides that APCs are responsible for a variety of key duties, including establishing and canceling cardholder accounts, tracking cardholder transfers and terminations, monitoring and taking appropriate actions with respect to any account delinquencies, interacting with the bank, and fielding questions about the program from both cardholders and supervisors. APCs are also required to monitor delinquent cardholders and notify commanders/supervisors of such delinquencies for appropriate action. Further, DOD's FMR also provides that APCs are to receive reports from Bank of America showing cardholder transaction activity during the most recent billing cycle. However, DOD's guidance does not further specify APC responsibilities for actions based on their review of Bank of America reports.

We were told that individuals were given APC responsibilities as a collateral duty. APC estimates of the percentage of time spent on their APC responsibilities ranged from 2 percent to as high as 80 percent, with most indicating they spent about 5 to 20 percent of their time on APC duties. Several of the APCs we interviewed indicated that keeping up with their APC responsibilities was a challenge because they were expected to perform many other duties as well. For example, at the sites we audited, civilians with APC responsibilities were often program or budget analysts who worked in the installations' resource management offices.

While some of the military personnel assigned APC responsibilities at the sites we audited had primary job responsibilities that were finance related, such as budget and resource managers, others had more mission-related duties. For example, one of the APCs at the sites we audited was responsible for security at an airport, and another was a transportation officer. At Ft. Bragg, Special Operations, entire units, along with the APCs, were deployed at the time of our audit. Such deployments make it increasingly difficult for military personnel assigned APC duties to carry out their responsibilities.

Few of the APCs we interviewed performed any account transaction reviews beyond those conducted in conjunction with delinquencies. Consequently, instances of abuse of the travel cards were seldom detected promptly. Some units' operating procedures specify that APCs monitor

credit card activities to identify misuse. For example, in its operating procedures, the California National Guard requires that APCs review credit card activity to identify misuse, that such misuse be brought to the attention of the commanders/supervisors, and that the commanders/supervisors take actions to address the problems. However, one California National Guard APC told us that she does not have sufficient time available to monitor the travel activity of all the cardholders under her purview. Another California National Guard APC told us that, as time permits, he monitors the travel card transaction activity of the cardholders that are his responsibility on a weekly basis.

APC Span of Control

DOD’s FMR guidance does not address the appropriate span of control for an APC—the number of cardholders that an APC should be responsible for managing and overseeing. A reasonable span of control is critical for effective management and proper travel program oversight. Bank of America guidance provides that an optimal span of control is 100 cardholders per APC. In addition, because APC duties are assigned as collateral duties, the span of control should be commensurate with the time available to carry out APC responsibilities effectively. As shown in table 5, at the four sites we audited, the average ratio of cardholders with open accounts to APCs ranged from 65 to 1 to 804 to 1.

Table 5: Average Ratio of Cardholders to APCs at Army Sites Audited

Span of control	Ft. Drum, Forces Command	California National Guard	Ft. Bragg, Forces Command	Ft. Bragg, Special Operations
Number of cardholders with open travel card accounts	6,498	4,022	11,424	5,696
Number of APCs	39	5	120	88
Average ratio of cardholders to APCs	167:1	804:1	95:1	65:1

Source: GAO analysis of Bank of America data.

The span of control responsibilities for the APCs at the four sites we audited ranged from about 5 open accounts to over 1,000. Decisions on the optimal span of control must take into account not only the number of accounts for which the APC has direct responsibility, but also the number of accounts for which another lower-level APC has direct responsibility, but for which the higher-level APC has oversight responsibility.²² For example, an APC at the California National Guard site we audited who had direct responsibility for managing the travel activities of over 1,000 cardholders also had oversight monitoring responsibility for about another 400 cardholders. An APC at Ft. Bragg, Forces Command, with direct responsibility for managing 287 travel card accounts told us that he was in the process of working with Bank of America to identify and deactivate the cards of any infrequent travelers within his purview. He reported that he hoped to reduce the number of accounts he was responsible for to about 100.

The sites we audited were consistent in that few of the APCs we interviewed performed any account transaction reviews beyond those conducted in conjunction with delinquencies. Several of the APCs told us that they received detailed account transaction activity reports from Bank of America. But, outside of reviews of account activity associated with delinquencies, they told us that detailed transaction reviews were too time-consuming to carry out for their other cardholders. Another APC we talked to, who attempted to compare reports on travel card transactions received from Bank of America with valid travel orders for the cardholders within her purview, said this activity was time-consuming and almost impossible to perform for all of the people under her span of control.

Failure to review available cardholder transaction activity reports available from Bank of America and take action to address any inappropriate card usage can result in delinquencies and account charge-offs. For example, one APC was not aware that a cardholder within his sphere of responsibility made multiple personal use transactions, including purchases at Wal-Mart, Vitamin World, General Nutrition Center, and

²²APC responsibilities vary depending on the APC's level in the Army's organizational hierarchy from headquarters down through the Army's organizational chain of command to the individual Army unit level. That is, individuals with APC responsibilities at the Army unit level have direct responsibility for monitoring cardholder account activity whereas individuals at higher levels in the Army's organizational hierarchy may have responsibility for overseeing the activities of one or more APCs as well as direct responsibility for monitoring the account activity of a number of cardholders.

APC Selection, Turnover,
Training, and Performance
Evaluation

Hecht's, until 3 months after the cardholder's name appeared in a delinquency report in January 2001. By that time, the cardholder owed \$5,655 and was from 30 to 59 days delinquent. The cardholder's account was eventually charged-off on August 10, 2001, with a balance of \$6,997.

Our internal control standards state that management's commitment to competence and good human capital practices are critical factors in establishing and maintaining a strong internal control environment. Specifically, our standards provide that management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals. They also state that establishing appropriate human capital practices, including hiring, training, evaluating, counseling, and disciplining personnel, is another critical environmental factor.

APC selection and turnover. As discussed previously, the DOD FMR assigns a number of key duties for government travel card management to APCs. However, neither DOD nor the Army had procedures in place that addressed the requisite knowledge and skills needed, or the expected tenure, for those selected to carry out these key APC responsibilities. We found that APC assignments were based on the commanding officer's judgment as to who could best carry out assigned APC duties.

At three of the four sites we audited, the individuals assigned overall APC duties for the sites were civilians, and the majority of the individuals assigned as subordinate-level APCs were military personnel. We did not identify any information indicating that individuals appointed as APCs were expected to serve in this role for any specified period. We found that civilians appointed as APCs generally served longer terms than military APC appointees. For example, at the Ft. Bragg Special Operations site we audited, we were told that the civilian APC had served for over 2 years in this role, while most of the military APCs turned over roughly every 6 months. At the Ft. Bragg, Forces Command, site we audited, only 1 of the 11 APCs we attempted to interview who had been in position during fiscal year 2001 remained in that position.

APC training. DOD policy provides that travel card training materials are to be distributed throughout the department and that APCs are to be informed of policy and procedural changes to the travel card program. There are no supporting DOD or Army-wide procedures detailing requirements for the extent, timing, and documentation of travel program training for APCs. APCs are not required to receive training on the duties

of the position or on how to use available Web-based tools and reports from Bank of America before they assume their APC duties.

A number of the APCs we interviewed told us they relied heavily on on-the-job learning and other program coordinators for advice on how to carry out their duties when they assumed their APC responsibilities. At the Ft. Bragg, Special Operations, site we audited, we were told that the command-level APC provided training every 3 months and expected all APCs to attend, unless they were deployed or on an assignment that would not allow them to attend the training. APCs at Ft. Bragg, Special Operations, also told us they received annual or semiannual briefings from Bank of America on the electronic tools available in its Web-based system containing travel card transaction data—EAGLS (Electronic Account Government Ledger System). According to the APCs we interviewed, the briefings they received on EAGLS included guidance on how to use the system to establish a travel account, how to extract individual cardholder delinquency and transaction activity reports, and how to contact Bank of America for additional help with the Web-based tools. Some of the APCs we talked with reported that they have become proficient in, and routinely use, the tools available through EAGLS to assist them in their APC duties with respect to delinquency monitoring. Other APCs indicated that they either did not use the tools available through EAGLS or were not proficient in using them to monitor cardholders' travel activities. According to data provided by Bank of America, about 23 percent of the Army's APCs have never logged into EAGLS.

APC performance evaluation. Generally, APC responsibilities were assigned as an "other duty assignment." Individuals serving as APCs had, and were rated on, other job duties and responsibilities. The extent to which the performance of APCs was recognized as a major duty, and rated as such, varied. At Ft. Bragg, Special Operations, none of the individuals serving as APCs were rated on how well they performed those duties. At the Ft. Drum location, one of the APCs had a position description that included "serves as travel card program manager" as a major duty (with the recognition that this duty, combined with duties as the unit's program manager for cost accounting, should require about 30 percent of the employee's time).

Controls over Activating/Deactivating Travel Cards to Meet Travel Needs

Allowing Army travel cardholders to maintain accounts in an active status when not needed for government travel unnecessarily exposes the Army to an increased risk of misuse—through cardholders either mistakenly or intentionally using the card for personal purposes. DOD’s FMR provides that restricted cards are issued to cardholders in an “inactive” status and initially activated only when the cardholders have authorized government travel needs. By contrast, standard cards are “active” when they are issued to cardholders. DOD policy guidance does not address deactivating restricted and standard travel cards when not needed for official purposes.

Lacking overall policy and procedural guidance in this area, we found instances in which individual commands or sites established their own practices for deactivating cards when cardholders were not on travel. For example, the California National Guard’s August 2001 guidance to all of its APCs required them to deactivate all travel card accounts for cardholders not on official travel. In addition, APCs at Ft. Bragg, Special Operations, told us that, as a matter of practice, they deactivate the cards of cardholders in military grades of E-5 or below when they are not on official travel.

Accountability for Transferred and Orphaned Accounts

We also found that the Army lacks clear, sufficiently detailed procedures with respect to maintaining effective day-to-day accountability for cardholders’ travel card accounts. Until the Army takes action to work with Bank of America to clearly establish accountability for accounts that are not under the control of a specific APC, it will continue to be vulnerable to undetected, potentially fraudulent, or abusive use of these accounts.

In practice, the Army relies on cardholders to inform the transferring location’s APC that they will be moving to another Army unit. After a cardholder notifies the transferring APC of his or her upcoming move, the APC is to inform the cardholder that he or she is required to report to the APC at the new location within 10 days of arrival. If the cardholder does not check in with the APC at the gaining location at the end of 10 days, the losing APC is to deactivate the cardholder’s account. However, transferring units’ APCs told us that cardholders do not always inform them of upcoming moves and, therefore, they do not deactivate the cards when the cardholders fail to report to the new APC within 10 days.

As a result, many accounts fell into “limbo” and are also referred to as “orphan accounts.” Accounts for transferred cardholders can remain in

this limbo status for lengthy periods. For example, 2 California National Guard accounts out of the 166 that we examined for our statistical tests belonged to cardholders who had transferred from their units in 1998 and 2000, respectively. The responsible APC was not aware that the transfers had taken place until we brought the matter to her attention.

According to Army officials, this breakdown in accountability is one of the primary causes for the Army's large number of orphaned accounts.²³ These are Army travel card accounts that are not under the purview of any APC, according to Bank of America records. Bank of America officials also told us that some of the accounts in this group might not even be Army accounts. As shown in appendix III, Bank of America data show that as of the end of fiscal year 2001, orphaned accounts had about a 20 percent delinquency rate.

Without an APC assigned to oversee these accounts, orphan accounts pose a higher risk of charge-offs. In fiscal year 2001, Bank of America charged off 717 accounts of the approximately 7,479 active orphan Army accounts, accounting for almost \$1 million. In May 2002, Bank of America issued letters to all cardholders in the orphan grouping informing them that unless they took action to identify accountable APCs, their accounts would be closed.

Exit Control Procedures for Separating Employees

As with transferred employees, neither DOD nor Army procedures are sufficiently detailed to ensure that APCs are notified and take prompt action to terminate cardholders' accounts when cardholders leave the Army. DOD's FMR provides that APCs are responsible for terminating travel cards when cardholders are dismissed, retire, or are separated from DOD. Operating procedures established by individual Army commands and installations to notify APCs in the case of retirement, separation, or death of employees were neither consistent nor effective.

In general, we found that APCs relied on cardholders to notify them that they were leaving the Army. Some APCs informed us that their units' exit procedures for separated, retired, or dismissed employees require that

²³Bank of America also includes in this grouping accounts inherited from the previous government travel card contractor that were not linked to any Army command and accounts for which the accountable APC left or was relocated without having a replacement designated.

individuals turn in their travel cards as part of the exit process before leaving the organizations. For example, the National Guard's standard operating procedures provide that "All departing cardholders that are terminating their federal employment status will turn in their Travel Charge Card to their APC as a part of their out processing." However, we found instances in which these procedures were difficult to implement. For example, a California National Guard official told us that this procedure is difficult to implement because some guard employees are hundreds of miles from the location of their cognizant APC. The official told us that many of the separations from the guard are handled through mail, e-mail, and fax, and not through face-to-face contact with unit officials or the APC. One APC told us that she sometimes becomes aware that cardholders are departing when she receives their travel cards through the mail. If an APC does not receive messages or paperwork to cancel the cards, or if there is a delay in notifying the APC of the cardholders' departure, the cardholders' accounts would remain active and the separated cardholders may abuse the cards.

Due to the lack of procedures to effectively identify and terminate the cards of individuals no longer in the Army, we found the following examples of separated or retired individuals who abused the travel card. These separated or retired Army employees benefited by using travel cards to purchase a variety of goods and services and then not paying their monthly bills, essentially obtaining the personal items for no cost and possibly receiving discounted government rates by using their government travel cards.

- A service member (E-4) assigned to Ft. Knox was released from active duty on September 16, 2000, but his travel card was not deactivated at that time as required. In May 2001, over 8 months after he separated, charges started appearing on his travel card. Charges included ATM withdrawals, restaurant charges, and monthly fees for a fraternal organization. In addition, the cardholder spent more than \$110 at Platinum Plus, an adult entertainment establishment. The cardholder continued to use the card through August 2001, almost 1 year after he left the service. Although the cardholder charged more than \$1,125 on the card, he did not submit any payments on his Bank of America bills. The account balance was charged off in January 2002.
- An air reservist (E-6) assigned to military postal service was discharged on February 4, 2000, but did not turn in his card. The individual continued to use his government-issued travel card for personal use. In

fiscal year 2001, the individual made charges totaling approximately \$5,800 on his travel card, including over \$5,000 of cash advances in the vicinity of his home in New York. The soldier's travel card account was closed on March 11, 2002, and the unpaid balance of \$3,419 was charged off.

- A first sergeant (E-8) at Ft. Hood, Texas, repeatedly used his travel card after his retirement on September 30, 2000. During fiscal year 2001, he used the travel card for personal goods and services totaling more than \$8,000. The charges consisted of almost \$2,000 in car rentals, another \$2,000 in hotel charges, and approximately \$2,951 in restaurant charges—including a one-time catering charge of \$1,455—primarily in Hawaii and Texas. In addition, he spent \$1,119 on two cruises with *Royal Caribbean* cruise line. Because the Army does not routinely monitor cardholders' transaction reports for abusive activity and because this particular account was always paid in full, the abusive activities were not detected for more than a year. In February 2002, while scanning travel card activities of all cardholders under her sphere of responsibility, the APC became aware that the cardholder had retired. The APC deactivated the cardholder's account in March 2002.
- A sergeant first-class (E-7) retired from the active duty National Guard in February 2000, but continued to use the government travel card in fiscal year 2001. Subsequent to his retirement, the individual became a state guard employee. State employees are not entitled to hold federal government travel cards. Bank of America and National Guard records indicated that the individual used the government travel card for on-base lodging and rental car charges related to official travel with the state guard. As of the time of our audit, more than 2 years after the cardholder's retirement, the cardholder's account was still open, although we noted that the account was not delinquent.

An APC told us that out processing procedures should include APC or supervisor verification that the cardholder's account was closed. In fact, her unit has established an informal procedure that has helped ensure that APCs receive timely notification of a cardholder's departure. The procedure involves the departing cardholder's supervisor sending e-mails to the cognizant APC notifying him or her of the date the service member is leaving and to close the cardholder's account as of that date.

We also found that the Army did not have procedures requiring periodic comparisons between active travel card accounts and employees to ensure

that accounts of separated or retired employees are closed. For example, each Army unit we visited maintained records of retired, dismissed, and separated employees and the respective dates of these actions. However, none of the APCs we interviewed compared these records against the list of active accounts to identify accounts that should have been closed but were not. Periodic reconciliations of the two lists would have enabled the Army to identify employees who had left and should no longer have had travel cards.

Segregation of Duties Controls Were Compromised at One Installation

Adequate controls must be in place to ensure that no one individual can control all key aspects of a travel transaction. Such controls are key to effectively reducing the risk of error or fraud at the four sites we audited. Our observations and walk-throughs showed that proper segregation occurred because no one individual was responsible for the major functions associated with the voucher approval and payment process. Specifically, we found the traveler and person approving the travel orders were generally located at the installation, whereas a DFAS center prepared the final vouchers and entered the data into the DOD travel payment system, the Integrated Automated Travel System (IATS). For example, in the case of Ft. Drum, located in Watertown, New York, its vouchers were processed and paid by the DFAS center in Orlando, Florida. Further, we found that no one individual at the DFAS centers was responsible for (1) entering payment information into IATS and (2) auditing travel voucher summaries for accuracy and completeness.

However, at the California National Guard, we did identify weaknesses that compromised segregation of duties controls. Specifically, controls were not in place to prevent California National Guard members, who also served as voucher examiners, from validating, approving, and auditing their own final travel vouchers and submitting them to DFAS for payment.

In addition, weak controls over the California National Guard's usernames and passwords for "temporary" voucher examiners further increased the risk that voucher examiners could prepare, validate, and receive payment for erroneous or fraudulent travel vouchers without detection. Temporary voucher examiners—those California National Guard members who are employed as voucher examiners on a part-time or intermittent basis—were given generic usernames and passwords for accessing IATS. However, according to the permanent travel voucher examiners we talked to, these generic usernames and passwords for temporary voucher examiners were well known to the permanent travel voucher examiners as well.

Consequently, any of the California National Guard’s permanent travel voucher examiners could use one of these well-known generic usernames and passwords to access IATS to enter, delete, or modify travel data in the system—including data related to their own travel voucher processing and payment—without detection.

Access Controls over Bank of America’s Travel Card System

Thousands of Bank of America and DOD employees had access to Bank of America’s travel card transaction data system, known as EAGLS. Computer system access controls are intended to permit authorized users to access a system to perform their assigned duties and preclude unauthorized persons from gaining access to sensitive information. Access to EAGLS is intended to be limited to authorized users to meet their information needs and organizational responsibilities. Authorized EAGLS user access levels include APC-level (APCs requiring access to travel data for cardholders under their purview), individual-level (individual travelers requiring access to their own travel transaction histories), and bank employee-level access (Bank of America employees may be granted one of five different levels of access depending on their assigned duties). The highest level of Bank of America employee access to EAGLS is the “super user” level. According to Bank of America security officials, this level of access—which provides users the ability to add, delete, or modify anything in the system, including creating accounts and editing transaction data in the system—should be granted to as few individuals as possible.

We found that 1,127 Bank of America employees had some level of access to the EAGLS system, including 285 with super user level access. After we brought this matter to the attention of Bank of America security officials, they reviewed employee access and deactivated access for 655 employees that they determined should not have had any level of access. Further, Bank of America has since initiated periodic reviews to ensure that it maintains appropriate levels of employee access.

In addition, DOD employees retained APC access to EAGLS after relinquishing APC duties or after they may have been terminated or transferred. In a 2000 survey of 4,952 individuals with APC-level access to EAGLS, DOD found that approximately 10 percent could not be located and may have been terminated or transferred or no longer had APC responsibilities. Over concern that many of these accounts should be deactivated, Bank of America has begun a review to determine if DOD employees with APC-level access no longer have APC responsibilities or have left the service.

Statistical Tests of Key Control Activities

With the weak control environment and related program control weaknesses we identified, it is not surprising that, as shown in table 6, we found a significant percentage of failures in several of the key control activities we statistically tested at the four Army locations we audited. We selected four key control activities to test related to basic travel transaction and voucher processing.

Specifically, we tested the implementation of the following internal control activities for a statistically valid sample of travel card transactions.

- Was there a travel order associated with the transaction that was approved prior to the start of travel?
- Was there a travel voucher associated with the transaction that was properly reviewed to ensure that payment was accurate and properly supported?
- Did the traveler submit a travel voucher associated with the transaction to the installation travel office for processing within 5 days of completion of travel as required by government travel regulations?
- In accordance with TTRA and DOD FMR, was the traveler paid within 30 days of the date a properly approved travel voucher associated with the transaction was submitted for payment?

Appendix II includes the specific criteria we used to conclude on the effectiveness of these controls.

Table 6: Results of Testing of Key Internal Controls

Army unit	Percentage of failure			
	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
Ft. Drum, Forces Command	0.0	10.4	21.9	5.2
Ft. Bragg, Special Operations	3.1	7.3	30.2	7.3
Ft. Bragg, Forces Command	6.2	18.8	38.5	8.3
California National Guard	1.0	41.9	27.9	60.5

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 app. II.

Source: GAO analysis.

The Army’s inability to establish effective controls in several of these key control areas, particularly relating to timeliness of payment, contributed to its high delinquency rate. As discussed previously, for the four locations, we estimate that the percentage of transactions during fiscal year 2001 that represented personal use varied from 15 percent at one location to 45 percent at another location.²⁴

Controls over Travel Order Approval Were Generally Effective

Timely approval of the travel orders is the first step in ensuring that travel is authorized. At three of the four installations we audited, the controls over travel order approval were effective. We estimate that 0 to 3 percent of transactions at these installations did not have documented evidence that travel orders were approved prior to the beginning of travel. At Fort Bragg, Forces Command, travel order controls had an estimated 6 percent

²⁴Our estimates of the percentage of apparent personal use of the travel card at the four sites we audited were: Ft. Bragg, Forces Command (45.0 percent); Ft. Drum, Forces Command (14.8 percent); Ft. Bragg, Special Operations (18.0 percent); and California Army National Guard (29.5 percent).

failure rate associated with travel orders that were not approved prior to travel. The control breakdown we noted in our sample transactions occurred when the travel took place prior to written approval of the travel order. For example, one traveler had travel duty from April 8, 2001, to April 19, 2001, but did not get his travel order approved until April 27, 2001. According to Army officials, this often occurred because travelers neglected to document the date of verbal travel authorization on their written travel orders.

Controls over Travel Voucher Review and Accuracy Were Not Effective

Once the travel is complete, the traveler is to submit a voucher for all reimbursable expenses and must include receipts for certain claimed amounts. The voucher review process is intended to ensure that only authorized, properly supported travel charges are reimbursed and that the amounts are accurate and properly calculated. At the four installations audited, we estimate that about 7 percent to 42 percent of transactions were associated with travel vouchers that were not accurate or were not properly supported. The California National Guard had an estimated failure rate for voucher review that was two to six times higher than that of the other three installations. We found undetected instances of travel voucher errors by travelers, voucher reviewers (both installation-level and DFAS-level), and DFAS.

Travel voucher errors result in either over- or underpayments to the traveler and create an additional administrative burden for Army and DFAS when the traveler must file a supplemental voucher to claim amounts that were not paid initially or when the initial travel vouchers are incomplete or erroneous. For example, according to DFAS Orlando officials, during fiscal year 2001 DFAS Orlando returned an estimated 12,000 vouchers to Army installations because of errors or omissions in the initial voucher packages submitted to DFAS. Further, delays in paying valid amounts to travelers can result in delinquent accounts when the cardholder has not been fully reimbursed by the time the monthly travel card bill is received. In our samples, we found that most errors were in the following categories.

- *Missing receipts* – We found instances in which voucher packages did not include all required receipts to support claims based on DOD and Army regulations. DFAS paid the vouchered amounts in these cases despite the lack of receipts. For example, for a Ft. Drum cardholder, DFAS paid hotel charges on a voucher for which the cardholder did not attach the required receipt. At the California National Guard, we found

that a cardholder was paid for 4 nights of lodging when the receipt was for 3 nights.

- *Errors in amounts paid* – We found instances in which DFAS used an incorrect per diem rate²⁵ for lodging and meals and incidental expenses to calculate the reimbursement amount, resulting in both over- and underpayments to the traveler. We also found that DFAS made errors in calculating reimbursements for ATM fees and car mileage. Most of these errors were relatively small in terms of dollar amounts. In one instance, we found that DFAS underpaid a cardholder about \$814. In this case, the cardholder, an E-8, master sergeant at Ft. Bragg, Special Operations, filed a voucher package with required supporting documentation for lodging, transportation, and other expenses totaling about \$814 incurred while on extended travel. DFAS erroneously excluded these expenses from its reimbursement calculation and consequently understated the amount paid to the cardholder by this amount. While the cardholder paid his bill from Bank of America that included these expenses, it was not until we brought this matter to the attention of Army and DFAS officials that the cardholder was reimbursed. In another instance, we found that an E-5 cardholder at Ft. Drum filed a travel voucher with DFAS Orlando claiming and receiving reimbursement for taxi fares totaling \$48.50. However, according to the related travel order, a government vehicle was provided. After we brought this matter to its attention, DFAS Orlando obtained a \$48.50 reimbursement from the cardholder. At the California National Guard, we found that a cardholder's per diem reimbursement was less than the allowed amount, and the traveler was paid \$75 for parking expense when the receipt showed \$86.

The California National Guard's procedures for reviewing travel vouchers differed from the other locations we audited in that the United States Property and Fiscal Office (USPFO)—an organizational component of the California National Guard—reviews all travel vouchers submitted by California National Guard personnel for validity and accuracy before submitting voucher payment requests to DFAS. California National Guard officials attributed the high error rate to staff shortages in the voucher examination branch and difficulty in retaining high-quality personnel in these low-paying positions.

²⁵Per diem is a daily allowance paid to travelers in lieu of actual subsistence expenses. Per diem rates for various geographic areas are published by GSA.

For the other Army units we audited, DFAS was responsible for reviewing the vouchers for accuracy and proper support prior to payment. We visited DFAS Orlando—the DFAS location responsible for processing travel vouchers for two of our four test sites. We found that DFAS Orlando made some voucher processing errors, which officials at that location attributed, at least in part, to the large volume of vouchers processed at that location, the number of vacant positions, and the significant amount of overtime needed to process vouchers and disburse funds within a 4- to 5-day time frame. For example, DFAS Orlando officials reported processing over 115,000 travel vouchers during fiscal year 2001, averaging approximately 11,000 vouchers per month, and had six vacancies that they were unable to fill. Also, in May 2002, DFAS Orlando reported 912 hours of overtime associated with processing 13,422 of the estimated 17,500 travel vouchers received during the month.

Travel Processing Timeliness Was a Significant Problem Resulting in Late Payments to Travelers

We tested two key areas where prompt action is needed to ensure that travelers are reimbursed for valid expenses within required time frames. First, DOD policy requires the traveler to submit a travel voucher within 5 days of return from travel.²⁶ We estimated significant failure rates for this requirement at all four installations, ranging from 22 percent to 39 percent of fiscal year 2001 transactions. When this control failed in our sample transactions, the delay in submitting a travel voucher ranged from 6 days to as long as 228 days. Numerous travelers took up to 3 weeks to submit vouchers upon return from travel. Installation officials told us that travelers on extended travel for deployment to a war zone do not always have an opportunity to file interim vouchers. Also, the officials stated that many travelers return from travel, only to leave within a day or 2 for annual leave or another business trip and, therefore, do not have an opportunity to submit their travel vouchers promptly.

Delays in filing travel vouchers cause delays in travel reimbursements, which can ultimately result in delinquent accounts. For example in one of the sampled Ft. Bragg, Special Operations, transactions, the cardholder was on extended travel and did not file an interim voucher. This traveler's account became delinquent, but he paid the balance due after being reimbursed. In another instance, a member of the California National Guard who completed travel in February 2001 did not complete a travel

²⁶DOD's FMR provides that for long-term travel, cardholders are expected to file interim vouchers every 30 days.

voucher until mid-April 2001. It took another 3 months for the voucher to arrive at the USPFO facility responsible for processing it. Although DFAS paid the voucher 2 days after receipt of the payment request, the cardholder's account was delinquent for the 3 months.

Second, upon submission of a proper voucher by the employee, DOD has 30 days in which to make reimbursement without incurring late payment fees and charges. Once the approving official receives a properly documented travel voucher, the 30-day payment period begins. If payment is not made in 30 days, the traveler is owed a late payment fee that is to be calculated using, at a minimum, the Prompt Payment Act interest rate, as required by TTRA²⁷ and GSA regulations.²⁸ GSA's regulations also require the cardholder to be paid an amount equal to the amount Bank of America would have been entitled to charge the cardholder had the cardholder not paid the bill by the due date.

Failure rates for this control activity ranged from about 5 percent to 8 percent for three of the four installations we tested, which we considered to be partially effective. Delays in these cases were generally attributed to the review process at the installation, while DFAS generally made payments within 7 days of receipt of the approved voucher package. However, the fourth installation, the California National Guard, had an estimated 61 percent of transactions that were associated with vouchers that were not paid within the 30-day time frame. Given the delays in initial submission of the vouchers, as discussed previously, these additional processing delays will result in travelers receiving payment well after they receive their monthly travel card bills. Unless travelers use personal funds to pay the bills, many accounts will remain delinquent until payment is received. For example, we found that one Ft. Drum travel voucher was submitted 34 days after travel ended and another Ft. Drum voucher was paid 131 days after the travel ended. A California National Guard cardholder did not receive payment for a \$3,554 voucher until 36 days after he submitted his voucher. While the cardholder paid Bank of America the full amount due following receipt of his reimbursement, the cardholder's account was initially delinquent because it was not paid within the required 30-day time frame.

²⁷Public Law. 105-264, Section 2 (g), 112 Stat. 2352 (Oct. 19, 1998).

²⁸41 C.F.R. Section 301-52.20.

In another case we reviewed, an individual had planned to retire from the Army and subsequently withdrew his retirement paperwork and was reassigned to another location. DFAS rejected the employee's travel vouchers for reimbursement of official travel expenses because its records showed that he had retired. At the time of our audit, approximately 9 months had elapsed since the cardholder first sought reimbursement from DFAS, and he was still not paid. The individual's account was seriously delinquent, his card was canceled, and he subsequently paid off his account out of his own funds—since he had not yet been reimbursed.

With respect to the California National Guard, in many instances, USPFO took more than 30 days from the date of receipt of the travel voucher to send a request for voucher payment to DFAS. USPFO officials attributed these problems to the lack of qualified voucher examiners.

Contrary to TTRA and GSA regulations, DFAS did not pay cardholders the required late payment fees and charges. According to the DOD FMR, the fees and charges are only paid if the traveler claims reimbursement by filing a separate voucher claiming the fees and charges. Currently, DFAS does not have the systems and data needed to identify and pay applicable fees and charges due to travelers who are not reimbursed within 30 days.

Conclusions

The intent of the travel card program was to improve convenience for the traveler and to reduce the government's costs of administering travel. However, when the Army implemented the travel card as part of its travel program, it did not provide the control infrastructure—primarily human capital—necessary to manage and oversee the use of government travel cards. Consequently, a weak internal control environment in the travel program has resulted in a significant level of delinquencies and charge-offs of bad debts, and potentially fraudulent and abusive travel card activity. This has resulted in millions of dollars of costs to the Army, including higher fees, lost rebates, and substantial time pursuing and attempting to collect delinquent travel card accounts.

DOD and the Army have taken positive steps to reduce the delinquencies and charge-offs, including establishing a system of wage and retirement payment offset for many employees, sending travel reimbursements directly to the bank rather than the employee, and making management of the travel program a priority for the Army commands. These actions have resulted in significant collections of previously charged-off and delinquent accounts and improved relations with Bank of America. DOD and the

Army have also proposed additional steps as reported in the June 27, 2002, DOD Charge Card Task Force report to improve the controls over the travel card program. However, these Army and DOD actions have primarily addressed 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 “front-end” or preventive controls. To effectively reform the travel program, DOD and the Army will need to work to prevent potentially fraudulent and abusive activity and severe credit problems with the travel card. Preventive solutions include requiring use of the split disbursement payment process by all employees; providing a sufficient control infrastructure to effectively manage the program; exempting individuals with histories of financial problems from required use of travel cards; deactivating cards when employees are not on official travel; and providing appropriate, consistent disciplinary action to employees who commit fraud or abuse the travel cards.

Matter for Congressional Consideration

To reduce DOD’s travel card delinquency and charge-off rates, particularly the Army’s, which are higher than those of any other executive branch agency, the Congress should consider authorizing the Secretary of Defense to require using employees’ travel allowances to pay the travel card issuer directly for charges incurred using the travel card. We believe that this action would provide DOD the ability to require use of the split disbursement payment process for all of its employees.

Recommendations for Executive Action

To strengthen the overall control environment and improve internal controls for the Army’s travel card program, we recommend that the Secretary of the Army take the following actions. We also recommend that the Under Secretary of Defense (Comptroller) assess the following recommendations and, where applicable, incorporate them into or supplement the DOD Charge Card Task Force recommendations to improve travel card policies and procedures throughout DOD.

Travel Card Issuance

We recommend that the Secretary of the Army establish specific policies and procedures governing the issuance of individual travel cards to military and civilian employees, including the following:

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- Evaluate the feasibility of extended use of credit checks for all travel card applicants.
 - For credit check results currently obtained and additional future credit checks, use the results to make decisions on travel card applicants. Decisions on whether to issue a travel card should consider prior credit problems (e.g., bankruptcy; convictions for writing bad checks; and defaulted credit cards, home mortgages, and automobile loans).
 - Provide individuals with prior credit problems who are denied travel cards with alternative means of travel funding.
 - Provide individuals with no prior credit histories with “restricted” travel cards with low credit and ATM limits.
 - Develop procedures to periodically evaluate card usage and close accounts of infrequent travelers, which will minimize exposure to fraud and abuse.
 - Cancel accounts for current infrequent travelers as noted in the Charge Card Task Force report.
 - Evaluate the feasibility of establishing a policy to activate and deactivate cards on predetermined start and end dates, which are tied to the cardholders’ authorized travel orders. At a minimum, this policy should focus on controlling travel card use for the “high-risk” enlisted military personnel in the E-1 to E-6 grades.
 - Develop comprehensive, consistent Army-wide initial training and periodic refresher training for travel cardholders, focused on the purpose of the program and appropriate uses of the card. The training should emphasize the prohibitions on personal use of the card, including gambling, personal travel, and adult entertainment. Such training should also address the policies and procedures of the travel order, voucher, and payment processes. For entry-level personnel, the training should also include information on basic personal financial management techniques to help avoid financial problems that could affect an individual’s ability to pay his or her travel card bill.

Monitoring, Review, and Disciplinary Actions

We recommend that the Secretary of the Army establish the following specific policies and procedures to strengthen controls and disciplinary actions for improper use of the travel card:

- Establish Army guidance on who should be given APC responsibilities that considers (1) the knowledge, skills, and abilities required to carry out these responsibilities effectively, (2) the time required to carry out APC responsibilities on a day-to-day basis effectively, and (3) the length of time an individual should be required to stay in the APC position in light of time required to become proficient in the use of the tools relied on to monitor card usage effectively. Army should evaluate whether the APC position should be full-time.
- To avoid high APC turnover, evaluate the feasibility of maximizing the use of civilian rather than military employees to serve in the role of APC.
- Establish guidance on APC span of control responsibilities so that such responsibilities are properly aligned with time available to ensure effective performance.
- Establish procedures to provide assurance that APCs receive training on their APC responsibilities, including how to use EAGLS transaction reports and other available data to monitor cardholder use of the travel card—for example, reviewing account transactional histories to ascertain whether transactions are incurred during periods of authorized travel and appear to be appropriate travel expenses and from approved MCCs.
- Train APCs to review EAGLS reports to identify cardholders who have written NSF checks for payment of their account balances, and refer the employees for disciplinary action.
- Review, in conjunction with Bank of America, individuals with APC-level access to EAGLS to limit such access to only those with current APC duties.
- Establish Army procedures detailing how APCs should carry out their responsibility to monitor card usage for all cardholders assigned to them. Included in the procedures should be development of a data mining program enabling APCs to scan a large number of transactions, and target potentially inappropriate transactions for further review.

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- Establish a requirement for assessing performance of travel monitoring and other APC duties as a rating factor on all APCs' performance evaluations.
 - Establish an Army requirement for cognizant APCs to retain records documenting any cardholder's fraudulent or abusive usage of the travel card and require this information to be provided to the gaining APC when the cardholder is transferred.
 - Establish appropriate, consistent Army-wide policy as a guide for taking disciplinary actions with respect to fraudulent and abusive activity and delinquency related to the travel card.
 - Refer any travel cardholders with secret or higher level security clearances for whom financial problems related to the travel card are detected to Army CAF for investigation as to whether the individuals should continue to be entrusted with secret or higher clearances.
 - Assign responsibility and accountability over cardholders transferring between Army units or locations, including cardholders currently in "orphan" status. Any accounts not assigned to an APC should be immediately canceled.
 - Strengthen procedures for any employee discharging from service so that all cards are obtained from the cardholders, accounts are closed, and repayment of any outstanding debts is arranged.
 - Develop procedures to identify active cards of departed cardholders, including comparing cardholder and payroll data.

Voucher and Payment Processes

We recommend that the Secretary of the Army, in partnership with the Director, Defense Finance Accounting Service, revise the travel voucher and payment process by developing a process to monitor and track travel reimbursements that exceed the 30-day requirement so that individuals not paid within the statutory period are paid late fees in accordance with the law.

To resolve severe voucher process problems specific to one of the units we audited, we recommend that the Commander of the California Army National Guard take the following actions:

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- Evaluate travel card procedures from writing travel orders through documenting expenses on the voucher and completing the reimbursement process with a goal of reengineering these processes to provide reasonable assurance that cardholder reimbursement is made within the 30-day requirement.
 - Strengthen segregation of duties controls so that voucher examiners cannot prepare, validate, and receive payment for erroneous or fraudulent travel vouchers without detection. Improved controls should include eliminating the use of generic usernames and passwords for accessing the travel system.

Agency Comments and Our Evaluation

In written comments on a draft of this report, which are reprinted in appendix V, DOD concurred or partially concurred with all of our recommendations. DOD partially concurred with our recommendations regarding (1) training APCs to refer cardholders who write NSF checks for disciplinary actions, (2) establishing an Army-wide disciplinary action policy for abusive travel card activity, and (3) developing a process to identify travel reimbursements that exceed the 30-day requirement so that individuals not paid within the statutory period are paid late fees in accordance with the law.

Concerning our recommendation that APCs should be trained to refer cardholders who write NSF checks for disciplinary action, DOD responded that commanders of military members, not APCs, determine the appropriate action when a cardholder has written an NSF check, and not every case should be a referral for disciplinary action. DOD also stated the Army intends to publish guidance that will require the APCs to notify supervisors/commanders of incidents of abuse, misuse, delinquency, and other events, including NSF checks. This response appears to address the intent of our recommendation. We agree that APCs should be trained to identify NSF checks and to report cardholders who write NSF checks to the appropriate level of command for review and possible further action. The supervisors and commanders would still maintain their discretion to select the specific disciplinary action, if any, depending on the circumstances of individual cases.

Regarding establishing Army-wide disciplinary action policy for abusive travel card activity, DOD stated that the Army already has a strong policy in place against theft, fraud, and other intentionally dishonest conduct on the part of civilian employees and that it would be inconsistent with current

law for the Army to establish further mandatory requirements that impose specific disciplinary actions. With regard to military personnel, DOD stated that disciplinary actions are addressed as a matter of command discretion.

We never contemplated that the policy would prescribe mandatory actions. Rather, we intended the policy to be a guide of possible disciplinary actions to be taken against cardholders. This guidance would also serve as an important internal control feature that clearly identifies the consequences associated with improper and abusive travel card use and would serve as a deterrent to such abuse. Further, the policy could include a range of actions that would be appropriate for various types of travel card misuse. To eliminate any confusion concerning the intent of our recommendation, we made a slight modification to the text of the recommendation.

We also recommended developing a system to identify travel reimbursements that exceed the 30-day requirement so that individuals not paid within the statutory period are paid late fees in accordance with the law. DOD agreed that the current systems for processing and computing travel vouchers for the Army do not provide for automated means of calculating interest due on vouchers exceeding the 30 days from the proper submission date. DOD also stated that the Defense Travel System (DTS) currently being deployed automates the voucher submission process and should reduce the instances where reimbursements extend beyond 30 days. However, the DOD Office of Inspector General concluded in a recent report²⁹ that DTS remains at high risk of not being an effective solution in streamlining the DOD travel management process and that it is not expected to be deployed until fiscal year 2006. This system has been under development since 1998 with substantial schedule delays and cost overruns as well as reductions in functionality. Based on this evaluation, we do not consider DTS to be a timely or viable solution for identifying those reimbursements outside of the 30-day requirement. TTRA and GSA regulations require that late fees be paid to those persons reimbursed outside of the 30-day requirement. TTRA imposes a duty on agencies to pay the late fees and does not condition the payment of late fees on travelers identifying late reimbursements and submitting claims for the fees. Until DTS is fully implemented and operational, we continue to believe that DOD needs to develop an interim process to identify late

²⁹Department of Defense Office of the Inspector General, *Acquisition: Allegations to the Defense Hotline on the Management of the Defense Travel System*, Report No. D-2002-124 (Washington, D.C.: July 1, 2002).

reimbursements and pay cardholders the appropriate fees in accordance with the law.

In addition, in one area, although DOD concurred with our recommendation, we do not believe that its response indicates full agreement or understanding of the intent of the recommendation. Specifically, with regard to our recommendation that credit check results be used to make decisions on travel card applicants, DOD responded that those with prior credit problems are issued restricted cards and that mandatory use of the government travel card is required by TTRA. This is not correct. Both the DOD FMR and TTRA provide for exemptions from the mandatory use requirements under certain conditions, including evidence of financial irresponsibility. When an exemption is granted from the mandatory use of the travel charge card, the use of personal funds, including cash or personal charge card; travel advances; or Government Travel Requests may be authorized for payment of travel expenses. We continue to believe that until the Army takes action to consider past credit problems in determining whether to authorize issuing government travel cards, it will continue to increase the risk that individuals will repeat a pattern of fraud, abuse, and delinquency or nonpayment. Our report includes numerous examples of such individuals, including those who were issued restricted cards.

Finally, in concurring with our recommendations regarding the lack of segregation of duties and other voucher processing problems at the California Army National Guard, DOD indicated that it had a number of detective and compensating controls in place. While these appear responsive to our recommendations, we have not evaluated the effectiveness of their implementation and therefore cannot determine whether these measures will resolve the problems we identified.

As agreed with your offices, unless you announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies to interested congressional committees; the Secretary of Defense; the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); the Secretary of the Army; the Director of the Defense Finance and Accounting Service; the U.S. Property and Fiscal Officer, California Army National Guard; and the Director of the Office of Management and Budget. We will make copies available to others upon request. In addition, the

report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact Gregory D. Kutz at (202) 512-9095 or kutzg@gao.gov, or John J. Ryan at (202) 512-9587 or ryanj@gao.gov if you or your staffs have any questions concerning this report.

A handwritten signature in black ink that reads "Gregory D. Kutz". The signature is written in a cursive style with a large, stylized 'G' and 'K'.

Gregory D. Kutz
Director
Financial Management and Assurance

A handwritten signature in black ink that reads "Robert J. Cramer". The signature is written in a cursive style with a large, stylized 'R' and 'C'.

Robert J. Cramer
Managing Director
Office of Special Investigations

Background

In 1983, the General Services Administration (GSA) awarded a governmentwide master contract with a private company to provide government-sponsored, contractor-issued travel cards to federal employees to be used to pay for costs incurred on official business travel. The intent of the travel card program was to provide increased convenience to the traveler and to reduce the government's cost of travel by reducing the need for cash advances to the traveler and the administrative workload associated with processing and reconciling travel advances. The travel card program includes both individually billed accounts—accounts held and paid by individual cardholders—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. As of the end of fiscal year 2001, over 2.1 million individually billed travel cards were issued to federal government travelers. These travel cardholders charged \$3.6 billion during the fiscal year.

Under the current GSA master contract, the Department of Defense (DOD) entered into a tailored task order with Bank of America³⁰ to provide travel card services to DOD and the military services, including the Army. Table 7 provides the number of individually billed travel cards outstanding and related dollar amount of travel card charges by DOD and its components in relation to the total federal government.

³⁰DOD contracted with NationsBank of Delaware, N.A., which subsequently merged into the Bank of America, N.A., under a Tailored Task Order under the GSA Master Contract Award for the travel card program. The period of performance under the task order was November 30, 1998, through November 29, 2000, with three 1-year options to renew. The task order also allowed for five additional 1-year options under the GSA master contract renewal provisions.

Table 7: Comparison of Number of Individually Billed Travel Cardholders and Related Charges for DOD Versus Total Federal Government for Fiscal Year 2001

Entity	Number of individually billed travel cardholders as of September 30, 2001	Fiscal year 2001 individually billed travel card charges (dollars in millions)
Army	432,460	\$619
Navy (includes Marine Corps)	394,952	510
Air Force	501,306	831
Other DOD	86,922	174
Total DOD	1,415,640	\$2,134
Total federal government	2,132,031	\$3,634
DOD percentage of total government	66%	59%

Source: Bank of America.

As shown in table 7, DOD accounts for about 1.4 million, or 66 percent, of the total number of the individually billed travel cards issued by the entire federal government, and DOD's cardholders charged about \$2.1 billion, or about 59 percent, of the federal government's travel card charges during fiscal year 2001. Table 7 also shows that the Army provided 432,460 individually billed cards to its civilian and military employees as of September 2001. These cardholders charged an estimated \$619 million to their travel cards during fiscal year 2001.

Travel Card Program Guidelines

The Travel and Transportation Reform Act of 1998 (Public Law 105-264) expanded the use of government travel cards by mandating the use of cards for all official travel unless specifically exempted. The act is intended to reduce the overall cost of travel to the federal government through reduced administrative costs and by taking advantage of rebates from the travel card contractor based on the volume of transactions incurred using the card and on cardholders paying their monthly travel card bills on time. To help cardholders pay their monthly bills on time, the act also requires that agencies reimburse cardholders for proper travel claims within 30 days of submission of approved travel vouchers by the cardholders.³¹ Further, the act allows, but does not require, agencies to offset a cardholder's pay for amounts the cardholder owes to the travel card contractor as a result of travel card delinquencies not disputed by the cardholder. The act calls for GSA to issue regulations incorporating the requirements of the act.

GSA incorporated the act's requirements into the *Federal Travel Regulation*. The *Federal Travel Regulation* governs travel and transportation and relocation allowances for all federal government employees, including overall policies and procedures governing the use of government travel cards. Agencies are required to follow the requirements of GSA's *Federal Travel Regulation*, but can augment these with their own implementing regulations.

DOD issued its *Financial Management Regulations* (FMR), Volume 9, Chapter 3, Travel Policies and Procedures, which supplements GSA's travel regulations. DOD's *Joint Travel Regulations*, Volume 1 (for Uniformed Service Members) and Volume 2 (for Civilian Personnel), refer to the FMR as the controlling regulation for DOD's travel cards. Further, the Army provided informational pamphlets intended to assist its travelers: Pamphlet 55-16, *Transportation and Travel: Civilian Travel and Transportation*; Pamphlet 55-20, *Temporary Duty*

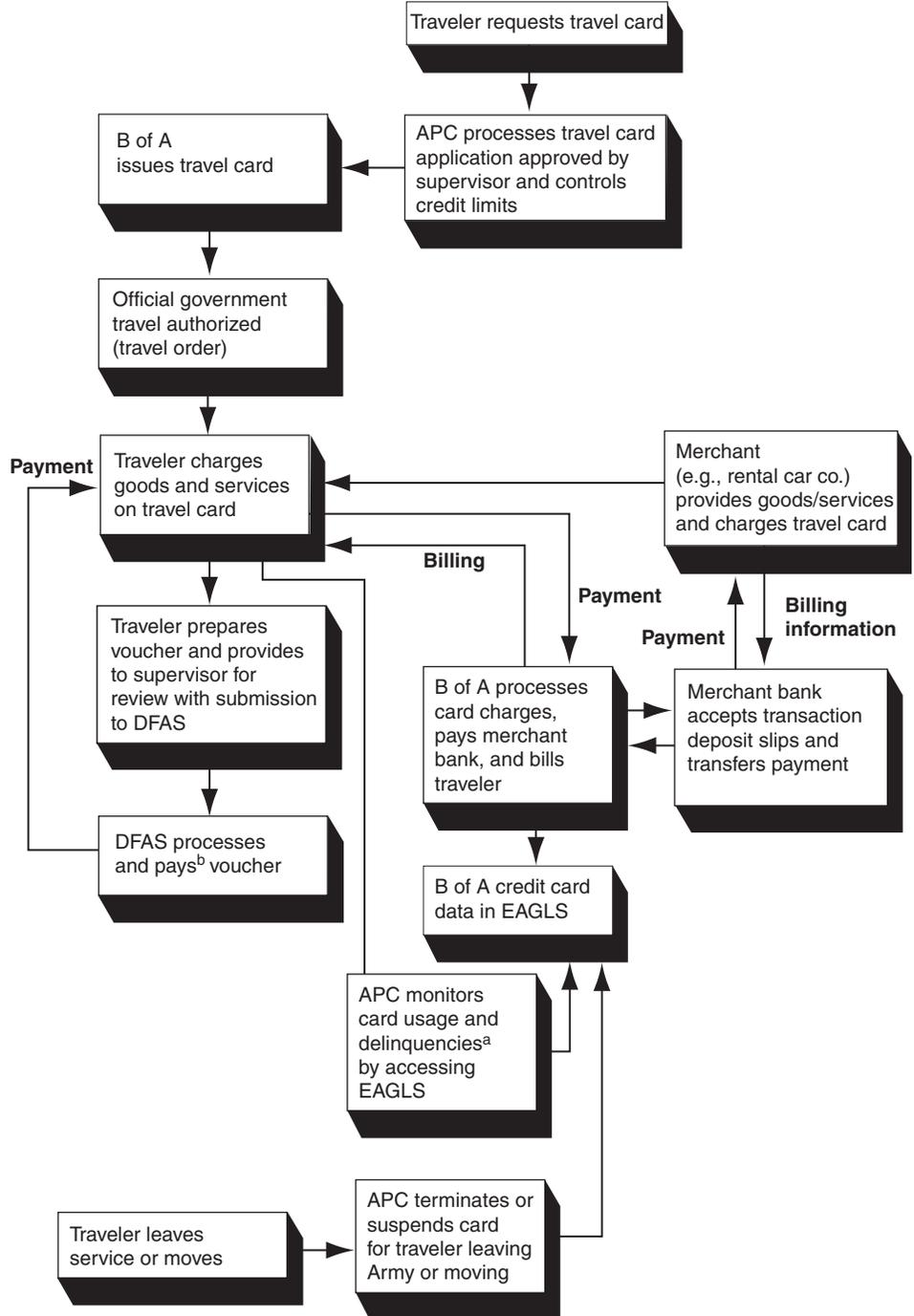
³¹The act also requires agencies to pay cardholders a late payment fee if they do not reimburse cardholders within the 30-day period allowed. Specifically, *Federal Travel Regulations* prescribed by the Administrator of General Services require agencies to either (1) calculate late payment fees using the prevailing Prompt Payment Interest Rate beginning the 31st day after submission of a proper travel claim and ending on the date on which payment is made or (2) reimburse the traveler a flat fee of not less than the prompt pay amount, based on an agencywide average of travel claim payments. In addition to the fee required in the items above, the agency must also pay the traveler an amount equivalent to any late payment charge that the card contractor would have been able to charge the traveler had the traveler not paid the bill. 41 C.F.R. Section 301-52.20.

Travel: Uniformed Services Personnel Travel and Transportation; and Pamphlet 55-22, Civilian Travel and Transportation: Temporary Duty Travel. In addition, some of the Army's individual commands and units have issued their own instructions supplementing GSA and DOD guidelines.

The Army Travel Process

As shown in figure 5, the Army's travel card management program for individually billed travel card accounts encompasses card issuance, travel authorization, cardholders charging goods and services on their travel cards, travel voucher processing and payment, and managing travel card usage and delinquencies.

Figure 5: The Army Travel Process



^aSee figure 7 for specific actions to be taken by the agency program coordinator (APC).

^bThe Defense Finance and Accounting Service (DFAS) allows travelers to direct a portion or all proceeds from the reimbursement of travel vouchers to Bank of America. Army National Guard units process travel vouchers at the units and then send electronic files to DFAS authorizing payment.

Travel Card Issuance and Termination

When an Army civilian or military employee or the employee's supervisor determines that he or she will need a travel card, the employee contacts the unit's travel card agency program coordinator (APC) to complete an individually billed card account application form. As shown in figure 6, the application requires the applicant to provide pertinent information, including full name and Social Security number, and identify whether he or she is an active, reserve, or guard military member or a civilian employee of the Army. The applicant is also required to initial a statement on the application acknowledging that he or she has read and understands the terms of the travel card agreement and agrees to be bound by these terms, including a provision acknowledging that the card will be used only for official travel. The APC is required to complete the portion of the member's application concerning who will be responsible for managing the use and delinquencies related to the card. Bank of America is required to issue travel cards to all applicants for whom it receives completed applications signed by the applicants, the applicants' supervisors, and the APCs.

**Appendix I
Background**

Figure 6: Travel Card Application

PART 1: TO BE COMPLETED BY EMPLOYEE (Optional fields are italicized and noted by an asterisk)				PLEASE TYPE OR PRINT ALL INFORMATION			
Cardholder name as it should appear on the card (First Name, Middle Name or Middle Initial and Last Name):							
Social Security Number:							
Employment Status:				Active <input type="checkbox"/> Reserve <input type="checkbox"/> Guard <input type="checkbox"/> Civilian <input type="checkbox"/>			
Military Rank and Pay Grade/Civilian Pay Grade (example: E-05, O-03, GS-09, WG-07, etc.):							
Military Rank:				Military Pay Grade:		Civilian Pay Grade:	
Commercial Office Phone:				Home Phone:			
Statement Mailing Address: (Indicate Street or P.O. Box)				Card Mailing Address*: (if different from statement address)			
City or APO/FPO:				State:		City or APO/FPO*:	
Zip/Postal Code:		Country:		Zip/Postal Code*:		Country*:	
E-mail Address*:							
Card Delivery*: The card will arrive approximately 10 to 14 business days after Bank of America receives the application. Expedited card delivery is available, however, the applicant will be charged \$20. Is expedited card delivery needed? Yes <input type="checkbox"/> No <input type="checkbox"/>							
Signature and Agreement: After reading the attached Agreement between Department of Defense Employee and Bank of America, N.A. (USA) ("Agreement"): 1. Initial either A or B below; 2. Sign; 3. Obtain your supervisor's approval; and 4. Forward the completed form to your APC.							
A. By signing below, I acknowledge that I have read and understand, and agree to be bound by, the terms and conditions of the Agreement including Bank of America's right to obtain credit reports as described in the Agreement. I attest to the best of my knowledge, that the information I have provided herein is true and correct.				B. By signing below, I acknowledge that I have read and understand, and agree to be bound by, the terms and conditions of the Agreement; however, I do not authorize Bank of America to obtain credit reports and therefore I will not be eligible for a standard account. I attest to the best of my knowledge, that the information I have provided herein is true and correct.			
This application is for a Government Card Account, which may be standard or restricted, as described in the attached Agreement. I expressly agree to accept whichever type of account is established.							
Applicant's Signature:				Date:			
Supervisor's Approval Signature:				Date:			
PART 2: TO BE COMPLETED BY AGENCY PROGRAM COORDINATOR (APC)				PLEASE TYPE OR PRINT ALL INFORMATION			
(Optional fields are italicized and noted by an asterisk)							
Central Account No. 4 4 8 6 - 1 2 - - - - -							
Account Hierarchy: Specify the complete Hierarchy Level (HL) number that pertains to your organization. For example, 0000001 2000005 3012345.							
HL1		HL2		HL3		HL4	
HL5		HL6		HL7		HL8	
Organization/Unit Name:							
FIPS Code:		Is the applicant eligible to obtain Contract City Pair airline fares*? Yes+ <input type="checkbox"/> No <input type="checkbox"/>				+If eligible, participation is*: Mandatory <input type="checkbox"/> Non-mandatory <input type="checkbox"/>	
Account Type*: (Check one. If the applicant initialed B in the above Signature and Agreement section, then only a restricted card may be issued. For a restricted card, if no activation/deactivation dates are provided below, the card will issued in a deactivated status and can only be activated by the APC.)							
Standard <input type="checkbox"/>		Restricted <input type="checkbox"/>		If Restricted, Date to Activate: Month _____ Day _____ Year _____		Date to Deactivate: Month _____ Day _____ Year _____	
Card Design Type*:		Cash Access*:		Authorized to Receive Travelers Checks*:			
Standard <input type="checkbox"/> Quasi-Generic <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>			
By signing below, I hereby authorize, on behalf of the Agency/Organization indicated above, that a Government Card be issued to the employee named above. PLEASE RETAIN COPY FOR YOUR RECORDS. Return copy to: Bank of America, Attn: GCSU, P.O. Box 52304, Phoenix, AZ, 85072-9419, Facsimile: 1.877.217.1033 or 1.888.698.5631							
APC: _____				Signature _____		Date: _____	
Address Line 1: _____				City: _____		State: _____	
Address Line 2*: _____				Zip Code: _____		Country: _____	
Address Line 3*: _____				Commercial Telephone: _____			

Form: S02D0400/OC R 24000

Revised: 05/29/01

Bank of America issues travel cards with either a standard or restricted credit limit. If an employee has little or no credit history or poor credit

based on a credit check performed by Bank of America, Bank of America will suggest to the service that the applicant receive a restricted card with a credit limit of \$2,500 instead of the standard card with a credit limit of \$10,000. However, as shown in figure 6, the application allows the employee to withhold permission for Bank of America to obtain a credit report. If this option is selected, Bank of America automatically issues a restricted card to the applicant.

When cardholders leave the Army, they are required to contact their APCs and notify them of their planned departure. Based on this notification from cardholders, the APCs are to terminate the cardholders' accounts.

Travel Authorization

When a cardholder is required to travel for official government purposes, he or she is issued a travel order authorizing travel. The travel order is required to specify the timing and purpose of the travel authorized. For example, the travel order is to authorize the mode of transportation, the duration and points of the travel, and the amount of per diem and any cash advances. Further, the Army can limit the amount of authorized reimbursement to military members based on the availability of lodging and dining facilities at military installations.

Using the Travel Card for Official Travel Expenses

For authorized travel, travelers must use their cards to pay for allowable expenses, such as hotels and rental cars. The Army generally uses a centrally billed transportation account to pay for air and rail transportation. Also, some units utilize unit cards, a form of centrally billed account, in lieu of individually billed travel charge cards for meals and lodging for group trips.

When the travel card is submitted to a merchant, the merchant will process the charge through its banking institution, which in turn charges Bank of America. At the end of each banking cycle (once each month) Bank of America prepares a billing statement that is mailed to the cardholder for the amounts charged to the card. The statement also reflects all payments and credits made to the cardholder's account. Bank of America requires that the cardholder make payment on the account in full within 25-30 days of the statement closing date. If the cardholder does not pay his or her monthly billing statement in full, and does not dispute the charges within 60 days of the statement closing date, the account is considered delinquent.

Travel Voucher Submission and Processing

Within 5 working days of return from travel, the cardholder is required to submit a travel voucher claiming legitimate and allowable expenses

incurred while on travel. Further, the standard is for the cardholder to submit an interim voucher every 30 days for extended travel of more than 45 days. The amount that cardholders are reimbursed for their meals and incidental expenses and hotels is limited by geographical rates established by GSA.

Upon submission of a proper voucher by the cardholder, the Army has 30 days in which to make reimbursement without incurring late payment fees. Cardholders are required to submit their travel vouchers to their supervisors or other designated approving officials who must review the vouchers and approve them for payment. If a supervisor's review finds an omission or error in a voucher or its required supporting documentation, the approving official must inform the traveler of the error or omission. If the payment of the approved voucher takes longer than 30 days, the Army is required to pay the cardholder a late payment fee plus an amount equal to the amount Bank of America would have been entitled to charge the cardholder had the cardholder not paid the bill by the due date.

For all Army units other than those in the Army National Guard, after the supervisor approves a cardholder's travel voucher package for payment, it is sent to a DFAS location for processing and payment. In the Army National Guard, guard units process, review, and approve all vouchers at that level before they are sent to DFAS for payment. DFAS (or the guard unit) enters travel information from the approved voucher into DOD's Integrated Automated Travel System (IATS). IATS calculates the amount of per diem authorized in the travel order and voucher and the amount of mileage, if any, claimed by the cardholder. In addition, any other expenses claimed and approved are entered into IATS. Once the travel information from the voucher has been entered into IATS, the voucher may be selected for further review or audit. DFAS travel services supervisors audit 2 percent of vouchers under \$2,500 and all vouchers \$2,500 and greater. In addition, vouchers for amounts \$20,000 and over are audited again by DFAS Indianapolis travel services technicians before payment is disbursed. If problems with a voucher are found during the initial entry of the information into IATS or during the audit of the information, the transaction can be rejected and returned to the cardholder for correction. Once the item is successfully processed through IATS, DFAS makes payment to the cardholder or to Bank of America and the cardholder, if the cardholder elected the split disbursement option whereby part of the reimbursement is sent to Bank of America.

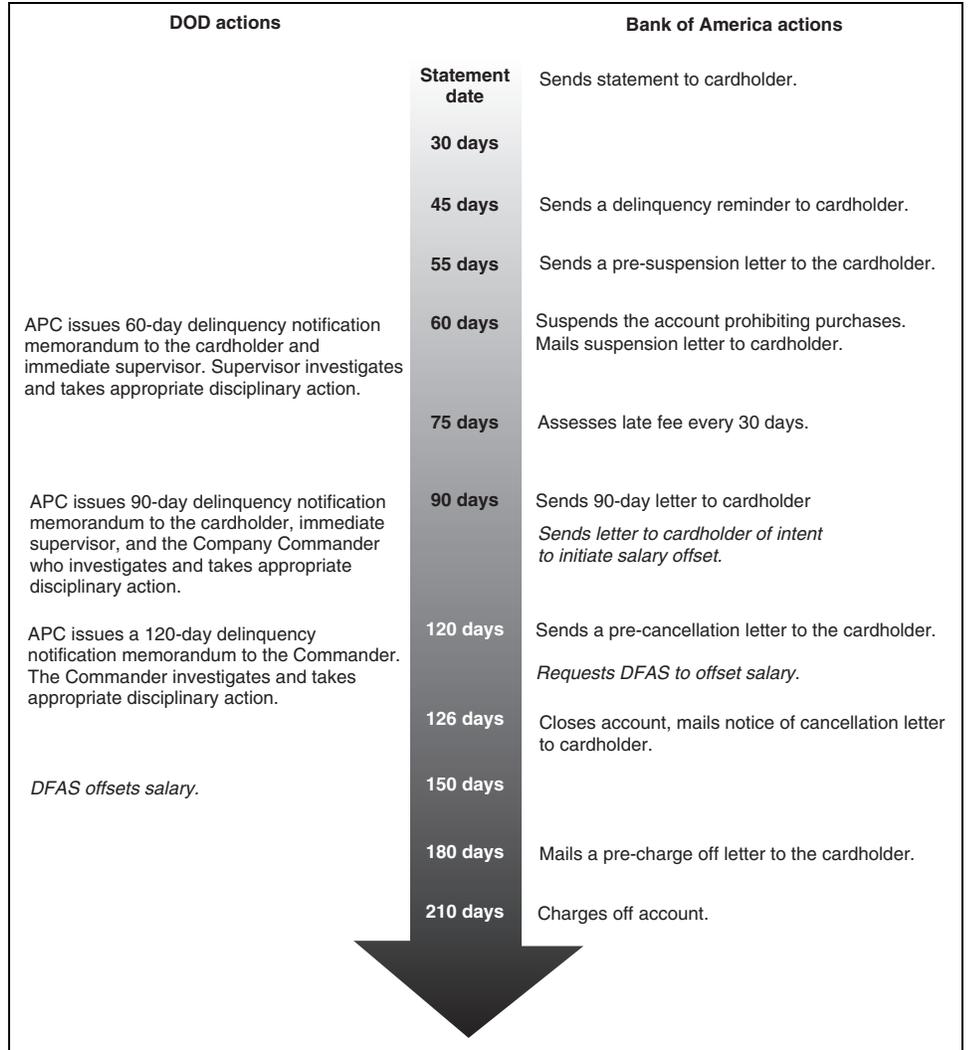
Monitoring Travel Card
Transaction Activity

In addition to controlling the issuance and credit limits related to the travel card, APCs are also responsible for monitoring the use of and delinquencies related to travel card accounts for which they have been assigned management responsibility. Bank of America's Web-based Electronic Account Government Ledger System (EAGLS) provides on-line tools that are intended to assist APCs in monitoring travel card activity and related delinquencies. Specifically, APCs can access EAGLS to monitor and extract reports on their cardholders' travel card transaction activity and related payment histories.

Managing Delinquent Cardholder
Accounts

Both the Army and Bank of America have a role in managing travel card delinquencies under GSA's master contract. While APCs are responsible for monitoring cardholders' accounts and for working with cardholders' supervisors to address any travel card payment delinquencies, Bank of America is required to use EAGLS to notify the designated APCs if any of their cardholders' accounts are in danger of suspension or cancellation. When Bank of America has not received a required payment on any travel cardholder's account within 60 days of the billing statement closing date, the account is considered delinquent. As summarized in figure 7, there are specific actions required by both the Army and Bank of America based on the number of days a cardholder's account is past due.

Figure 7: Required Army and Bank of America Delinquency Process Management Actions



Note: Starting in fiscal year 2002, DOD began to offset the salary of certain civilian employees, military members, and retired military members from all services, including the Army, for the amounts delinquent or charged off on travel card accounts.

Source: GAO analysis.

The following is a more detailed explanation of the required actions by Army and/or Bank of America with respect to delinquent travel card accounts.

- 45 days past due—Bank of America is to send a letter to the cardholder requesting payment. Bank of America has the option to call the cardholder with a reminder that payment is past due and to advise the cardholder that the account will be suspended if it becomes 60 days past due.
- 55 days past due—Bank of America is to send the cardholder a pre-suspension letter warning that Bank of America will suspend the account if it is not paid. If Bank of America suspends an account, the card cannot be used until the account is paid.
- 60 days past due—The APC is to issue a 60-day delinquency notification memorandum to the cardholder and to the cardholder's immediate supervisor informing them that the cardholder's account has been suspended by Bank of America due to nonpayment. The next day, a suspension letter is to be sent by Bank of America to the cardholder providing notice that the card has been suspended until payment is received.
- 75 days past due—Bank of America is to assess the account a late fee. The late fee charged by Bank of America was \$20 through August 9, 2001. Effective August 10, 2001, Bank of America increased the late fee to \$29 under the terms of the contract modification between Bank of America and DOD. Bank of America is allowed to assess an additional late fee every 30 days until the account is made current or charged off.
- 90 days past due—The APC is to issue a 90-day delinquency notification memorandum to the cardholder, the cardholder's immediate supervisor, and the company commander (or unit director). The company commander is to initiate an investigation into the delinquency and take appropriate action, at his or her discretion. At the same time, Bank of America is to send a "due process letter" to the cardholder providing notice that the account will be canceled if payment is not received within 30 days unless he or she enters into a payment plan, disputes charge(s) in question, or declares bankruptcy.
- 120 days past due—The APC is to issue a 120-day delinquency notification memorandum to the cardholder's commanding officer. At the same time, Bank of America is to send a pre-cancellation letter to the cardholder. At 126 days past due, the account is to be canceled by Bank of America. Beginning in October 2001, once accounts were 120 days

past due, Bank of America began sending files to DFAS listing these accounts for salary offset.

- 180 days past due—Bank of America is to send a “pre-charge off” or last call letter to the cardholder informing him or her that Bank of America will charge off the account and report the cardholder to a credit bureau if payment is not received. A credit bureau is a service that reports the credit history of an individual. Banks and other businesses assess the credit-worthiness of an individual using credit bureau reports.
- 210 days past due—Bank of America is to charge off the delinquent account and, if the balance is \$50 or greater, report it to a credit bureau.

Some accounts are pursued for collection by Bank of America’s recovery department, others are sent to attorneys or collection agencies for recovery. The delinquency management process can be suspended when a cardholder’s APC informs Bank of America that the cardholder is on official travel, but is unable to submit vouchers and timely pay his or her account, through no fault of his or her own. Under such circumstances, the APC is to notify the Bank of America that the cardholder is in mission-critical status. Activating this status precludes Bank of America from identifying the cardholder’s account as delinquent until 45 days after such time as the APC determines the cardholder is to be removed from mission-critical status. According to Bank of America, approximately 800 to 1,000 cardholders throughout DOD were in this status at any given time throughout fiscal year 2001.

Objectives, Scope, and Methodology

Pursuant to a joint request by the Chairman and Ranking Minority Member of the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, House Committee on Government Reform, and the Ranking Minority Member of the Senate Committee on Finance, we audited the controls over the issuance, use, and monitoring of individually billed travel cards and associated travel processing and management for the Department of the Army. Our assessment covered

- the reported magnitude and impact of delinquent and charged-off Army travel card accounts for fiscal year 2001 and the first 6 months of fiscal year 2002, along with an analysis of causes and related corrective actions;
- an analysis of the universe of Army travel card transactions during fiscal year 2001 to identify potentially fraudulent and abusive activity related to the travel card;
- the Army's overall management control environment and the design of selected Army travel program management controls, including controls over (1) travel card issuance, (2) APCs' capacity to carry out assigned duties, (3) limiting card activation to meet travel needs, (4) transferred and orphan accounts, (5) procedures for terminating accounts when cardholders leave military service, (6) segregation of duties to ensure that no one individual can control all aspects of a travel transaction, and (7) access to Bank of America's travel card database; and
- tests of statistical samples of transactions to assess the implementation of key management controls and processes for four Army units' travel activity, including (1) travel order approval, (2) accuracy of travel voucher payments, (3) timely submission of travel vouchers by travelers to the approving officials, and (4) timely processing and reimbursement of travel vouchers by the Army and DOD.

We used as our primary criteria applicable laws and regulations, including the Travel and Transportation Reform Act of 1998 (Public Law 105-264),³² the GSA's *Federal Travel Regulation*,³³ and the DOD FMR, Volume 9, Travel Policies and Procedures. We also used as criteria our *Standards for Internal Control in Federal Government*³⁴ and our *Guide to Evaluating and Testing Controls Over Sensitive Payments*.³⁵ To assess the management control environment, we applied the fundamental concepts and standards in our internal control standards to the practices followed by management in the seven areas reviewed.

To assess the magnitude and impact of delinquent and charged-off accounts, we compared the Army's delinquency and charge-off rates to other DOD services and federal agencies. We also analyzed the trends in the delinquency and charge-off data from fiscal year 2000 through the first half of fiscal year 2002.

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

³²The Travel and Transportation Reform Act of 1998 (Public Law 105-264, Oct. 19, 1998) states that, unless specially exempted, federal employees are required to use federal travel charge cards for all payments of expenses of official government travel, requires the government to reimburse employees who have submitted proper vouchers within 30 days of submission of the vouchers, and 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.

³³*Federal Travel Regulation*, 41 C.F.R., chapters 300-304, issued by the Administrator of General Services, governs travel and transportation allowances and relocation allowances for federal civilian employees.

³⁴U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). This document was prepared to fulfill our statutory requirement under 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.

³⁵U.S. General Accounting Office, *Guide to Evaluating and Testing Controls Over Sensitive Payments*, GAO/AFMD-8.1.2 (Washington, D.C.: May 1993). This document provides a framework for evaluating and testing the effectiveness of internal controls that have been established in various sensitive payment areas.

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 Army, we obtained an understanding of the travel process, including travel card management and oversight, by interviewing officials from the Office of the Under Secretary of Defense (Comptroller); the Department of the Army; DFAS; Bank of America; and GSA. We reviewed applicable policies and procedures and program guidance they provided. We visited four Army units to gain an understanding of the travel process, including the management of travel card usage and delinquency. We visited the DFAS Orlando location to gain an understanding of the voucher review and payment process used for two of the four Army locations we tested. 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.

We selected four Army locations for testing controls over travel card activity based on the relative size of travel card activity at the 13 Army commands and of the units under these commands, the number and percentage of delinquent accounts, and the number and percentage of accounts written off. We selected two units from Army's Forces Command because that command represented approximately 19 percent of travel card activity, 22 percent of the delinquent accounts, and 28 percent of accounts charged off during fiscal year 2001 across the Army. We also selected an Army National Guard location because the Army National Guard represented 13 percent of the total travel card activity, 22 percent of the delinquent accounts, and 15 percent of charge-offs for fiscal year 2001. Special Operations Command represents about 6 percent of Army's charge card activity, 5 percent of the delinquent accounts, and 4 percent of Army travel card accounts charged off in fiscal year 2001. Each of the units within the commands was selected because of the relative size of the unit within the respective command.

At each of the Army locations we audited we also used our review of policies and procedures and the results of our understanding of travel processes and other observations to assess the effectiveness of controls over segregation of duties among persons responsible for preparing travel vouchers, processing and approving travel vouchers, and certifying travel voucher payments. In addition, to ensure that work responsibilities were

properly segregated at the California National Guard so that no single individual can perform or control all key aspects of computer-related operations, we performed a limited review of security controls in place at that location over access to DOD's Integrated Automated Travel System (IATS). California National Guard personnel used this system to record and process travel vouchers. We interviewed managers, users, and administrators of IATS at the California National Guard and DFAS's Financial Services Office. We also conducted limited observations of the IATS keying process at the California National Guard.

We also reviewed computer system access controls for EAGLS—the system used by Bank of America to maintain DOD travel card data. To determine whether these controls over EAGLS were effective, we interviewed Bank of America officials and observed EAGLS functions and capabilities.

To test the implementation of key controls over individually billed Army 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 Army travel card transactions. 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 random samples of travel card transactions to review at each of the four Army units we audited. Each sampled transaction was subsequently weighted in the analysis to account statistically for all charged transactions at each of the four units, including those that were not selected. Table 8 presents the sites selected and the number of fiscal year 2001 transactions at each location.³⁶

³⁶The populations 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 for travel order, voucher, and payment process controls. However, we included such transactions in order to project the percentage of personal use transactions.

Table 8: Population of Fiscal Year 2001 Travel Transactions at Army Units Tested

Army unit tested	Number of fiscal year 2001 travel transactions^a	Dollar value of fiscal year 2001 travel transactions^a
Ft. Drum, Forces Command	109,443	\$ 7,281,275
Ft. Bragg, Forces Command	128,583	10,648,419
Ft. Bragg, Special Operations Command	35,021	5,035,743
California National Guard	58,797	5,035,457

^aTransactions represent charges for sales and cash advances and exclude credits, fees, and other miscellaneous debits.

We performed tests on statistical samples of travel card transactions at each of the four case study sites to assess whether the system of internal control over the transactions was effective, as well as to provide an estimate of the percentage of transactions by unit 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 dates of travel, (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,³⁷ can be projected to the population of transactions at the respective case study site only, not to the population of travel card transactions for all Army cardholders.

We concluded that a control was effective if both the projected point estimate of the failure rate and the upper bound of a one-sided 95 percent confidence interval associated with the estimate were no more than 5

³⁷At Ft. Bragg, Forces Command, we found that 85 of 189 transactions appeared to be personal (projecting to an estimated 45 percent with a 95 percent confidence interval from 37.8 percent to 52.4 percent). At Ft. Drum, Forces Command, we found that 17 of 115 transactions appeared to be personal (projecting to an estimated 14.8 percent with a 95 percent confidence interval from 8.9 percent to 22.6 percent). At Ft. Bragg, Special Operations, we found that 21 of 117 transactions appeared to be personal (projecting to an estimated 18 percent with a 95 percent confidence interval from 11.5 percent to 26.1 percent). At the California National Guard we found that 49 of 166 transactions appeared to be personal (projecting to an estimated 29.5 percent with a 95 percent confidence interval from 22.7 percent to 37.1 percent).

percent. We concluded that a control was ineffective if both the point estimate of the failure rate and the lower bound of a one-sided 95 percent confidence interval associated with the estimate were greater than 10 percent. Any point estimate between 5 and 10 percent would generate an assessment of partially effective. Tables 9 through 11 show (1) the results of our tests of key attributes, (2) the point estimates of the failure rates for the attributes, and (3) the two-sided 95 percent confidence intervals for the failure rates for each attribute. Table 9 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 9: Estimate of Fiscal Year 2001 Transactions That Failed Control Tests for Approved Travel

Army unit tested	Number of failed transactions	Estimated failure rate (95% confidence interval)
Ft. Bragg, Forces Command	6 of 96	6.2% (2.3%, 13.1%)
Ft. Drum, Forces Command	0 of 96	0% (0%, 3.8%)
Ft. Bragg, Special Operations Command	3 of 96	3.1% (.6%, 8.9%)
California National Guard	1 of 96	1.04% (.03%, 5.7%)

Table 10 shows the results of our test for effectiveness of controls in place over the accuracy of travel voucher payments.

Table 10: Estimate of Fiscal Year 2001 Transactions That Failed Control Tests for Accurate Travel Voucher Payments

Army unit tested	Number of failed transactions	Estimated failure rate (95% confidence interval)
Ft. Bragg, Forces Command	18 of 96	18.8% (11.5%, 28.0%)
Ft. Drum, Forces Command	10 of 96	10.4% (5.1%, 18.3%)
Ft. Bragg, Special Operations Command	7 of 96	7.3% (3.0%, 14.4%)
California National Guard	18 of 43	41.9% (27.0%, 57.9%)

Table 11 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 of the travel voucher.

Table 11: Estimate of Fiscal Year 2001 Transactions That Failed Control Tests for Timely Submission and Processing of Travel Vouchers

Army unit tested	Timely voucher submission by employee (5-day rule)		Timely reimbursement to the traveler (30-day rule)	
	Number of failed transactions	Estimated failure rate (95% confidence interval)	Number of failed transactions	Estimated failure rate (95% confidence interval)
Ft. Bragg, Forces Command	37 of 96	38.5% (28.8%, 49.0%)	8 of 96	8.3% (3.7%, 15.8%)
Ft. Drum, Forces Command	21 of 96	21.9% (14.1%, 31.5%)	5 of 96	5.2% (1.7%, 11.7%)
Ft. Bragg, Special Operations Command	29 of 96	30.2% (21.2%, 40.4%)	7 of 96	7.3% (3.0%, 14.4%)
California National Guard	12 of 43	27.9% (15.3%, 43.7%)	26 of 43	60.5% (44.4%, 75.0%)

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 the following officials on the details of our review, including our objectives, scope, and methodology and our findings and conclusions: DOD managers, including officials in DFAS; Army managers, including Office of the Assistant Secretary of the Army (Financial Management and Comptroller) officials; Army Forces Command and Special Operations Command unit commanders; unit-level APCs; Army National Guard Bureau management and the California National Guard Adjutant General; and Bank of America officials. We incorporated their comments where appropriate. With the exception of our limited review of access controls at the California National Guard, we did not review the general or application controls associated with the electronic data processing of Army travel card transactions. We conducted our audit work from December 2001 through July 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. We received DOD comments on a draft of this report from the Under Secretary of Defense (Comptroller) dated September 30, 2002, and have reprinted those comments in appendix V.

Army Major Command Delinquency Rates

Table 12 shows the travel card delinquency rates for Army's major commands (and other Army organizational units at a comparable level) that had outstanding balances over \$1 million during the 2-year period ending March 31, 2002. The Army's commands and other units are listed in descending order based on their respective delinquency rates as of March 31, 2002. The delinquency rates shown represent the total amount delinquent (amounts not paid within 61 days of the travel card monthly statement closing date) as a percentage of total amounts owed by the command's travel cardholders at a point in time.

Table 12: Army Major Command Delinquency Rates (by Quarter) for the 2 Years Ending March 31, 2002

Command ^a	June 2000	Sept. 2000	Dec. 2000	Mar. 2001	June 2001	Sept. 2001	Dec. 2001	Mar. 2002
U.S. Army Forces Command	22.2	25.1	28.7	23.1	18.6	22.1	30.5	23.7
U.S. Army Pacific Command	19.5	25.1	28.2	19.8	15.0	18.7	22.5	18.9
U.S. Army National Guard	16.9	16.4	22.9	13.6	13.4	16.2	20.9	18.4
U.S. Army Europe and 7th Army Command	17.8	20.4	21.1	15.8	13.0	17.1	22.5	16.9
U.S. Army orphan ^b	16.2	22.2	40.1	38.1	23.1	20.4	24.4	16.9
U.S. Army Reserve	14.3	16.0	20.9	13.1	11.6	11.9	21.4	15.3
U.S. Army Recruiting Command	22.5	19.2	17.4	20.4	13.6	13.7	10.6	13.1
U.S. Army Special Operations Command	16.9	17.4	17.9	9.9	10.1	10.6	16.6	12.0
U.S. Army Operating Agency 22 ^c	8.7	11.1	11.4	7.4	7.0	8.7	12.2	9.0
U.S. Army Training and Doctrine Command	10.8	11.7	13.9	8.8	8.4	10.2	12.1	8.2
U.S. Army Medical Corps	12.3	13.9	14.8	9.9	8.1	8.0	12.3	7.7
U.S. Army Intelligence and Security Command	10.3	12.1	11.9	5.9	5.6	6.0	4.2	5.8
U.S. Army Corps of Engineers	4.8	5.6	6.5	4.5	3.3	3.9	5.8	3.6
U.S. Army Material Command	3.4	3.6	4.4	2.1	2.1	2.3	2.4	1.5
All other commands combined	8.5	9.7	11.1	8.4	5.9	6.8	7.2	6.9
Army-wide	13.9	15.5	18.5	13.3	10.7	12.5	16.6	12.8

^aCommands are ranked by the largest percentage of dollars delinquent as of March 31, 2002. Commands with a March 31, 2002, balance outstanding under \$1 million have been combined into "All other commands combined."

^bU.S. Army orphan accounts are (1) Army travel card accounts that are not under the purview of any APC and (2) accounts Banks of America inherited from the previous government travel card contractor that were not linked to any Army command and accounts for which the accountable APC left or was relocated without having a replacement designated.

^cU.S. Army Operating Agency 22 consists of various Army headquarters and administrative offices, such as the Secretary of the Army, the Assistant Secretary of the Army for Financial Management and Comptroller, the Army Audit Agency, and the Army Judge Advocate General.

Source: GAO calculation based on information provided by Bank of America.

Army Personnel Grade, Rank, and Associated Basic Pay Rates

Tables 13 and 14 show the grade, rank (where relevant), and the associated basic pay rates for 2001 for Army's military and civilian personnel, respectively. The basic 2001 pay rates shown exclude other considerations, such as locality pay and any allowances for housing or cost of living.

Table 13: Army Military Grades, Ranks, and Associated Basic Pay Rates for Fiscal Year 2001

Military grade	Military rank	2001 pay
Enlisted personnel		
E-1 to E-3	Private	\$11,033 to \$14,449
E-4 to E-6	Corporal to Staff Sergeant	\$17,739 to \$26,253
E-7 to E-9	Platoon Sergeant to Sergeant Major	\$31,563 to \$46,445
Officers^a		
WO-1 to WO-5	Warrant Officer	\$29,302 to \$60,152
O-1 to O-3	First Lieutenant, Second Lieutenant, Captain	\$26,731 to \$45,339
O-4 to O-6	Major, Lieutenant Colonel, Colonel	\$56,635 to \$84,317
O-7 to O-10	General	\$98,960 to \$132,826

^aOfficers' ranks includes warrant officers (denoted by WO) and commissioned officers (denoted by O).

Source: U.S. Army.

Table 14: Army Civilian Grades and Associated Basic Pay Rates for Calendar Year 2001

Civilian grade	2001 pay
General schedule employees	
GS-1 to GS-3	\$14,244 to \$22,712
GS-4 to GS-5	\$19,616 to \$28,535
GS-6 to GS-8	\$24,463 to \$39,143
GS-9 to GS-12	\$33,254 to \$62,686
GS-13 to GS-15	\$57,345 to \$103,623
Senior Executive Service	
ES-01 to ES-06	\$109,100 to \$125,700

Source: Office of Personnel Management.

Comments from the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

SEP 30 2002

Mr. Gregory D. Kutz
Director
Financial Management and Assurance
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Kutz:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "GAO-02-986 "TRAVEL CARDS: Control Weaknesses Leave Army Vulnerable to Fraud and Abuse," August 1, 2002 (GAO Code 192066)."

The Department reviewed the draft report and recognizes the intent of the recommendations. The Department takes travel and purchase charge card abuse and misuse very seriously. At the direction of Secretary Rumsfeld, I established a DoD Charge Card Task Force on March 2002 to review and analyze the problems with the DoD charge card programs. The Task Force completed its review on June 27, 2002, and has developed a full range of reforms. Many are well underway.

We are taking actions to strengthen and enforce internal controls and increase the tools available to managers for enforcing those controls. These include employing data mining technologies to detect fraudulent or abusive charge card transactions. We are also increasing management emphasis and personal accountability, enhancing the capability of the workforce to accomplish assigned charge card responsibilities to include training and recommending minimum skills required for performing essential charge card management tools.

To date, I have directed the cancellation of approximately 400,000 inactive travel charge card accounts. Travel charge cards in the hands of individuals without legitimate need are an unnecessary administrative burden and could lead to potential abuse and misuse. We have taken other actions including the involuntarily deduction of delinquent balances from the pay of military members and civilian employees who fail to pay their delinquent travel charge accounts. We also are looking at alternatives to the travel charge card such as debit and stored value cards.

Regarding this specific report on the Army's Travel Card program, the Department concurs or partially concurs with the majority of the recommendations. As mentioned above, many actions have already been taken or will soon be taken to implement a number of the recommendations. In its draft report, the GAO recommends that the Secretary of the Army "establish appropriate, consistent Army-wide policy on disciplinary actions that are to be taken with respect to fraudulent and abusive activity and delinquency related to the travel card." The

Appendix V
Comments from the Department of Defense

Department would be inclined to concur with the GAO's recommendation to establish, by policy, the nature of the disciplinary action to be taken in cases involving either civilian employees or military personnel. Nevertheless, in practice, the Department is limited by current law as to what further actions it can take in this regard.

Please note that the Army already has a strong Army-wide policy in place against theft, fraud, and other intentionally dishonest conduct on the part of civilian employees. This policy states that: "It is the policy of the Army that any civilian employee found to have engaged in theft, fraud, or other intentionally dishonest conduct against the Army will be considered for removal from federal service. Any lesser penalty will require justifiable mitigating circumstances. It is the duty of all supervisors to ensure that this policy is implemented." It would be inconsistent with current law for the Army to establish further mandatory requirements that impose specific disciplinary actions on individual employees.

With respect to military personnel, commanders at all levels are required to exercise their individual discretion in determining the appropriate discipline warranted. Orders, policies, or guides that infringe upon a commander's discretion are prohibited under the Uniform Code of Military Justice. The Manual for Courts-Martial establishes those permissible policies and factors for commanders to consider when determining appropriate dispositions and punishments for military personnel. The Department's civilian leadership is prohibited from implementing policies that serve to mandate or require certain disciplinary actions or forms of punishment.

For these reasons, we suggest that the recommendation focus on policies that establish when and how commanders are notified of suspected fraud or abuse involving travel cards. The enclosure includes detailed comments on the recommendations contained in the report.

The Department appreciates the opportunity to comment on the draft report. My staff point of contact on this matter is Mr. Ron Massengill. He may be contacted by e-mail: massengr@osd.pentagon.mil or by telephone at (703) 697-1101.

Sincerely,



Dov S. Zakheim

Enclosure

GAO DRAFT REPORT, GAO-02-986/CODE 192066

“TRAVEL CARDS: CONTROL WEAKNESSES LEAVE ARMY VULNERABLE TO
FRAUD AND ABUSE,” AUGUST 1, 2002

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS

OVERALL GAO RECOMMENDATION: To strengthen the overall control environment and improve internal control for the Army’s travel card program, the GAO recommended that the Secretary of the Army take the following actions. The GAO also recommended that the Under Secretary of Defense (Comptroller) assess the following recommendations, and where applicable incorporate them into or supplement the DoD Charge Card Task Force recommendations to improve travel card policies and procedures throughout DoD.

RECOMMENDATION 1: TRAVEL CARD ISSUANCE

The GAO recommended that the Secretary of the Army establish specific policies and procedures governing the issuance of individual travel cards to military and civilian employees, including the following:

- Evaluate the feasibility of extended use of credit checks for all travel card applicants.
- For credit check results currently obtained and additional future credit checks, to use the results to make decisions on travel card applicants. Decisions on whether to issue a travel card should consider prior credit problems (e.g., bankruptcy, convictions for writing bad checks, and defaulted credit cards, home mortgages, and automobile loans).
- Individuals with prior credit problems that are denied a travel card should either be required to use their own credit card to travel or be provided alternative means of travel funding, such as advances.
- Individuals with no prior credit history should be provided with a “restricted” travel card with low credit and ATM limits.
- Develop procedures to periodically evaluate card usage and close accounts of infrequent travelers, which will minimize exposure to fraud and abuse.
- Cancel accounts for current infrequent travelers as noted in the Charge Card Task Force report.
- Evaluate the feasibility of establishing a policy to activate and deactivate cards on pre-determined start and end dates, which are tied to the cardholders’ authorized travel orders. At a minimum, this policy should focus on controlling travel card use for the “high risk” enlisted military personnel in the E-1 to E-6 grades.

- Develop comprehensive, consistent Army-wide initial training and periodic refresher training for travel cardholders, focused on the purpose of the program and appropriate uses of the card. The training should emphasize the prohibitions on personal use of the card, including for gambling, personal travel, and adult entertainment. Such training should also address the policies and procedures of the travel order, voucher, and payment processes. For entry-level personnel, the training should also include information on basic personal financial management techniques to help avoid financial problems that could affect an individual's ability to pay his or her travel card bill. (GAO Draft Report/pp. 66-68)

DOD RESPONSE: Concur. The Army has either implemented or will soon take action to implement the recommended actions.

- The current process does consider the results of credit checks and those with prior credit problems are issued a restricted travel card. Commanders must have the flexibility to issue restricted travel cards to key personnel on a case-by-case basis. Mandatory use of the government travel card is required by the Travel and Transportation Reform Act (TTRA) of 1998 (PL 105-264).
- The Department will evaluate the feasibility of extended use of credit checks. There are issues arising from the Fair Credit Reporting Act (15 U.S.C. 1681b) that must be addressed.
- Individuals who decline a credit check, or whose credit check reveals a low credit score may still have travel requirements that meet the mandatory use conditions of the TTRA. Those individuals are assigned a restricted card with half of the spending limit of a standard card.
- The travel charge card contractor is prohibited from discussing credit scores with the APC, but has in the past, recommended or strongly recommended issuance of a restricted product based on the results of the credit check. This recommendation has been accepted by supervisors/commanders in over 99% of the cases.
- The Department is taking additional measures to address delinquencies and abuse, and is exploring alternatives to the charge card that may be applicable in situations where there is a poor credit history or no credit history. Until those measures are evaluated and available, the Department must continue to meet its travel needs through the existing charge card program in accordance with the TTRA.
- Army infrequent traveler accounts are among the 400,000 accounts that the Under Secretary of Defense (Comptroller) has directed be cancelled by the travel charge card contractor in his memorandum dated July 19, 2002, in accordance with a recommendation of the Charge Card Task Force.

- By September 30, 2002, the Army intends to instruct commanders/supervisors to conduct semi-annual reviews of card usage and cancel cards of infrequent travelers.
- The Army will evaluate the feasibility of requiring the activation/deactivation of card inventories based on the issuance of travel orders. In accordance with a recommendation of the Charge Card Task Force, the Program Office of the Defense Travel System is evaluating whether and how an activation/deactivation capability could be added to the Defense Travel System. Currently, there is no automated way to accomplish this.
- By September 30, 2002, the Army intends that the Army travel card program manager, will survey major commands to find out which of them have high incidents of junior enlisted travel. Based on data such as frequency and duration of travel, grade and incidents of delinquency, will recommend actions to effectively control this segment of the card population.
- By September 30, 2002, the Army intends to direct commanders and supervisors to ensure that cardholders receive training on the authorized use of the travel card prior to issuance. In addition to the current cardholder agreement, cardholder training available on the EAGLS Help Desk website will be used to meet this requirement. This training will be documented and, along with a statement of understanding signed by the cardholder, will be kept on record for future review. Also, in accordance with a recommendation of the Charge Card Task Force, a training Compact Disk (CD) is being developed to provide the results of the Task Force to travel charge card program officials and cardholders DoD wide. The CD is intended to be used both as training for new program officials/cardholders and as a quick reference tool when questions on proper use and prohibitions arise.

RECOMMENDATION 2: MONITORING, REVIEW, AND DISCIPLINARY ACTIONS

The GAO recommended that the Secretary of the Army establish the following specific policies and procedures to strengthen controls and disciplinary actions for improper use of the travel card:

- Establish Army guidance on who should be given APC responsibilities that considers (1) the knowledge, skills, and abilities required to effectively carry out these responsibilities, (2) the time required to effectively carry out APC responsibilities on a day-to-day basis, (3) the length of time an individual should be required to stay in the APC position in light of time required to become proficient in the use of the tools relied on to effectively monitor card usage. Army should evaluate whether the APC position should be full time.
- To avoid high APC turnover, Army should evaluate the feasibility of maximizing the use of civilian rather than military employees to serve the role of APC.
- Establish guidance on APC span of control responsibilities so that such responsibilities are properly aligned with time available to ensure effective performance.

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- Establish procedures to provide assurance that APCs receive training on their APC responsibilities, including how to use EAGLS transaction reports and other available data to monitor cardholder use of the travel card—for example, reviewing account transactional histories to ascertain whether transactions are incurred during periods of authorized travel and appear to be appropriate travel expenses and from approved merchant category codes.
- APCs should be trained to review EAGLS reports to identify cardholders that have written NSF checks for payment of their account balances, and refer the employee for disciplinary action.
- Review, in conjunction with the travel charge card contractor, individuals with APC-level access to EAGLS to limit such access to only those with current APC duties.
- Establish Army procedures detailing how APCs should carry out their responsibility to monitor card usage for all cardholders assigned to them. Included in the procedures should be development of a data-mining program enabling APCs to scan a large number of transactions, and target potentially inappropriate transactions for further review.
- Establish a requirement for assessing performance of travel monitoring and other APC duties as a rating factor on all APCs' performance evaluations.
- Establish an Army requirement for cognizant APCs to retain records documenting any cardholder's fraudulent or abusive usage of the travel card and require this information to be provided to the gaining APC when the cardholder is transferred.
- Establish appropriate, consistent Army-wide policy on disciplinary actions that are to be taken with respect to fraudulent and abusive activity and delinquency related to the travel card.
- Refer any travel cardholders with secret or higher level of security clearance for whom financial problems related to the travel card are detected, to Army CAF for investigation as to whether the individual should continue to be entrusted with a secret or higher clearance.
- Assign responsibility and accountability over cardholders transferring between Army units or locations, including cardholders currently in "orphan" status. Any accounts not assigned to an APC should be immediately cancelled.
- Strengthen procedures for any employee discharging from service so that all cards are obtained from the holder, accounts are closed, and repayment of any outstanding debts is arranged.
- Backup procedures should be developed to identify active cards of departed cardholders, including comparing cardholder and payroll data. (GAO Draft Report/pp.68-70)

DOD RESPONSE: Partially concur. The Army has either implemented or will soon take action to implement most of these recommendations. The Department has concerns, however, about the recommendations to: (1) have APCs identify cardholders with NSF checks and refer them for disciplinary action, and (2) establish an Army-wide disciplinary action policy for abusive travel card activity.

- Not later than September 30, 2002, the Army intends to direct commanders to ensure that individuals selected to be Agency Program Coordinators (APC) possess the knowledge, skills, and abilities to carry out the responsibilities of the position. As part of this direction, the Army will require that APCs are fully trained prior to assuming their duties and receive refresher training on an annual basis. This training will be documented for future audit review. Training will include a comprehensive block on EAGLS and, in particular, the reporting tool as a means to identify abuse and misuse and will be provided by the travel charge card contractor trainers or qualified Army resources (e.g., HQ DA, MACOM).
- The Army will instruct commanders to determine the specific span of control needed to provide effective account oversight to meet program requirements and mission needs and to ensure that the APC function is adequately staffed.
- The Army will evaluate the feasibility of using data from various databases (e.g., personnel, pay systems) to verify status and location of separating/departed cardholders. In a memorandum dated July 19, 2002, the Under Secretary of Defense (Comptroller) directed the cancellation of existing “orphan” status accounts and established the requirement to continually review and cancel these accounts on a semi-annual basis. Army cardholder accounts currently in the “orphan hierarchy” were deactivated on August 13, 2002, and, if the cardholder does not respond with requested information, will be cancelled on October 11, 2002.
- The Vice Chief of Staff, Army wrote senior Army commanders on August 13, 2002, on the urgent need to reduce the Army’s unacceptably high rate of cardholder delinquency and to eliminate card misuse.
- In a memorandum dated August 9, 2002, the Under Secretary of Defense (Comptroller) issued guidance to all Services and Agencies to validate the need for APC access to EAGLS system and delete unneeded access. The Army is currently working to eliminate ex-APCs from the active EAGLS file. The estimated completion date for this effort is September 30, 2002.
- Partially concur with the recommendation that “APCs should be trained to review EAGLS reports to identify cardholders that have written NSF checks for payment of their account balances, and refer the employee for disciplinary action.”
- Not later than September 30, 2002, the Army intends to publish guidance, outlining general to specific APC responsibilities. It will allow commanders to add/delete specific actions to meet their unique mission requirements. The guidance will stress

that the APC duty should be considered a principal duty and that consideration should be given to maximizing the use of the civilian workforce, where available, to serve as APC. The Army will require APCs to notify supervisors/commanders of incidents of apparent abuse, misuse, delinquency, and other events (e.g., NSF checks) that may indicate financial problems and may require investigation to determine if the incidents jeopardize maintaining a security clearance. In accordance with a recommendation of the DoD Charge Card Task Force, the Office of the Inspector General, DoD, and the Defense Finance and Accounting Service are working cooperatively to determine whether or not data mining techniques can be effectively applied to travel card program. Data has been requested from the travel charge card contractor for use in developing initial indicators.

- However, it should be understood that it is commanders of military members, not APCs who make determinations as to what action is appropriate based on all the facts. For example, every case involving a “NSF” check has its own set of facts. Appropriate actions may include oral counseling, written counseling, revocation of the travel card or more permanent adverse administrative actions that impact the soldiers official record. In serious abuse cases, criminal prosecution under the UCMJ may be appropriate. Not every case, however, is a referral “for disciplinary action.”
- The Department would be inclined to concur with the GAO’s recommendation to establish, by policy, the nature of the disciplinary action to be taken in cases involving either civilian employees or military personnel. Nevertheless, in practice, the Department is limited by current law as to what further actions it can take in this regard.
- Please note that the Army already has a strong Army-wide policy in place against theft, fraud, and other intentionally dishonest conduct on the part of civilian employees. This policy states that: “It is the policy of the Army that any civilian employee found to have engaged in theft, fraud, or other intentionally dishonest conduct against the Army will be considered for removal from federal service. Any lesser penalty will require justifiable mitigating circumstances. It is the duty of all supervisors to ensure that this policy is implemented.” It would be inconsistent with current law for the Army to establish further mandatory requirements that impose specific disciplinary actions on individual employees.
- With respect to military personnel, commanders at all levels are required to exercise their individual discretion in determining the appropriate discipline warranted. Orders, policies, or guides that infringe upon a commander’s discretion are prohibited under the Uniform Code of Military Justice. The Manual for Courts-Martial establishes those permissible policies and factors for commanders to consider when determining appropriate dispositions and punishments for military personnel. The Department’s civilian leadership is prohibited from implementing policies that serve to mandate or require certain disciplinary actions or forms of punishment.
- Concur with the recommendation to establish a requirement for assessing performance of travel monitoring and other APC duties as a rating factor on all APC performance

evaluations. The Department will pursue the establishment of APC duties as a rating factor on APC performance evaluations in all DoD Components.

- Concur with the recommendation to refer any travel cardholders with secret or higher level of security clearance to Army CAF for investigation as to whether the individual should continue to be entrusted with a secret or higher clearance. In accordance with a recommendation of the Charge Card Task Force, the Office of the Under Secretary of Defense (Comptroller) is working with the Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) to provide guidance to the Components on the suspension of access to classified information due to abuse or misuse of government charge cards.
- Concur with the recommendation to strengthen procedures for any employee discharging from Service so that all cards are obtained from the holder, accounts closed, and repayment of any outstanding debts is arranged.
- For military personnel outprocessing at the Government Travel Card and Military Pay Stations, existing requirements are already identified in AR 600-8-101, Personnel Processing (In- and Out- and Mobilization Processing). All transitioning soldiers are required to complete these stations. The travel card is to be destroyed, and any unpaid debts processed. Government Travel Cards are also a part of the Installation Clearance Record check (DA Form 137-2-R, Item 13, DoD Travel Charge Card Program Coordinator, and Section C, Military Pay Processing, Item 17, Debt Processing). Provisions are in place.
- The Army has developed functional requirements for automated In and Out Processing systems for civilian employees. At present these functions are accomplished manually by staffs of local commanders who have developed checklists and procedures tailored to the requirements at each depot, arsenal or installation. The objective of developing a centralized In and Out Processing system is to reengineer and standardize the process and save workyears. This objective is part of the Army's plan for using technology to improve efficiency. We will review the military methodology for outprocessing and adjust our requirements to ensure consistency in both military and civilian processes when possible.
- In accordance with a recommendation of the Charge Card Task Force, the Department is evaluating ways to ensure cards of those who separate from the Department are closed. In addition to requiring turn in of cards during routine checkout procedures, the Department is exploring how to best develop and distribute lists of separated employees to APCs to ensure cards are cancelled.

RECOMMENDATION 3: VOUCHER AND PAYMENT PROCESSES

The GAO recommended that the Secretary of the Army, in partnership with the Director, Defense Finance Accounting Service, revise the travel voucher and payment process in the following areas by developing a process to monitor and track travel reimbursements that exceed

the 30-day requirement so that individuals not paid within the statutory period are paid late fees in accordance with the law. (GAO Draft Report/p.70)

DOD RESPONSE: Partially concur. The current systems for processing and computing travel vouchers for the Army do not provide for an automated means of calculating interest due on vouchers where the reimbursement exceeded 30 days from the proper submission date. Manually determining and computing interest calculations would detract from the higher priority of ensuring vouchers are initially reviewed and paid on time. Individuals may submit supplemental vouchers for interest and late fees resulting from government error in processing of their voucher. The Defense Travel System currently being deployed automates the voucher submission process and thus, should further reduce the instances where reimbursements extend beyond 30 days.

- In addition, by September 30, 2002, the Army intends to direct leaders at all levels, to ensure that: travelers are trained on the proper preparation of settlement claims; travel claims are filed within 5 days of return from travel; approving officials expedite their review of travel claims; and units expedite submission of travel claims to the servicing DFAS site for payment.

RECOMMENDATION 4: To resolve severe voucher process problems specific to one of the units audited, GAO recommended that the Commander of the California Army National Guard take the following actions.

- Evaluate travel card procedures from writing travel orders through documenting expenses on the voucher and completing the reimbursement process with a goal of reengineering these processes to provide reasonable assurance that cardholder reimbursement is made within the 30-day requirement.
- Strengthen segregation of duties controls so that voucher examiners cannot prepare, validate, and receive payment for erroneous or fraudulent travel vouchers without detection. Improved controls should include eliminating the use of generic usernames and passwords for accessing the travel system. (GAO Draft Report/p.71)

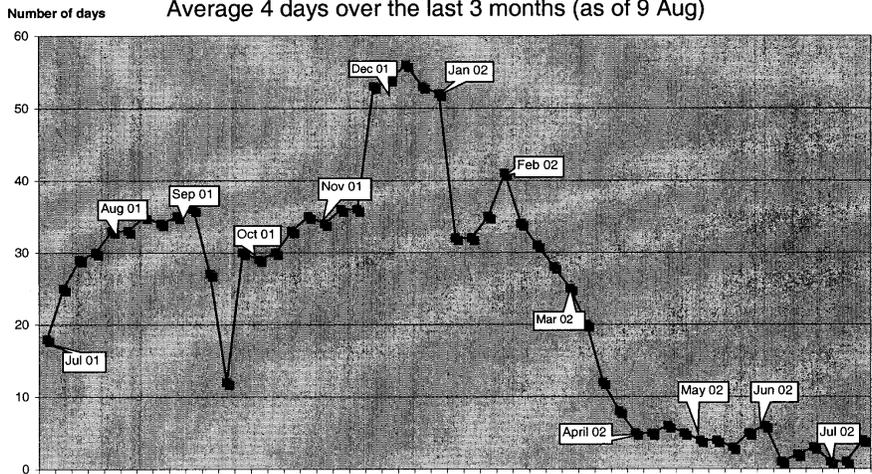
DOD RESPONSE: Concur.

- The California Army National Guard (ARNG) processing times were unduly long but the situation have been corrected. The chart below reflects the processing time at the United States Property and Fiscal Office (USPFO) for California over the past year. The ARNG Operational Review Program (ORP) is designed to audit financial and logistical controls within State USPFOs. Travel is one of several areas examined. A metric, determining whether or not a state is meeting the required 30-day payment window from the submission of a proper travel claim through review, processing and payment of the travel settlement, is being added to the audit checklist. The California National Guard will be examined under this program in fiscal year 2003.

- The Integrated Automated Travel System (IATS), which is used for computation of travel payments, has systemic controls that segregate an examiners ability to compute, audit, certify, authorize, maintain and disburse. Automated segregation of duties is preferable, but sometimes impractical. Many offices do not have enough personnel assigned to be able to implement the automated feature as designed. Travel clerks must have several authorities in order to cover for office vacancies, illnesses and leave. However, although there may not be separation of duties in those states with small staffs, this does not eliminate the need for controls. The IATS generates management reports which aid in the detection of fraud. Additionally, if disbursements are made without travel orders being obligated, this would create unmatched disbursements that would be researched and the improper disbursements would be found. This control minimizes the opportunity for travel office employees to commit fraud. The USPFO for California will also periodically review the travel payment records of all voucher examiners to ensure no abuses have occurred or could occur undetected. A metric is being added to the ORP checklist to determine whether or not adequate procedures are in place to minimize the opportunity for travel clerks to commit fraud. The California Army National Guard has eliminated the practice of issuing generic usernames and passwords. The ORP checklist includes a metric evaluating a state's password control and protection practices and procedures. The California National Guard will be examined under this program in fiscal year 2003.

Appendix V
Comments from the Department of Defense

USPFO In-house Travel Voucher Processing Time
(Measured from date of receipt to upload to DFAS Indianapolis)
Average 24 days over the last 18 months
Average 4 days over the last 3 months (as of 9 Aug)



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