

December 2002

# TRAVEL CARDS

## Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse





Highlights of [GAO-03-147](#), a report to Congressional Requesters

## Why GAO Did This Study

Poor oversight and management of DOD's travel card program has led to high delinquency rates, costing DOD millions in lost rebates and increased ATM fees. As a result, the Congress asked GAO to report on (1) the magnitude, impact, and cause of delinquencies, (2) the types of fraudulent and abusive uses of the travel card, and (3) the effectiveness of internal controls over DOD's travel card program. GAO previously reported on travel card management at the Army. This report focuses on travel card management at the Navy, including the Marine Corps.

## What GAO Recommends

GAO makes numerous recommendations to the Navy in the areas of card issuance, account monitoring, and disciplinary actions, including:

- evaluate the feasibility of deactivating all cards when the cardholders are not on authorized travel;
- review the adequacy of program staffing;
- provide sufficient training to APCs to ensure proper oversight of the travel card program, including effective monitoring for inappropriate transactions; and
- review security clearances of cardholders with financial problems.

[www.gao.gov/cgi-bin/getrpt?GAO-03-147](http://www.gao.gov/cgi-bin/getrpt?GAO-03-147).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-9505 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

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## Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse

### What GAO Found

As of March 31, 2002, over 8,000 Navy cardholders had \$6 million in delinquent debt. For the prior 2 years, the Navy's average delinquency rate of 12 percent was nearly identical to that of the Army, which had the highest federal agency delinquency rate. Since November 1998, Bank of America had charged off nearly 14,000 Navy accounts totaling almost \$17 million, and placed many more in a salary offset program similar to garnishment.

During the period covered under this review, over 250 Navy personnel might have committed bank fraud by writing three or more nonsufficient fund (NSF) checks to Bank of America. In addition, as shown in the table, many cardholders abusively used the card for inappropriate purchases including prostitution and gambling without Navy management being aware of it. Many of these purchases were made when individuals were not on travel.

Category	Examples of vendors	Number of transactions	Dollar amount
Legalized brothels	James Fine Dining, Chicken Ranch	80	\$13,250
Jewelry	Kay Jewelers	199	20,800
Gentlemen's clubs	Spearmint Rhino, Cheetah's Lounge	247	28,700
Gambling	Seinpost Holding	80	34,250
Cruises	Carnival, Norwegian	72	38,300
Sports, theatre, and concert tickets	New York Yankees, Ticketmaster	502	71,400

The Navy's overall delinquency and charge-off problems were primarily associated with lower-paid, low- to midlevel enlisted military personnel. A significant relationship also existed between travel card fraud, abuse, and delinquencies and individuals with substantial credit history problems. For example, some cardholders had accounts placed in collections while others had filed bankruptcies prior to receiving the card. The Navy's practice of authorizing issuance of the travel card to virtually anyone who asked for it compounded these problems.

We also found inconsistent documented evidence of disciplinary actions against cardholders who wrote NSF checks, or had their accounts charged off or put in salary offset. Further, almost one-half of these cardholders still had, as of August 2002, active secret or top-secret clearances. Other control breakdowns related to the Navy's failure to provide the necessary staffing and training for effective oversight, and infrequent, or nonexistent, monitoring of travel card activities.

As a result of these and similar findings in the Army travel card program, the recently enacted fiscal year 2003 Defense Appropriations Act included provisions requiring the Secretary of Defense to establish guidelines and procedures for disciplinary actions and to deny issuance of the travel card to individuals who are not creditworthy.

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

December 23, 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 October 8, 2002, we testified<sup>1</sup> 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 at the Department of the Navy (including the United States Marine Corps). During fiscal year 2001, the Navy had about 395,000 individually billed travel card accounts and \$510 million in related travel card charges. In contrast to the purchase card program, where charges are billed directly to the government for payment, the individually billed travel cardholder is directly responsible for all charges incurred on his or her travel card account and for remitting payments on the monthly bill to the card issuer, Bank of America. The cardholder is expected to use the government travel card only for valid expenses related to official travel and to submit a properly documented voucher to get reimbursed for valid expenses. The intent of the travel card program was to improve convenience for the traveler and to reduce the government's costs of administering travel (see app. I for additional background information on the Navy's travel card program). While we support the use of a travel card program to streamline the administration of official government travel, it is important that agencies have adequate internal controls in place to protect the government from fraud, waste, and abuse.

<sup>1</sup>U.S. General Accounting Office, *Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse*, [GAO-03-148T](#) (Washington, D.C.: Oct. 8, 2002).

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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. We have previously reported on the results of our Army travel card audit<sup>2</sup> and will be reporting on the results of our Air Force travel card audit. This report provides details and results of our Navy travel card audit, which was summarized in our recent testimony.

The objectives of our audit of the Navy's travel card program were to determine, for fiscal year 2001 and the first 6 months of fiscal year 2002, (1) the reported magnitude and impact of delinquent and charged-off Navy travel card accounts, along with an analysis of related causes and DOD and Navy corrective actions, (2) whether indications existed of potentially fraudulent and abusive activity<sup>3</sup> related to the Navy travel cards, and (3) the effectiveness of the overall control environment and key internal controls for the Navy's travel program. To achieve these objectives, we analyzed the Navy's account delinquency and charge-off information and compared it to that of non-Navy DOD components and other federal agencies. We also used data mining techniques to review Navy transactions for potential fraud and abuse. In addition, we evaluated the effectiveness of selected, specific internal control policies, procedures, and activities at 3 Navy installations, representing 3 of the Navy's 27 major commands.<sup>4</sup>

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<sup>2</sup>U.S. General Accounting Office, *Travel Cards: Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse*, [GAO-03-169](#) (Washington, D.C.: Oct. 11, 2002).

<sup>3</sup>We 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, we considered as potentially fraudulent cases where cardholders wrote three or more nonsufficient fund checks or checks on closed accounts to pay their Bank of America bills. We considered abusive travel card activity to include (1) personal use of the card—i.e., 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 benefited personally. Some of the travel card activity that we categorized as abusive would be potentially fraudulent if it can be established that the cardholders violated any element of federal or state criminal code. In both types of activities in which the cardholders did not pay the bills, we considered abuses to include cardholders whose accounts were eventually charged off by Bank of America or referred to a payment plan by salary offset or other fixed pay agreement.

<sup>4</sup>Of the 27 major Navy commands, 13 had outstanding travel card balances of \$1 million or more as of September 30, 2001. We further considered other factors such as past due and charged-off accounts and inclusion of a Marine Corps unit for adequate representation in narrowing these 13 commands to the 3 we selected for further audit testing.

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We selected the three installations we audited based on the relative amount of travel card activity at the different Navy commands and of the installations under these commands, the number and percentage of delinquent accounts, and the number and percentage of charged-off accounts. 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 Navy as a whole. Through auditing travel card transactions at the three installations during fiscal year 2001, and data mining of transactions incurred throughout the Navy during fiscal year 2001 and the first 6 months of fiscal year 2002, 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. Appendix II provides details on our scope and methodology.

We conducted our audit work from December 2001 through October 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 written comments on a draft of this report from the Under Secretary of Defense (Comptroller) dated December 5, 2002. We addressed DOD's comments in the "Agency Comments and Our Evaluation" section and reprinted them in appendix V.

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## Results in Brief

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

Most Navy travel cardholders used the travel cards for authorized official government travel expenses and paid the amounts owed to Bank of America promptly. However, the Navy's average delinquency rate of about 12 percent over the last 2 years is nearly identical to the Army's, which is the highest delinquency rate in the federal government, and about 6 percentage points higher than that of federal civilian agencies. In addition,

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from November 1998 through March 2002, Bank of America charged off over 13,800 Navy travel card accounts totaling about \$16.6 million. The Navy's delinquency and charge-off problems are primarily associated with low- to midlevel enlisted military personnel. These delinquencies and charge-offs have cost the Navy millions of dollars in lost rebates, higher fees, and substantial resources spent pursuing and collecting on delinquent accounts. In response, in November 2001, the Navy and DOD began offsetting wages of certain military and civilian employees, as well as retirement benefits of military retirees whose accounts were delinquent or had been charged off. DOD and the Navy also encouraged increased use of the split disbursement payment process, in which cardholders elected to have part or all of their reimbursements sent directly to Bank of America for payment of their travel card bills. 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 preventive controls, such as the weak overall control environment and specific travel program control weaknesses.

Our work identified numerous instances of potentially fraudulent and abusive activity during fiscal year 2001 and the first 6 months of fiscal year 2002. During this period, more than 250 Navy employees might have committed bank fraud by writing 3 or more nonsufficient fund (NSF) checks. In one case, a petty officer wrote 12 NSF checks, totaling \$61,000, to Bank of America. The government cards were also used for numerous abusive transactions clearly not related to government travel. As part of our statistical sampling work at three audit sites, we projected that personal use of the travel cards in fiscal year 2001 ranged from 7 percent at one Navy installation to 27 percent at another. Government travel cards were used for inappropriate transactions at legalized brothels, gentlemen's clubs, cruise lines, jewelry stores, and sporting and theatre venues. During the period under audit, 50 Navy employees purchased more than \$13,000 in prostitution services from two known legalized brothels. An additional 137 individuals charged more than \$29,000 at gentlemen's clubs, which provide adult entertainment. Some of these individuals circumvented their travel card cash limits by converting the card to cash or "club cash" at these adult entertainment establishments and paying a surcharge that was as high as 10 percent. To illustrate, one cardholder charged \$2,420 at one of these clubs in exchange for \$2,200 in cash. The \$2,200 in cash and the 10 percent fee of \$220 were processed as a restaurant charge.

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Another frequent form of abuse was the failure to pay the travel card bill. Many individuals who used the cards for inappropriate purposes also failed to pay their accounts. Others abused the travel card by failing to pay charges associated with official government travel, even though they had been reimbursed. However, we did not find documented evidence of disciplinary actions against many Navy personnel who abused the cards. Of the 10 individuals we reviewed who made improper charges but paid their bills, only 1 had evidence of disciplinary action. In addition, of the 57 individuals we reviewed who wrote NSF checks or whose accounts were charged off or put in salary offset, 37 were apparently not disciplined, and 27 still had active secret or top-secret clearances as of August 2002. Navy personnel with security clearances who have financial problems may pose security risks to the Navy.

Our audit found that weaknesses in the Navy'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 Navy's inability to prevent and/or effectively detect the numerous instances of potentially fraudulent and abusive travel card related activity. During fiscal year 2001, management at the three units we audited was primarily focused on delinquencies and did not implement sufficient front-end controls to prevent severe credit problems or promptly detect or prevent potentially fraudulent and abusive activities. In general, the Navy did not provide an adequate control infrastructure—primarily in the area of human capital—to manage its travel card program and effectively prevent or provide for early detection of travel card misuse. Agency program coordinators (APC), who have the key responsibility for managing and overseeing travel cardholders' activities, were given little opportunity to succeed. Some were assigned APC responsibilities as collateral duties, while others had oversight of a large number of cardholders—for example up to 6,000 cardholders for the APC at one installation. Many did not have adequate time to follow up with delinquent cardholders and perform detailed review of transaction activities. Others had not received adequate training and were not proficient with the tools available for travel card management. In fact, Bank of America data show that 23 percent of APCs had never logged on to the Web-based system containing travel card transaction data. In contrast, proactive actions of the APC at one Navy site we audited contributed to that site's low delinquency rate.

Additionally, critical weaknesses existed in other controls the Navy relied on to manage its travel card program. For example, many problems we identified were the results of ineffective controls over issuance of the travel

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cards. Although DOD's policy allows exemptions from the use of travel cards for certain groups or individuals, we found that, without exception, any Navy personnel who requested the card were authorized to have one, regardless of credit history. We found that individuals who had histories of prior credit problems tended to be those who committed travel card fraud and abuse. The prior and current credit problems we identified for Navy travel cardholders included charged-off credit cards, bankruptcies, judgments, accounts in collections, and repeated writing of NSF checks.

As a result of similar findings from our work on the Army and Navy travel card programs, the Congress has taken actions in the fiscal year 2003 Defense Appropriations Act, Public Law 107-248, to require the Secretary of Defense to establish guidelines and procedures for disciplinary actions to be taken against cardholders for improper, fraudulent, or abusive use of the government travel card and to deny issuance of government travel cards to individuals who are not creditworthy. Further, in the Bob Stump National Defense Authorization Act for Fiscal 2003, (Public Law 107-314), the Congress authorized the Secretary of Defense to require the split disbursement procedure for all travel cardholders, and clarified the authority of the Secretary to offset delinquent travel card debt against the pay or retirement benefits of DOD civilian and military employees and retirees. In this report, we provide additional recommendations to the Navy to strengthen the overall control environment for its travel card program and improve specific internal controls. Our recommended actions are in the areas of card issuance, monitoring, review, and travel voucher and payment processes.

In written comments on a draft of this report, DOD concurred with 21 of our 23 recommendations and described actions completed, under way, or planned. DOD partially concurred with our recommendations regarding (1) establishing Navy-wide procedures requiring that supervisors and commanding officers notify the APCs of actions taken with respect to delinquent cardholders and (2) having commanders at each unit identify causes of the high error rate related to travel voucher review and provide refresher training to voucher examiners and auditors. However, DOD's planned actions, if effectively implemented, should satisfactorily address the intent of these two recommendations.

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## Navy Has High Delinquency and Charge-off Rates but Recent Actions Have Resulted in Some Improvements

The Navy's delinquency rate<sup>5</sup> was slightly lower than the Army's, which is the highest delinquency rate in the federal government. Cumulative Navy charge-offs since the inception of the Bank of America travel card program in November 1998 were nearly \$16.6 million. As discussed in further details in the following sections of this report, weaknesses in the Navy's overall control environment and a lack of front-end controls over travel card issuance and use exacerbated the Navy's delinquency problems. Without proper management control, demographics such as the age and pay rates of Navy personnel also contributed to delinquencies and charge-offs. These problems have led to contract modifications with Bank of America that resulted in the Navy, the federal government, and the taxpayers losing millions of dollars in rebates, higher fees, and substantial resources spent pursuing and collecting on past due accounts.

DOD and the Navy have taken a number of positive actions to address the Navy's high delinquency and charge-off rates, and results from the first half of fiscal year 2002 showed a significant drop in charged-off accounts. Most of this reduction could be attributed to a salary and military retirement offset program, which began in November 2001. DOD and the Navy also encouraged cardholders to voluntarily use the split disbursement payment process (split disbursements) to direct that a portion or all of their reimbursements be sent directly to the bank for payment of their travel card bills. The Navy also increased management attention and focus on the delinquency issue. However, except for split disbursements, the Navy's actions primarily address the symptoms of delinquency and charge-offs after they had already occurred. Control weaknesses remain in the front-end management of the travel card program, such as issuing the cards and overseeing the proper use of the cards.

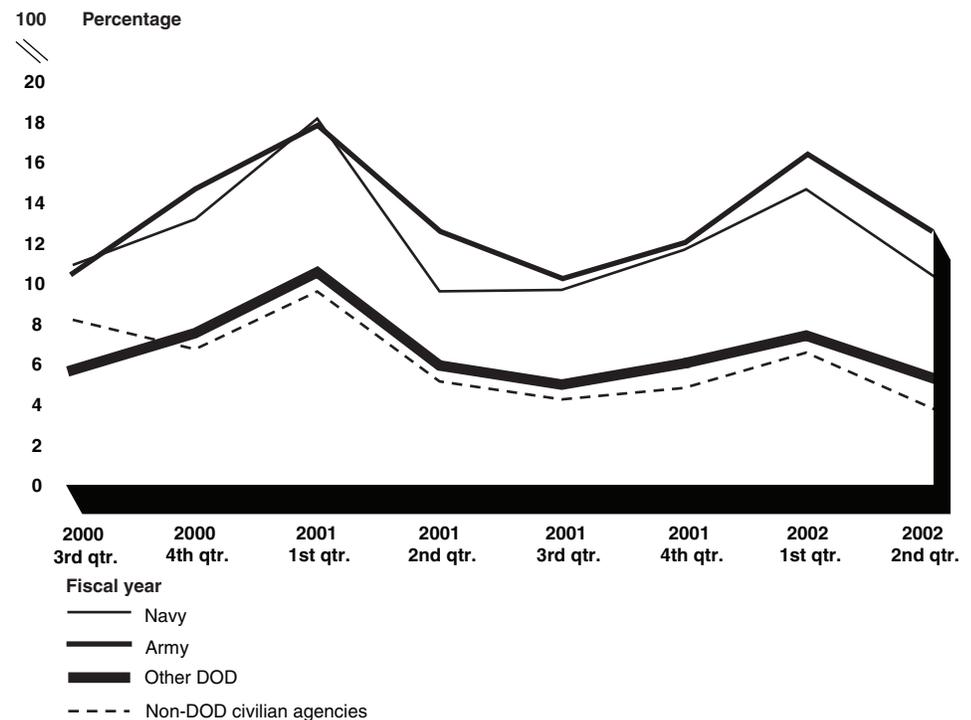
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<sup>5</sup>Throughout this report, we calculated delinquency rates using the proportion of dollars of accounts delinquent to the total dollars of accounts outstanding according to industry standards set by the Federal Financial Institutions Examination Council.

## The Navy's Delinquencies and Charge-offs

Over the last 2 years, the Navy's delinquency rate fluctuated from 10 to 18 percent and on average was 5.6 percentage points higher than other non-Army DOD components and 6 percentage points higher than non-DOD federal civilian agencies. As of March 31, 2002, over 8,000 Navy cardholders had collectively \$6 million in delinquent debt. As discussed below, the nature of the Navy's mission, which requires personnel in certain Navy commands to travel often for training and preparation for deployment, contributes, at least in part, to the Navy's high delinquency rate. Figure 1 compares delinquency rates among the Navy, Army, other DOD, and the 23 largest civilian agencies.<sup>6</sup>

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



Source: Bank of America and General Services Administration data.

<sup>6</sup>The civilian agencies included in our analysis are the 23 executive branch agencies (other than DOD) covered by the Chief Financial Officers Act, as amended by the Government Management Reform Act.

Since Bank of America took over the DOD travel card contract on November 30, 1998, Bank of America has charged off over 13,800 Navy travel card accounts with nearly \$16.6 million of bad debt. Table 1 provides a comparison of cumulative charge-offs, recoveries,<sup>7</sup> and delinquencies by military service as of March 31, 2002.

**Table 1: Cumulative Charge-offs and Recoveries and Delinquencies by Military Service**

Dollars in millions

DOD service	Cumulative charge-offs <sup>a</sup>	Cumulative recoveries <sup>a</sup>	Net cumulative charge-offs <sup>a</sup>	Delinquencies as of March 31, 2002 <sup>b</sup>
Navy	\$16.6	\$6.2	\$10.4	\$6.0
Army	\$33.5	\$12.9	\$20.6	\$8.4
Air Force	\$11.6	\$4.7	\$6.9	\$5.0

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

<sup>a</sup>Cumulative charge-offs and recoveries are for November 1998 through March 2002.

<sup>b</sup>Delinquencies 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.

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

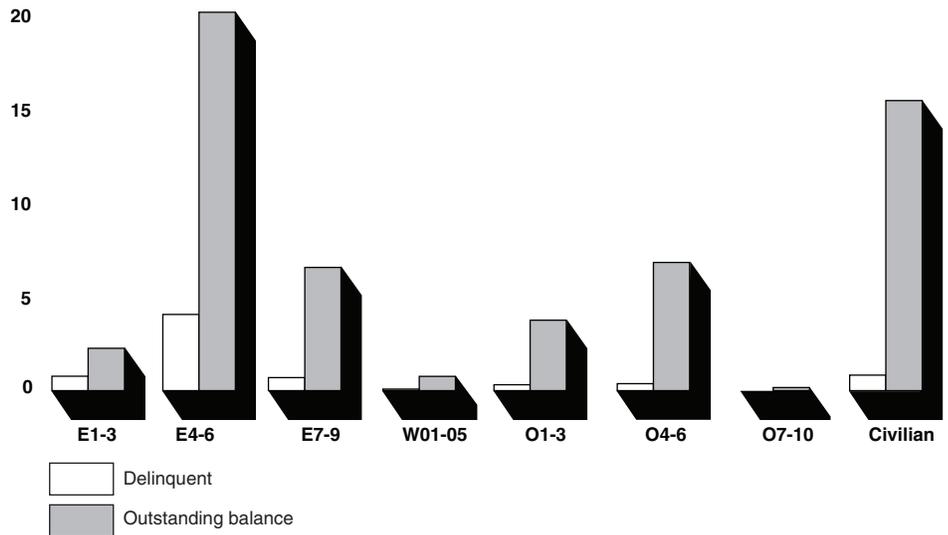
Our analysis showed a correlation between certain demographic factors and high delinquency and charge-off rates. Available data showed that the travel cardholder's rank or grade (and associated pay)<sup>8</sup> is a strong predictor of delinquency problems. As shown in figure 2, the Navy's delinquency and charge-off problems are primarily associated with low- and midlevel enlisted military personnel grades E-1 to E-6, with relatively low incomes and little experience in handling personal finances.

<sup>7</sup>Recoveries represent amounts recovered through collection actions, which include salary offsets on accounts previously charged off.

<sup>8</sup>App. 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: Navy Delinquent and Total Outstanding Travel Card Balances by Military Grade and Civilian Populations as of September 30, 2001**

25 Dollars in millions



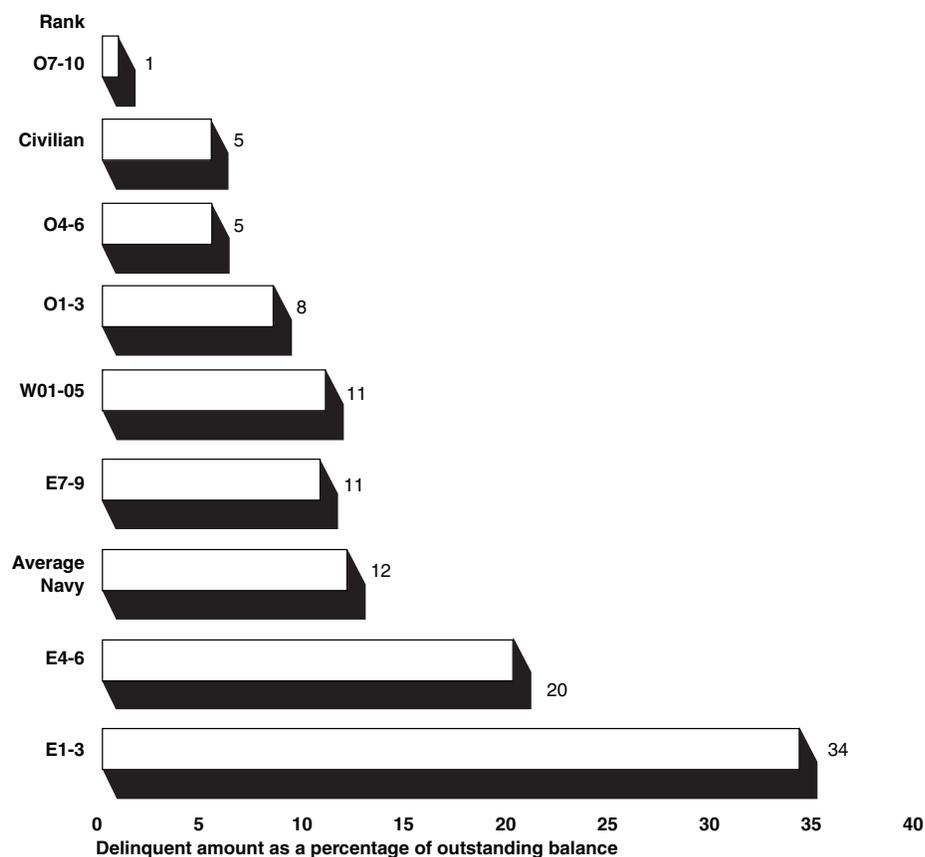
Source: GAO analysis of Bank of America data.

Available data indicate that military personnel grades E-1 (seaman recruit in the Navy or private in the Marine Corps) to E-6 (petty officer first class in the Navy or staff sergeant in the Marine Corps) account for about 78 percent of all Navy military personnel. These enlisted military personnel have basic pay levels ranging from \$12,000 to \$27,000. These individuals were responsible for 40 percent of the total outstanding Navy travel card balances as of September 30, 2001.

Figure 3 compares the delinquency rates by military rank and civilian personnel to the Navy's average delinquency rate as of September 30, 2001. As shown, the delinquency rates were as high as 34 percent for E-1 to E-3 military personnel and 20 percent for E-4 to E-6 military personnel, compared to the Navy's overall delinquency rate of 12 percent. These rates were markedly higher than the rates for officers, which ranged from a low of 1 percent for O-7 to O-10 (admirals in the Navy or generals in the Marine Corps) to a higher 8 percent for O-1 to O-3 (ensign to lieutenant in the Navy or second lieutenant to captain in the Marine Corps). These rates were also

substantially higher than that of Navy civilians, which at 5 percent was comparable with the federal civilian agencies rate shown in figure 1.

**Figure 3: Navy Delinquency Rate by Military Grade and Civilian Populations Compared to Navy's Average as of September 30, 2001**



Source: GAO analysis of Bank of America data.

The delinquency rate of military personnel E-4 to E-6 in particular had an important negative impact on the Navy's delinquency rate. Specifically, these are petty officers in the Navy and corporals to staff sergeants in the Marine Corps. Pay levels for these personnel, excluding supplements such as housing, ranged from approximately \$18,000 to \$27,000. These individuals also traveled often. As shown by Bank of America data, personnel E-4 to E-6 accounted for 36 percent of the total Navy outstanding

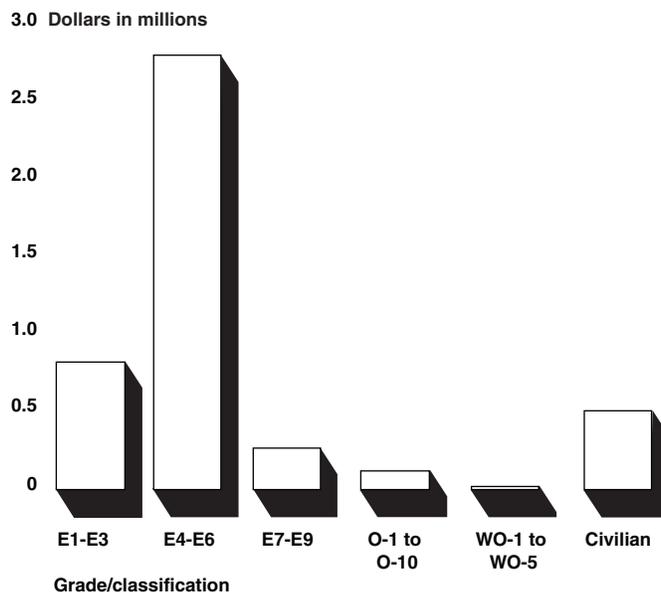
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balance, which was higher than the outstanding balance of all other military and civilian personnel. This combination of high outstanding balance and high delinquency rate largely explained the high Navy delinquency rate.

As shown in figure 4, charged-off amounts for military personnel grades E-1 to E-6 during fiscal year 2001 totaled more than \$3.6 million. This represented 72 percent of the almost \$5 million in total Navy charge-offs during fiscal year 2001.

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**Figure 4: Fiscal Year 2001 Navy Charge-offs by Military Grades and Total Civilian Populations**



Source: GAO analysis of Bank of America data.

According to Navy representatives, these individuals often had little experience handling personal resources. Although their basic pay rates are supplemented with housing and food allowances, the low salaries may not permit payment of excessive personal charges on travel cards. If these individuals get into financial difficulty, they have fewer resources at their disposal to pay their travel card balances in full every month. Also, if cardholders in these lower grade levels do not receive their travel card reimbursements promptly because of either delays in filing their vouchers

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or voucher processing, they may lack the financial resources to make timely payments on their travel card accounts. In addition, as discussed later in this report, the Navy did not exempt personnel with poor credit histories from required use of travel cards. Consequently, these low- and midlevel enlisted military personnel are often issued travel cards even though some may already be in serious financial trouble and, therefore, may not have been appropriate credit risks. Lack of adequate training and the failure to adequately monitor travel card use may also have exacerbated the delinquency rates for these individuals.

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### Delinquency Rates Vary Across Navy Commands

Navy delinquency rates also varied widely across commands. Table 2 shows the outstanding balance and delinquency rates of major Navy commands as of March 31, 2002. As shown, the delinquency rates as of March 31, 2002, ranged from 22 percent for the Naval Reserve Force to as low as 2 percent for four commands, including the Naval Air Systems Command. Table 2 also shows that high credit card activity was not necessarily associated with high delinquency rates. In fact, some Navy commands with high credit card activity also had low delinquency rates.

**Table 2: Outstanding Balance and Delinquency Rate as of March 31, 2002, by Major Navy Commands**

Major Navy command with outstanding balance of \$1 million or over as of 3/31/2002	Outstanding balance as of 3/31/2002	Delinquency rate
Naval Reserve Force	\$9,751,402	22%
Naval Sea Systems Command	8,058,740	3%
U.S. Atlantic Fleet	5,447,558	14%
Naval Air Systems Command	4,363,939	2%
U.S. Pacific Fleet	4,096,954	12%
U.S. Marine Corps Forces Pacific	2,631,628	16%
U.S. Marine Corps Forces Atlantic	2,330,153	17%
Chief of Naval Operations <sup>a</sup>	1,944,676	4%
Space and Naval Warfare Systems Command	1,726,445	2%
Marine Forces Reserve	1,657,040	18%
Bureau of Medicine and Surgery	1,452,869	8%
Chief of Naval Education and Training <sup>a</sup>	1,258,219	7%
Bureau of Naval Personnel	1,272,454	11%
Naval Special Warfare Command	1,264,380	9%
Naval Facilities Engineering Command	1,182,028	2%
Office of the Undersecretary of the Navy <sup>a</sup>	1,094,918	2%

Source: GAO calculation based on information from Bank of America.

Note: Table shows only commands with outstanding balances greater than \$1 million as of March 31, 2002. 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 amount outstanding for all travel card accounts in the command at that point in time.

<sup>a</sup>These units had outstanding balances of \$1 million or more, but are not considered major commands.

The six major commands with the highest delinquency rates—ranging from 22 to 12 percent—as of March 31, 2002, were the Naval Reserve Force, the U.S. Atlantic Fleet, the U.S. Pacific Fleet, U.S. Marine Corps Forces Pacific, U.S. Marine Corps Forces Atlantic, and Marine Forces Reserve. Navy officials expressed the belief that demographics and logistics were important contributing factors to these high delinquency rates. According to Navy officials, Atlantic and Pacific fleet personnel, as well as Marine Corps Forces Atlantic and Pacific, travel frequently for training and preparation for deployment. Because they are always on the move, these individuals might not be filing vouchers and making payments in a timely manner. In addition, fleet personnel often consist of low- and midlevel

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recruits, demographics which, as discussed previously, are a contributing factor to the high delinquency rate.

Navy officials attributed the delinquency problems with the reserve forces to logistics of a different kind. Reserve forces are spread throughout the country and report to duty only once a month. Reservists typically fill out their vouchers when they return home and then mail them to the processing centers, sometimes weeks after the training. According to Navy officials, the high delinquency rates in the reserve forces could be attributed partly to the fact that some had not received travel reimbursement by the time their bills became delinquent.

In contrast, some commands, such as Naval Sea Systems Command and Naval Air Systems Command, had large numbers of travel card accounts and high travel card activity, yet low delinquency rates. According to Navy officials, this is because personnel in these commands are typically civilians, are older and more mature, and therefore are better at managing their finances. These demographic factors, coupled with the fact that these sites typically have full-time APCs and a better control environment, may explain why their delinquency rates are lower than the Navy average, and sometimes even lower than the average rate for federal civilian agencies.

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

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

High delinquencies and charge-offs have resulted in increased costs to the Navy. In fiscal year 2001, DOD entered into an agreement with Bank of America to adjust the terms of its travel card contract. DOD agreed to increased fees and a change in rebate calculation. These changes have cost the Navy an estimated \$1.5 million in lost rebates on combined individually and centrally billed accounts in fiscal year 2001 alone and will cost, in

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addition, about \$1.3 million in automated teller machine (ATM) fees annually. Other costs, such as the administrative burden of monitoring delinquent accounts, are harder to measure, but no less real. For example, employees with delinquent accounts must be identified, counseled, and disciplined, and their account activity must be closely monitored. In addition, employees with financial problems who have access to sensitive data may pose a security risk, as discussed later in this report.

#### Dispute between Contractor and DOD

Unexpectedly high defaults by DOD's travel cardholders, including the Navy's, resulted in a 5-month legal dispute with 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 with 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 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, because an estimated 43,000 DOD employees had defaulted on more than \$59 million in debts. Consequently, in April 2001, the master contract and the related DOD-tailored task order for travel card services were renegotiated. Specifically, 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, as explained later; facilitating the collection of delinquent and charged-off amounts through salary and military retirement pay offset; and participating in split disbursements, in which the government sends part or all of the travel voucher reimbursements directly to Bank of America.

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## Effect of Increased Fees

One of the terms of the renegotiated task order between Bank of America and DOD was that, effective August 10, 2001, the travel card cash advance fee would be increased from 1.9 percent to 3 percent, with a minimum fee of \$2. The Navy reimburses all cash advance fees<sup>9</sup> related to authorized cash withdrawals. We estimate that this contract modification will result in approximately \$1.3 million of increased costs to the Navy each year. Our estimate was made by applying the new fee structure that went into effect in August 2001 to cash advances made throughout fiscal year 2001 to ascertain how much more Bank of America would have charged. Other fee increases agreed to in the renegotiation, such as the fee for expedited travel card issuance, will also result in additional costs to the Navy.

## Delinquent Account Payment Affects Rebates to the Navy

The GSA master contract modification also changed the rebate calculation, making it imperative that the Navy 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 based on the amount charged to both individually billed and centrally billed cards. The rebate to the agency is reduced, or eliminated, if significant numbers of an agency's individual cardholders do not pay their accounts on time. Specifically, credit losses or balances that reach 180 calendar days past due reduce the rebate amounts. Effective January 2001, 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 sales<sup>10</sup> 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 losses, significantly affected the amount of rebates that the Navy received as a result of combined individually and centrally billed net sales in fiscal year 2001. In fiscal year 2000, the Navy received approximately \$2.0 million in rebates from the travel card program. In

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<sup>9</sup>Cash advance fees are also referred to as ATM fees. ATMs allow cardholders to withdraw cash with a travel card. For each cash advance withdrawal, cardholders are charged either a set amount or a percentage of the amount of the withdrawal.

<sup>10</sup>Net sales consists 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.

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contrast, in fiscal year 2001, the Navy collected only about \$800,000 of the \$2.3 million in rebates that we estimated it would have received, based on fiscal year 2001 net sales, had individually billed account payments been timely. This is due to a contract modification in January 2001, which changed the way rebates were calculated. In fact, during the first quarter of fiscal year 2001, the Navy collected almost \$470,000 in total rebates from Bank of America. However, rebates for the last three quarters affected by the contract change had dwindled to \$351,000.

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

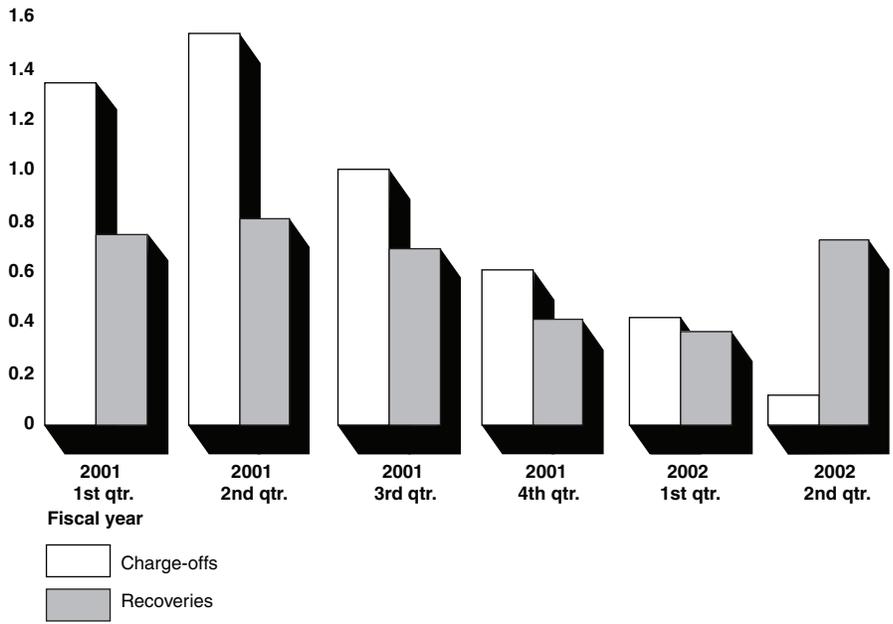
The Navy has taken a number of positive actions to address its high delinquency and charge-off rates, and results from the first half of fiscal year 2002 showed a significant drop in charged-off accounts. Most of this reduction may be attributed to a salary and military retirement payment offset program—similar to garnishment—started in November 2001. Other Navy actions included increasing the use of split disbursements, in which Navy disburses a portion of a travel reimbursement directly to the bank (instead of sending the entire amount of the reimbursement to the cardholder), and increased management attention and focus on delinquency. Except for split disbursements, the actions primarily addressed 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 Navy has significant control weaknesses, particularly with respect to the front-end management of the travel card program, such as issuing the cards and overseeing their proper use, which it has not yet effectively addressed.

### Charge-offs Have Decreased

As shown in figure 5, the amount of charge-offs has decreased substantially at the same time that recoveries have increased. At the start of fiscal year 2001, the charge-off balance greatly exceeded the recovery amount. Starting in the third quarter of fiscal year 2001, the amount charged off started to decline and by the quarter ended December 31, 2001, the amount charged off was about the same as the recovery amount. By March 31, 2002, recoveries for the first time exceeded the charged-off amount.

**Figure 5: Navy Travel Card Charge-off and Recovery History from October 1, 2000, to March 31, 2002**

1.8 Dollars in millions



Source: GAO analysis of Bank of America data.

Note: The charge-off and recovery history is for Navy only and does not include the Marine Corps. The recovery data for the Marine Corps were not available.

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Salary and Military Retirement  
Offset Program

Starting in fiscal year 2002, DOD began to offset the retirement benefits of military retirees and the salaries of certain civilian and military employees against the delinquent and charged-off balances on travel card accounts. The DOD salary offset program<sup>11</sup> implements a provision of the Travel and Transportation Reform Act of 1998 (TTRA)<sup>12</sup> 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 on his or her travel card as a result of delinquencies not disputed by the employee.<sup>13</sup> The salary and military retirement offset program was implemented DOD-wide.

DOD's offset program came into being as part of the task order modification. From April to August 2001, DOD and Bank of America worked together to establish program protocols. Starting in August 2001, Bank of America sent demand letters to cardholders whose accounts were more than 90 days delinquent. The Defense Finance and Accounting Service (DFAS) processed the initial offsets of delinquent accounts in October 2001 in the various DOD pay systems. The first deductions were made from the November pay period and paid to Bank of America starting in 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 accounts that had already been charged off.

The offset program works as follows. When an account is 90 days delinquent, Bank of America is to send a demand letter to the individual cardholder requesting payment in full within 30 days. The demand letter specifies that salary offsets will be initiated if payment is not made in full within 30 days. The cardholder may negotiate an installment agreement or dispute the charges with the bank. The cardholder has a right to review all records such as invoices and to request a hearing if the bank's disposition of the dispute is not satisfactory.

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<sup>11</sup>DOD'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.

<sup>12</sup>Sec. 2(d), Public Law 105-264, 112 Stat. 2350 (5 U.S.C. 5701 note).

<sup>13</sup>Cardholder 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 to the federal government.

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After the 30 days have elapsed, 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 may not be accepted for offset.

- Civilian employees in bargaining units that have not agreed to the salary offset program cannot be accepted. According to a DFAS official, as of July 2002, 1,002 of 1,227 DOD bargaining units have agreed to participate in the program.
- 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 (i.e., active, reserve, retired military, or civilian) systems cannot be accepted for offset.
- Civilian retirees were not subject to offset during the period covered by our audit. The authorizing statutes for both the Civil Service Retirement System<sup>14</sup> and the Federal Employees Retirement System<sup>15</sup> 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. However, Public Law 107-314 authorizes the Secretary of Defense to offset delinquent travel card debt against the retirement benefits of DOD civilian retirees.

Once an individual is accepted for offset, the related debt is established in the appropriate pay system and DFAS can deduct up to 15 percent of disposable pay. Disposable pay is defined in GSA’s Federal Travel Regulation<sup>16</sup> 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.

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<sup>14</sup>5 U.S.C. section 8346.

<sup>15</sup>5 U.S.C. section 8470.

<sup>16</sup>41 C.F.R. section 301-54.2.

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According to DFAS, from October 2001 through July 2002, Bank of America referred 53,462 DOD-wide cases with debt of approximately \$77.5 million to DOD for offset. DOD accepted and started offset for 74 percent of the cases and 69 percent of the debt amounts referred. The number and debt amount of Navy-specific cases forwarded by Bank of America were not available. From November 2001 through July 2002, DFAS collected approximately \$5.2 million from active and retired Navy military personnel through the offset program. Although DFAS was unable to break down the amount of civilian offset by military service, the amount collected from all DOD employees was \$1.6 million during the same period. The salary and retirement offset program is expected to continue to reduce the amount of accounts that need to be charged off, at the same time increase the amount of recoveries.

#### Split Disbursement Payment Process

DOD has recently encouraged cardholders to make greater use of split disbursements, a payment method by which cardholders elect to have all or part of their reimbursement sent directly to Bank of America. A standard practice in many private sector companies, split disbursements have the potential to significantly reduce delinquencies. However, during the period covered by our audit no legislative authority existed requiring the use of split disbursements by Navy employees. This practice was voluntary, resulting in a low participation rate. As shown by Bank of America data, only 14 percent of fiscal year 2001 travel card payments were made using this method. Although payments made through split disbursements have increased during the first three quarters of fiscal year 2002, they made up only 25 percent of all travel card payments.

Our report on the Army travel card program included a matter for congressional consideration that would authorize the Secretary of Defense to require that employees' travel allowances be used to pay the travel card issuers directly for charges incurred using the travel card.<sup>17</sup> We believe that this action would help to reduce DOD's travel card delinquency and charge-off rates. Public Law 107-314 authorized the Secretary of Defense to require split disbursement for all DOD travel cardholders.

#### Management Focus and Attention

The Navy has also initiated actions to improve the management of travel card usage. The Navy's three-pronged approach to address travel card issues is as follows: (1) providing clear procedural guidance to APCs and

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<sup>17</sup>[GAO-03-169](#).

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travelers, available on the Internet, (2) providing regular training to APCs, and (3) enforcing proper use and oversight of the travel card through data mining to identify problem areas and abuses. Noting that the delinquency rates for many Navy commands still exceeded the Navy's established goal of no more than 4 percent, the Assistant Secretary of the Navy, Financial Management and Comptroller, in April 2002 issued a memorandum on travel card control procedures and policies. This memorandum addressed a number of travel card issues, including (1) requiring that the travel card be deactivated when employees are separated from the service, (2) changing the definition of infrequent travel to traveling four times or less a year, (3) lowering the delinquency goal to 4 percent, (4) deactivating all cards whenever the cardholders are not scheduled for official travel, and (5) requiring spot checks for travel card abuse. The Assistant Secretary also required all units with delinquency rates higher than 4 percent to take immediate actions to lower the delinquency rates and to report on these results within 30 days of receiving the memorandum.

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. 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.

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## Potentially Fraudulent and Abusive Travel Card Activity

Our review identified numerous instances of potentially fraudulent and abusive activity associated with the Navy's travel card program during fiscal year 2001 and the first 6 months of fiscal year 2002. For purposes of this report, cases where cardholders wrote three or more NSF checks or wrote checks on closed accounts to pay their Bank of America bill were characterized as potentially fraudulent.

We considered abusive travel card activity to include (1) personal use of the cards—any use other than for official government travel—regardless of

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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, thus benefiting personally. In addition, some of the travel card activity that we categorized as abusive may be fraudulent if it can be established that the cardholders violated any element of federal or state criminal codes. Failure to implement controls to reasonably prevent such transactions can increase the Navy's vulnerability to additional delinquencies and charge-offs.

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## 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.<sup>18</sup> Further, it is a violation of the Uniform Code of Military Justice (UCMJ)<sup>19</sup> 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 and the first 6 months of fiscal year 2002, in total over 5,100 Navy cardholders wrote NSF checks, or made NSF payments by phone, as payment to Bank of America for their travel card bills. Of these, over 250<sup>20</sup> might have committed bank fraud by writing three or more NSF checks to Bank of America during either fiscal year period. Table 3 shows the 10 cases we selected for review where the cardholders wrote three or more NSF checks to Bank of America, and their accounts were charged off or placed in salary offset or another fixed pay agreement due in part to repeated use of NSF checks. We have referred the cases in which potential bank fraud has occurred to the Navy Criminal Investigation Service for further review.

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<sup>18</sup>Bank 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.

<sup>19</sup>UCMJ 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.

<sup>20</sup>Of the over 250 cardholders who wrote three or more NSF checks, 100 had accounts that were eventually charged off or put in salary offset.

**Table 3: Examples of Potentially Fraudulent Activities**

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

Source: GAO analysis.

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

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The 10 cardholders in table 3 wrote a total of 107 checks that were returned by Bank of America because they were NSF, drawn on closed accounts, and/or had payments stopped for other reasons. These checks totaled over \$211,000. Eight of the 10 cardholders had significant credit problems prior to card issuance, such as bankruptcies, charged-off credit card accounts, accounts in collection, and serious delinquencies. Two of the cardholders did not have credit problems prior to card issuance; however, one of these two experienced serious financial problems after issuance of the Bank of America travel card. The following provides illustrative detailed information on two of these cases.

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

From March 2001 through December 2001, the cardholder wrote about one NSF check a month, with three of these NSF checks, totaling more than \$12,500, written in the month of December 2001 alone. Financial 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 NSF checks, and submitting NSF payments over the phone, which Bank of America had to credit to his travel card account, the petty officer was able to, in effect, increase his credit limit to more than \$20,000—a practice known as “boosting.” He used each of these successive increases in his effective credit limit to charge additional items on his travel card. Thus, despite the repeated NSF checks written throughout 2001, the individual was able to continue making charges through December 2001.

The cardholder's APC did not know of the NSF check problems until Bank of America notified him of the fact. Because the cardholder was

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considered a good sailor, he was given administrative counseling for potential fraud and abuses related to his travel card. The terms of the administrative counseling specified that the cardholder would face an administrative discharge in case of continued abuse of the credit card or any other misconduct.

- Cardholder #5 was a petty officer (E-5) assigned to the Naval Reserve Forces in San Jose, California. Prior to receiving the Bank of America travel card in June 2000, the individual had a number of unpaid accounts with other creditors. The individual was given a restricted card, which should have been issued in “inactive” status and only activated when needed for travel. However, records showed that the cardholder was able to make about 130 separate purchases and ATM transactions in the vicinity of his hometown while not on official travel. These transactions totaled more than \$5,000. In addition, from September 2000 through December 2001, the cardholder wrote eight NSF checks and one stop payment check totaling \$20,052 to Bank of America. During fiscal year 2001, not a single valid payment was made to Bank of America for this account. The cardholder had an unpaid balance of \$4,589 at the time his account was charged off in July 2002. The cardholder also had three other unrelated charge-offs to accounts other than the government travel card in July 2002.

We found no documentation that disciplinary actions had been taken against the cardholder. The APC assigned to the cardholder told us that he had received little training for his APC responsibility, which is a collateral duty. He recalled advising the cardholder once to pay off his travel card balance. Although a Bank of America official informed us that access to NSF check information had been available to APCs since 2000, the APC said he was not aware of the NSF checks written by the cardholder. The APC also informed us that he was not aware that the cardholder’s account was charged off until he was notified by Bank of America. Despite having his Bank of America account charged off and other financial problems, the cardholder was recently promoted from petty officer second class (E-5) to petty officer first class (E-6).<sup>21</sup> His account had been referred to salary offset.

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<sup>21</sup>Subsequent to his promotion, the cardholder did not report to duty. His command is taking action to declare him a deserter. He is also a subject of law enforcement agencies’ investigations.

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## Abusive Travel Card Use

We found instances of abusive travel card activity by Navy cardholders that covered charges for a wide variety of personal goods and services, including prostitution, jewelry, gentlemen's clubs, gambling, cruises, and tickets to sporting and other events. Further, we found abusive card activities where (1) cardholders who were reimbursed for official travel did not pay Bank of America and (2) cardholders used the card for personal charges and failed to pay Bank of America.

## Abusive Card Activities Related to Inappropriate Purchases

We found that the government cards were used for numerous abusive transactions that were clearly not for the purpose of government travel. As discussed further in appendix II, we used data mining tools to identify transactions we believed to be potentially fraudulent or abusive based upon the nature, amount, merchant, and other identifying characteristics of the transactions. Through this procedure, we identified thousands of suspect transactions. Government travel cards were used for purchases in categories as diverse as legalized prostitution services, jewelry, gentlemen's clubs, gambling, cruises, and tickets to sporting and other events. In addition, we found evidence that cardholders circumvented prescribed ATM procedures by obtaining cash at adult entertainment establishments.

Table 4 illustrates a few of the types of abusive transactions and the amounts charged to the government travel card in fiscal year 2001 and the first 6 months of fiscal year 2002 that were not for valid government travel. The number of instances and amount shown include cases in which the cardholders paid the bills and where they did not pay the bills.

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**Table 4: Examples of Abusive Travel Card Activity, Fiscal Year 2001 through March 31, 2002**

<b>Category</b>	<b>Examples of vendors</b>	<b>Number of transactions</b>	<b>Dollar amount</b>
Legalized brothels	James Fine Dining, Chicken Ranch	80	\$13,250
Jewelry	Kay Jewelers, Zales Jewelers	199	20,800
Gentlemen's clubs	Spearmint Rhino, Mr. Magoo's Lounge, Cheetah's Lounge	247	28,700
Gambling, including Internet	www.proccy2, Seinpost Holding, GCA (cash advance)	80	34,250

(Continued From Previous Page)

Category	Examples of vendors	Number of transactions	Dollar amount
Cruises	Carnival, Disney, Norwegian, Princess	72	38,300
Entertainment (sporting events, theatre, concerts)	NY Yankees, LA Lakers, Atlanta Braves, Phantom of the Opera, other Ticketmaster purchases	502	71,400

Source: GAO analysis of Bank of America data.

We found that Navy cardholders used their government travel cards to purchase prostitution services. We arrived at this information by first identifying that two institutions frequented by Navy cardholders were legalized brothels in Nevada. Based on a price list provided by one of the brothels, we eliminated transactions that were most likely for bar charges and determined that 50 cardholders used their government travel card to purchase over \$13,000 in prostitution services. These charges were processed by the brothels' merchant bank, and authorized by Bank of America, in part because a control afforded by the merchant category code (MCC),<sup>22</sup> which identifies the nature of the transactions and is used by DOD and other agencies to block improper purchases, was circumvented by the establishments. In these cases, the transactions were coded to appear as restaurant and dining or bar charges. For example, the merchant James Fine Dining, which actually operates as a brothel known as Salt Wells Villa, characterizes its services as restaurant charges, which are allowable and not blocked by the MCC control. According to one assistant manager at the establishment, this is done to protect the confidentiality of its customers. Additionally, the account balances for 11 of the 50 cardholders purchasing services from these establishments were later charged off or put into salary offset. For example, one sailor, an E-2 seaman apprentice, charged over \$2,200 at this brothel during a 30-day period. The sailor separated from the Navy, and his account balance of more than \$3,600 was eventually charged off.

<sup>22</sup>MCCs are established by the banking industry for commercial and consumer reporting purposes. Currently, about 800 category codes are used to identify the nature of the merchants' businesses or trades, such as airlines, hotels, ATMs, jewelry stores, casinos, gentlemen's clubs, and theatres.

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We also found instances of abusive travel card activity where Navy cardholders used their cards at establishments such as gentlemen's clubs, which provide adult entertainment. Further, these clubs were used to convert the travel card to cash by supplying cardholders with actual cash or "club cash"<sup>23</sup> for a 10 percent fee. For example, we found that an E-5 second class petty officer circumvented ATM cash withdrawal limits<sup>24</sup> by charging, in a single transaction, \$2,420 to the government travel card and receiving \$2,200 in cash. Subsequently, the club received payment from Bank of America for a \$2,420 restaurant charge. Another cardholder, an E-7 chief petty officer, obtained more than \$7,000 in cash from these establishments. For fiscal year 2001 and through March 2002, 137 Navy cardholders made charges totaling almost \$29,000 at these establishments.

These transactions represented abusive travel card use that was clearly unrelated to official government travel. The standard government travel card used by most Navy personnel is clearly marked "For Official Government Travel Only" on the face of the card. Additionally, upon receipt of their travel cards, all Navy cardholders are required to sign a statement of understanding that the card is to be used only for authorized official government travel expenses. However, as part of our statistical sampling results at three Navy locations, we estimated that 7 percent of fiscal year 2001 transactions at one site to 27 percent at another site were for purposes not related to official travel,<sup>25</sup> and therefore, were abusive.

Personal use of the card increases the risk of charge-offs related to abusive purchases, which are costly to the government and the taxpayer. Of the 50 cardholders who purchased prostitution services described above, 11 were later charged off or put into salary offset. As we discussed earlier in the report, charged-off and delinquent accounts resulted in contract

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<sup>23</sup>Club cash is used to tip dancers, waitresses, and bartenders, but cannot be exchanged for currency.

<sup>24</sup>Typically, the ATM limit for a 1-month cycle is set at \$500 for a standard card and \$200 for a restricted card.

<sup>25</sup>We considered personal use to include (1) any transaction charged to the government travel card that was not supported by a valid travel order and (2) any transaction for which the Navy was unable to provide supporting documentation. The following are the personal use estimates for the three case study locations: Camp Lejeune, U.S. Marine Forces Atlantic, 26.6 percent; Patuxent River, Air Systems Command, 10.8 percent; and Puget Sound Naval Shipyard, Sea Systems Command, 6.6 percent.

modifications and other monitoring efforts, which have cost the Navy millions of dollars.

**Travel Card Abuse Due to Failure to Pay Bank of America Charges**

Our work at three case study sites and our Navy-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 or (2) transactions incurred by cardholders that were not associated with approved travel orders. These accounts were subsequently charged off or placed in salary offset or other fixed pay agreement. In many cases, APCs, commanders, and supervisors did not effectively monitor travel card usage or take documented disciplinary actions against cardholders. Table 5 provides specific examples of cardholders who failed to pay their travel card bills.

**Table 5: Examples of Abusive Travel Card Activity Where Accounts Were Charged Off or Placed in Salary Offset**

Cardholder	Grade	Unit	Total amount charged off (CO) or in salary offset (SO)	Transactions contributing to charge-off or salary offset	Credit history problems	Documented disciplinary action
1	E-5	U.S. Marine Corps Reserve, Camp Lejeune	CO – \$19,971	Did not use reimbursement to pay travel card charges; numerous large cash withdrawals	Account charge-offs, referral to collection agency, and other account delinquency prior to card issuance	None; court-martial being considered
2	E-7	Naval Shore Intermediate Maintenance Activity, Mayport	SO – 11,190	ATM withdrawals totaling \$15,000 from October 2000 through July 2001; nearly \$7,000 in cash and other expenses at Platinum Plus and Mr. Magoo gentlemen's clubs	Bankruptcy, account charge-offs, and serious credit card delinquency prior to card issuance	None
3	E-4	LeMoore Naval Air Station	CO – 8,036	Over \$6,250 of computer equipment from Best Buy and other Web sites	Numerous unpaid accounts prior to card issuance and charge-off on the American Express card	Administrative discharge in lieu of court-martial for misuse of the travel card and other offenses

(Continued From Previous Page)

Card-holder	Grade	Unit	Total amount charged off (CO) or in salary offset (SO)	Transactions contributing to charge-off or salary offset	Credit history problems	Documented disciplinary action
4	O-5	Naval and Marine Corps Reserve Center, Washington, D.C.	SO – 5,678	Over \$700 worth of candles and cookware; over \$1,400 charged to D.B. Entertainment, which owns Baby Dolls and other adult entertainment clubs	Numerous account charge-offs, delinquencies, and bankruptcy prior to card issuance	None
5	E-3	Marine Forces Reserve, San Diego	CO – 4,041	\$3,800 at local restaurants and \$1,400 in ATM withdrawals over a 2-month period	Serious delinquencies, unpaid accounts, and referrals to collection agencies prior to card issuance	Court-martialed for misuse of the government travel card; appeal ongoing
6	O-6	Naval and Marine Corps Reserve Center, Washington, D.C.	CO – 3,511	\$2,000 in cash withdrawals and nearly \$1,500 at local grocery and drug stores	None	None
7	WS-10 <sup>a</sup>	Puget Sound Naval Shipyard, Naval Sea Systems Command	CO - 3,243	Numerous personal charges, including groceries, gasoline, cash advances, and \$150 at Bethel Animal Hospital	None prior; serious credit card delinquencies and mortgage foreclosure in 2001 and 2002	Removal from employment due to unauthorized absence and travel card misuse
8	GS-12	Naval Air Systems Command, Patuxent River	SO – 1,202	Airline tickets totaling \$608	Serious delinquencies, account charge-offs, mortgage foreclosure in 2000, bankruptcies prior to and since card issuance	None
9	O-5	Marine Forces Reserve, New Orleans	SO – 1,674	Car rental transactions and numerous charges at local restaurants	Serious delinquencies prior to and since card issuance	None
10	E-6	U.S. Marine Corps, Camp Lejeune	CO – 672	Unauthorized use of card for charges associated with permanent change of station move	Serious delinquency and bad debts at the time of card issuance	None

Source: GAO analysis.

<sup>a</sup> Wage supervisors designation used to denote supervisory workers on hourly salary.

Eight of the 10 cardholders included in table 5 had significant credit problems prior to card issuance, such as charged-off credit card accounts, mortgage foreclosures, bankruptcies, serious delinquencies, unpaid accounts, and referrals to collection agencies. One cardholder had similar problems subsequent to issuance of the Bank of America travel card. The

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following provides illustrative detailed information on abusive activities for three of these cases.

- Cardholder #1 was a sergeant (E-5) with the U.S. Marine Corps Reserve assigned at Camp Lejeune. Despite a history of credit problems, which included several charged-off and delinquent commercial credit accounts, Bank of America issued the cardholder a standard card, with a credit limit of \$10,000, in March 2000. The cardholder was deployed to Europe in August 2000 and his credit limit was increased to \$20,000. Within a month of his deployment, the cardholder had charged \$10,700 to the card, including \$8,500 in ATM withdrawals. Although the cardholder received reimbursements for his travel expenses, he failed to settle his account in full. In December 2000, the cardholder informed the APC that his account was 30 days past due and promised to pay the full outstanding balance. He again failed to do so and his account balance of \$11,467 went delinquent in January 2001. The APC did not deactivate the travel card account but put the cardholder in “mission critical” status as his tour in Europe was coming to a close. The cardholder’s credit limit was then raised to \$25,000 to enable the cardholder to return to the United States. Consequently, when the account was closed on February 8, 2001, the outstanding balance had increased to \$19,971. The APC admitted to us that he failed to carefully monitor this account. No disciplinary action was taken against the cardholder, who had returned to civilian life; however, judicial action against the cardholder is pending. We have referred this matter to DOD’s Office of Inspector General for appropriate action.

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

- Cardholder #3 was a petty officer third class (E-4) assigned to the LeMoore Naval Air Station in California. Our review indicated that the cardholder had numerous unpaid cable, medical, and communication accounts and serious delinquency of more than \$5,000 on his personal

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credit card account prior to receiving the travel card. The unit to which the cardholder was assigned had a policy of activating the government travel card only when a cardholder travels. However, from February through April 2001, while not on travel, the cardholder purchased over \$6,250 worth of electronic and computer equipment from Best Buy and various Web sites using the government travel card. The cardholder did not pay his balance and thus came to the attention of the APC when his name appeared in the delinquency report. Upon determining that the cardholder was able to use the card when not on travel, the APC contacted Bank of America, which was unable to tell the APC who had activated the account. The cardholder's balance of more than \$8,000 was charged off, and he was granted an administrative separation in lieu of a court-martial for offenses unrelated to the travel card misuse, including absence without leave, making false statements, and stealing government property of less than \$100.

- Cardholder #4 was a commander (O-5) with the Naval Reserves assigned to the Naval and Marine Corps Reserve Center in Washington, D.C. Our review showed that Bank of America issued the cardholder a standard card in May 2000, although the cardholder's credit history indicated serious financial problems before and at the time of card issuance. For example, in October 1998, the cardholder filed for Chapter 7 bankruptcy with only \$37,169 in assets against \$542,063 in liabilities. Further, in January 2000, right before the Bank of America card was issued, an account with a balance of more than \$30,000 was charged off. This Navy commander continued, after the issuance of the government travel card, a pattern of delinquencies on numerous accounts, and in one instance had merchandise repossessed for nonpayment.

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

**Travel Card Abuse Where Cardholder Paid Bank of America Charges**

As discussed above, some individuals who used the card for improper purposes paid their travel card bills when they became due. We considered these occurrences to be abusive travel card activity because these cardholders benefited by, in effect, getting interest-free loans. Personal use of the card increases the risk of charge-offs, which are costly to the government and the taxpayer. In addition, the high rate of personal use is indicative of the weak internal control environment and the failure of APCs to monitor credit card activities, as discussed later in this report.

Table 6 provides examples of the types of abusive charges we found during our review.

**Table 6: Examples of Abusive Activity Where the Cardholders Paid the Bills**

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

Source: GAO analysis.

<sup>a</sup>Wage grade system used for workers who are on hourly salary.

<sup>b</sup>Scientific and engineering career path equivalent to GS-14 to GS-15.

<sup>c</sup>Midshipmen are cadets in training to become Navy officers. They may receive stipends while in college.

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As shown in table 6, cardholders used their travel cards for a wide variety of personal goods or services. Some transactions were similar to the services procured in table 4. The cards were also used to purchase home electronics, women's lingerie, tax services, and in one instance, to make bogus charges to the cardholder's own business. In this instance, an E-5 second class petty officer reservist, whose civilian job is with the U.S. Postal Service, admitted making phony charges of over \$7,200 to operate his own limousine service. In these transactions, the reservist used the travel card to pay for bogus services from his own limousine company during the first few days of the card statement cycle. By the second day after the charges were posted, Bank of America would have deposited funds—available for the business' immediate use—into the limousine business' bank account. Then, just before the travel card bill became due, the limousine business credited the charge back to the reservist's government travel card and repaid the funds to Bank of America. This series of transactions had no impact on the travel card balance, yet allowed the business to have an interest-free loan for a period. This pattern was continued over several account cycles. Navy officials were unaware of these transactions until we brought them to their attention and are currently considering what, if any, action should be taken against the cardholder.

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

It is critical that cardholders who misuse their travel cards are identified and held accountable for their actions. 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, DOD and Navy 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. Lacking such guidance, disciplinary actions are left solely to the discretion of commanders and supervisors. As a result, we did not find documentation indicating that commanders and supervisors took any disciplinary actions against almost two-thirds of individuals we reviewed who abused or misused their cards during fiscal year 2001 and the first 6 months of fiscal year 2002. Failure to identify and discipline abusive cardholders will likely result in the Navy continuing to experience the types of potentially fraudulent and abusive activity identified in our work.

For many cardholders we inquired about, the misuse or abuse of the travel card led Navy officials to counsel cardholders on proper use of the card

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and the cardholders' responsibility for timely payment of travel card bills. We found only a few cases where the Navy court-martialed or issued administrative warnings to individuals solely because of card misuse. More often than not, severe disciplinary actions were taken in response to travel card abuse in conjunction with other more serious offenses—such as failing to obey orders or unauthorized absences. In these instances, documented disciplinary actions included dismissal from the Navy.

At the sites we audited, the Navy could not provide documentation of disciplinary actions taken against cardholders in 37 of the 57 NSF check cases and charged-off or salary offset accounts we reviewed. For example, cardholder #9 in table 3, whose account was charged off for more than \$4,900, did not receive any disciplinary action. Cardholder #5 in table 3 was promoted after his unpaid account balance of almost \$4,600 was charged off.

Also, we found little evidence that cardholders faced adverse consequences for personal use of the card as long as they paid their travel card bills. Of the 10 cases detailed in table 6, only 1 had evidence of disciplinary action. We saw few indications that supervisors were aware that these abusive transactions occurred. To the extent we found that APCs or supervisors were aware of such travel card abuse, we saw little evidence of disciplinary actions.

Further, we found that some individuals who abused their travel card privileges held high-level positions, where they may have been responsible for taking appropriate disciplinary action in response to travel card abuse by personnel within their commands. In instances where these individuals abused the card, they rarely received disciplinary action. For example, a commander became severely delinquent in January 2002 after making more than \$2,000 in purchases of inappropriate items such as cookware and adult entertainment. However, there was no indication that this officer's superior was informed of his delinquency or misuse of the travel card until the account was at least 120 days past due. Consequently, although the cardholder's account was placed in salary offset, the cardholder was not disciplined.

We have reported similar problems with the Army travel card program and in our testimony on the Navy travel card program. As a result, the fiscal year 2003 Department of Defense Appropriations Act, Public Law 107-248, contains provisions that address this problem. Specifically, the Act requires the Secretary of Defense to establish guidelines and procedures

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for disciplinary actions to be taken against cardholders for improper, fraudulent, or abusive use of the government travel card.

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### Cardholders with Credit Problems Continued to Have Active Security Clearance

We found that many cardholders who had abused the travel card or been involved in potentially fraudulent activities continued to have active security clearances. Both DOD and Navy rules provide that an individual's finances are one of the factors to be considered in determining whether an individual should be entrusted with a security clearance. The U.S. Department of the Navy Central Adjudication Facility (commonly referred to as DON CAF) is responsible for issuing and updating security clearances for Navy personnel. Secret clearances are updated every 10 years and top-secret clearances are updated every 5 years. During the interim periods, Navy instructions<sup>26</sup> require commanders of personnel with clearances, such as secret or top secret, to submit to DON CAF any evidence of financial irresponsibility on the part of an individual that would affect his or her clearance. Such evidence would include information on financial impropriety, such as excessive indebtedness. DON CAF is to evaluate this information and determine whether to revoke or downgrade the clearance.

We found that commanders responsible for referring evidence of financial irresponsibility to DON CAF were sometimes not aware of their subordinates' financial problems. Consequently, Navy security officials might not be in possession of all information necessary to assess an individual's security clearance. Our audit found that 27 of 57 travel cardholders we examined whose accounts were charged off or placed in salary offset as of March 2002 still had active secret or top-secret security clearances in August 2002. These financially troubled individuals may present security risks to the Navy. We provided the information we collected on individuals with charged-off accounts to DON CAF for its consideration in determining whether to revoke, change, or renew the individuals' security clearances.

Further guidance for this procedure is also contained in the fiscal year 2003 Defense Appropriations Act. In addition to requiring the Secretary of Defense to establish guidance and procedures for disciplinary actions, the act states that such actions may include (1) review of the security clearance of the cardholders in cases of misuse of the government travel

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<sup>26</sup>Secretary of the Navy Instruction 5510.30A, Department of the Navy Personnel Security Program, dated March 10, 1999, Chapter 10, Appendix F, Personnel Security Standards.

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card and (2) modification or revocation of the security clearance in light of such review.

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## 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 travel card activity and the Navy's high rates of delinquency and charge-offs. The foundation of all other controls, a strong control environment provides discipline and structure as well as the climate that positively 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 abused their travel cards and a lack of management attention and focus on establishing and maintaining the organizational structure and human capital needed to support an effective Navy travel card management program. We found that this overall weak control environment contributed to design flaws and weaknesses in six management control areas needed for an effective travel card program. Specifically, we identified weaknesses in the Navy travel program controls related to (1) travel card issuance, (2) cardholders' training, (3) APCs' capacity to carry out assigned duties, (4) procedures for limiting card activation to meet travel needs, (5) procedures for terminating accounts when cardholders leave military service, and (6) access controls over Bank of America's travel card database.

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All six of these areas related to two key overall management weaknesses: (1) lack of clear, sufficiently detailed Navy policies and procedures and (2) limited travel card audit and program oversight. First, during fiscal year 2001, the sites we audited used DOD's travel management regulations DOD FMR (Vol. 9, Ch.3) as the primary source of policy guidance for management of Navy's travel card program.<sup>27</sup> However, in many areas, the existing guidance was not sufficiently detailed to provide clear, consistent travel management procedures to be followed across all Navy units. Second, as recognized in the DOD Inspector General's March 2002 summary report<sup>28</sup> on the DOD travel card program, "[b]ecause of its dollar magnitude and mandated use, the DOD travel card program requires continued management emphasis, oversight, and improvement by the DOD. Independent internal audits should continue to be an integral component of management controls." However, the DOD Inspector General report noted that no internal review reports were issued from fiscal year 1999 through fiscal year 2001 concerning the Navy's travel card program. According to the NAS, no internal review report related to Navy's travel card had been issued since then.

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## Ineffective Controls over Issuance of Travel Cards

The Navy's ability to prevent potentially fraudulent and abusive transactions that can eventually lead to additional delinquencies and charge-offs is significantly weakened if individuals with histories of financial irresponsibility are permitted to receive travel cards. Similar to what we found at Army, the Navy's practice is to facilitate the issuance of travel cards—with few credit restrictions—to all applicants regardless of whether they have histories of credit problems. Although the DOD FMR provides that all DOD personnel are to use the travel card to pay for official business travel, the policy also provides that exemptions 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. We found no evidence that the Navy exempted any individuals or groups from required acceptance and use of travel cards, even those with histories of severe credit problems.

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<sup>27</sup>During fiscal year 2002, the Navy's eBusiness Operations Office issued Navy-specific guidance for the management of the travel card program.

<sup>28</sup> Department of Defense Office of Inspector General, *Acquisition: Summary of DOD Travel Card Program Audit Coverage*, D-2002-065 (Washington, D.C.: Mar. 18, 2002).

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The DOD FMR provides that credit checks be performed on all travel card applicants, unless an applicant declines the conduct of a credit check. In July 1999, Bank of America began conducting credit checks on DOD travel card applicants and used the resulting information as a basis for determining the type of account—restricted or standard—it would provide to new DOD travel applicants. While, as mentioned above, DOD FMR would allow the Navy to exempt individuals with financial irresponsibility from the use of the government travel card, in practice any applicant who does not authorize a credit check, has no credit history, or has 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. In January 2002, the Navy further reduced the credit limit on a restricted travel card to \$2,000 and the limit on a standard card to \$5,000. However, DOD and Navy policy also permit APCs to raise the credit and ATM limits of all cards after they have been issued to meet travel and mission requirements.

As discussed previously, many of the Navy 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, accounts in collection, and numerous bankruptcies. 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 Navy cardholders would not even qualify for the restricted limit cards. 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. However, individuals with no credit history, or little credit history, are generally issued cards with lower credit limits, as reflected by current DOD policy.

By authorizing all individuals regardless of past credit history who apply for cards to get them, the Navy has exposed the government to increased losses from increased fees and lost rebates associated with these individuals. 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.

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Further, as a result of our audit findings and an amendment proposed by Senators Byrd and Grassley, the fiscal year 2003 Department of Defense Appropriations Act requires that the Secretary of Defense evaluate whether an individual is creditworthy<sup>29</sup> before authorizing the issuance of any government travel charge card. An individual found not to be creditworthy may not be issued a government travel charge card. Implementing procedures to assess the creditworthiness of an individual prior to issuing a credit card, and denying a credit card to anyone found not creditworthy as required by the fiscal year 2003 Department of Defense Appropriations Act, should improve delinquency rates and reduce fraud and abuse.

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### Inadequate Cardholder Training

The DOD FMR requires that APCs provide training to cardholders on the proper use of the government travel card prior to card issuance. The FMR also requires DOD components to ensure that current cardholders are informed of policy and procedure changes to the travel card program. However, we found that the three case study sites we visited did not provide consistent and periodic training to cardholders. The APCs we interviewed generally informed us that they viewed the signature on a travel card application as indication that the cardholder had read, and understood, the regulations governing the use of the government travel card. In addition, the APCs stated that the cardholders also received a statement of understanding when they were issued a travel card. Only one APC informed us that she discussed travel card restrictions with employees at the time they submitted the travel card applications, and that the fleet support group periodically provided individuals with briefings on proper travel card use. The failure to provide standardized, consistent, and periodic training on travel card procedures might have contributed, in part, to high incidences of misuse because individuals did not fully understand the rules governing travel card usage.

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### Unrealistic APC Performance Expectations

DOD policy provides that APCs are the primary focal points for day-to-day management of the travel card program. However, at units with low- and midlevel military personnel who are often deployed, APC duties are generally "other duties as assigned." This exacerbated an already existing disposition towards delinquency of these individuals, as discussed above.

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<sup>29</sup>The statutory provision does not define the term creditworthy. However, the conferees on the DOD appropriations act expressed their view that the statutory prohibition would permit "an individual with no credit history to be issued a restricted-use charge . . . card."

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Further, the sheer number of responsibilities assigned to APCs, coupled with issues concerning APC span of control and training, greatly affected the APCs' abilities to carry out their critical duties effectively. Consequently, we found that APCs were generally ineffective in performing their key travel card program management oversight duties. However, the proactive measures by a full-time APC contributed to a low delinquency rate at one installation we audited.

## APC Responsibilities

As prescribed by the DOD FMR, 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 account delinquencies, interacting with the bank, and fielding questions about the program from both cardholders and supervisors. APCs are also required to notify commanders and supervisors of all travel card misuse so they can take appropriate actions.

We found distinct differences in how APC duties were assigned at the three case study sites. At Camp Lejeune, a military installation, the six APCs that we interviewed were primarily responsible for other duties. For example, some were assigned duties as personnel officers in units providing specialized training for infantry and engineering. These individuals' APC responsibilities were "other duty as assigned," and most spent less than 20 percent of their time carrying out these duties. Additionally, one APC indicated to us that it was a challenge to keep up with his APC responsibilities, mainly because he was expected first and foremost to perform his primary duties. In contrast, at Patuxent River and Puget Sound Naval Shipyard, two installations with mainly civilian cardholders, the APC role is a full-time post and therefore the APCs spend all of their time carrying out APC responsibilities.

Most of the APCs at the case study sites focused monitoring efforts on delinquencies, and rarely conducted detailed review of charge card transactions. All APCs have access to account transaction activity reports and declination reports, which detail activities that were rejected by Bank of America and thus would be useful in identifying individuals who might have attempted to misuse the card. One APC interviewed told us that detailed transaction reviews were too time-consuming. If she reviewed account activities at all, it was in conjunction with, and after she had identified delinquent accounts. Failure to systematically and regularly review transaction activities meant that most APCs were not able to

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promptly detect, and therefore take further actions to prevent, abusive travel card activity. This is illustrated by the fact that personal use of the card was estimated to be 27 percent at one site we audited.

In contrast, the APC at another case study site informed us that she reviewed delinquency reports several times a month to identify and promptly notify supervisors about the status of delinquent accounts. She also told us that, in addition, she monitored transactions in the Bank of America database for improper and abusive uses of the card monthly, and sent out notices to the cardholders and the cardholder supervisors if such transactions were identified. We believe these proactive actions contributed to that site's low delinquency rate and fewer incidences of personal use.

Failure to review cardholder transactions and take action to address inappropriate card usage can lead to delinquencies and account charge-offs. For example, one APC was not aware that a cardholder within her sphere of responsibility made 17 personal use transactions to Herbalife International, as shown in table 6, from January 2001 to May 2001 until the cardholder became delinquent in August 2001. By that time, the cardholder had charged over \$6,750 to the vitamin company. In another example, an APC did not detect that a cardholder had misused his card to purchase over \$6,250 in electronic and computer equipment until he appeared in the delinquency report. His account balance of more than \$8,000 was subsequently charged off.

#### APC Span of Control

The 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. In addition, because APC duties often 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 7, at the three sites we audited, the average ratio of cardholders to APCs ranged from 214 to 1 to 5,984 to 1.

**Table 7: Average Ratio of Fiscal Year 2001 Cardholders to APCs at Navy Sites Audited**

Span of control	Camp LeJeune, U.S. Marine Forces Atlantic	Patuxent River, Naval Air Systems Command	Puget Sound Naval Shipyard, Sea Systems Command
Number of cardholders	1,713	8,804	5,984
Number of APCs	8	2	1
Average ratio of cardholders to APCs	214:1	4,402:1	5,984:1

Source: GAO analysis of Bank of America data.

While table 7 shows the average span of control, the actual span of control for the APCs at the three sites we audited ranged from a low of 25 to about 6,000 cardholders. Bank of America guidance provides that an optimal span of control is 100 cardholders per APC. While we did not evaluate the guidance provided by Bank of America, we believe that one APC cannot effectively carry out all management and oversight responsibilities discussed previously if he or she, even working full time, has responsibility for hundreds or thousands of cardholders. In fact, the supervisor of one APC with about 6,000 cardholders informed us that the APC simply did not have time to systematically perform other types of monitoring beyond identifying and notifying supervisors and commanders of delinquent accounts.

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 a lower-level APC has direct responsibility.<sup>30</sup> For example, an APC at Patuxent River had direct responsibility for 2,244 cardholders and oversight responsibility for another 5,560 cardholders.

<sup>30</sup>APC responsibilities vary depending on the APC's level in the Navy's organizational hierarchy from headquarters down through the Navy's organizational chain of command to the individual Navy unit level. That is, individuals with APC responsibilities at the Navy unit level have direct responsibility for monitoring cardholder account activity whereas individuals at higher levels in the Navy'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.

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## APC Training

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

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 relating to the travel card program. However, neither DOD nor Navy procedures detail 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.

We found that APC training had not been considered a priority. Of the nine APCs we spoke to, only one had received official APC training. The other eight told us they relied heavily upon on-the-job learning, trial and error, or other program coordinators for advice on how to carry out their duties when they assumed their APC responsibilities. One full-time APC had been in her position for more than 2 years but had not attended formal Bank of America training, even though training seminars are offered annually. Some APCs we interviewed indicated that they were not proficient in using the tools available through the Bank of America Web-based system containing travel card transaction data—Electronic Account Government Ledger System (EAGLS)—to monitor cardholders' travel activities. The lack of emphasis on training could negatively affect APCs' ability to monitor delinquencies and promptly detect and prevent potentially fraudulent and abusive activities. According to data provided by Bank of America, as of May 2002 about 23 percent of the Navy's APCs had never logged on to EAGLS.

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## Controls over Activating/Deactivating Travel Cards to Meet Travel Needs

Allowing Navy travel cardholders to maintain accounts in an active status when not needed for government travel unnecessarily increases the 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. Standard

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cards, however, 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 restricted cards when individuals were not on travel. In fact, APCs at the case study sites we audited informed us that they generally deactivated restricted cards when individuals were not on travel. In contrast, during fiscal year 2001 and most of fiscal year 2002, the standard cards were issued in an “active” status, and remained active when individuals were not traveling. Leaving cards in active status increased the risk of misuse, as supported by our statistical sampling work, which showed that most improper use occurred while the individuals were not on official travel. Recognizing this internal control weakness, the Navy issued a directive in April 2002 requiring that the U.S. Marine Corps, which continued to have a high delinquency rate, deactivate cards for all personnel not scheduled for official travel. The directive also required that, once activated for official travel, the cards be deactivated immediately upon the conclusion of official travel.

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## Exit Control Procedures for Separating Employees

We found that the Navy lacks clear, sufficiently detailed procedures that would ensure that travel cards are deactivated or terminated when cardholders leave the Navy. DOD’s FMR provides that APCs are responsible for terminating travel cards when cardholders retire, separate, or are dismissed from DOD. Operating procedures established by individual Navy commands and installations to notify APCs in the case of retirement or separation of employees were neither consistent nor effective. Controls were also ineffective in ensuring that prompt actions were taken to deactivate or terminate cards even when the APC is notified. Consequently, some cardholders’ accounts remained active, creating an opportunity for abuse.

In general, the three case study sites had standard exit procedures, which required a signature from the APC, or the unit where the APC worked, before individuals could complete outprocessing. The purpose of such procedures is to ensure that travel cards are promptly deactivated or closed. However, our work found that these procedures were not always followed. For example, at one case study site, the APC is a checkpoint on the checkout list, and cardholders are expected to obtain the APC’s signature before completing outprocessing. However, there was no control

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at the unit where the cardholder turned in the checkout list to ensure that the list was complete. Consequently, the APC informed us that exit procedures were not effective.

We also found that the Navy did not have procedures requiring periodic comparisons between active travel card accounts and their employees to ensure that accounts of separated or retired employees were closed. All three case study sites we visited maintained databases of their active employees. However, the APCs at these locations generally did not compare these records against the list of active travel card accounts to identify accounts that should have been deactivated and/or closed but remained open. Periodic reconciliation of the two lists would have enabled these units to identify separated cardholders with active accounts so that appropriate, timely actions could be taken.

Ineffective exit procedures and the inability to effectively identify and terminate travel cards of individuals no longer in the Navy led to numerous travel card abuses and charge-offs. These separated Navy employees benefited by using the travel cards to purchase a variety of goods and services, possibly at discounted government rates. Some did not pay their monthly bills, thereby essentially obtaining the personal items for no cost. The following cases are examples of what can happen when travel cards are not effectively deactivated or closed upon separation.

- In one Navy unit, a cardholder died in October 1999. However, ineffective controls over the notification process resulted in the APC not being aware that this had occurred. Therefore, the APC did not take actions to close this individual's government travel card account. Consequently, in October 2000, when the old card was about to expire, Bank of America mailed a new card to the address of record. When the card was returned with a forwarding address, the bank remailed the card and the personal identification number, which is used to activate the card, to the new address without performing other verification procedures. The card was activated in mid-December 2000, and within a month, 81 fraudulent transactions for hotel, food, and gas totaling about \$3,600 were charged to the card. In January 2001, in the course of her monthly travel card monitoring, the APC noticed suspicious charges in the vicinity of the cardholder's previous post-of-duty. The APC took immediate action to deactivate the card, thus preventing additional charges from occurring. Upon finally learning of the cardholder's death from the cardholder's unit, the APC immediately reported the case to a Bank of America fraud investigator. Investigations indicated that a

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family member of the cardholder might have made these charges. No payment was ever made on this account, and the entire amount was subsequently charged off. We referred this case to the U.S. Secret Service Credit Card Task Force for further investigation and potential prosecution.

- A chief warrant officer (W-3) at Naval Air Force, U.S. Atlantic Fleet, repeatedly used his travel card after his retirement on December 1, 2000. The cardholder currently works for a private company. He used the government travel card since his retirement to make charges totaling more than \$41,000 for hotels, car rentals, restaurants, and airline tickets for personal and business purposes. In a number of instances, the cardholder was able to obtain the government rate—which can be substantially lower than the commercial rate—for lodging in San Diego, Philadelphia, and Cincinnati. Because the Navy does not routinely monitor cardholder transactions for abusive activity and because this particular account was always paid in full, abusive activity was not detected. Bank of America data showed that the cardholder’s account was still open in early September 2002 and thus available for further charges.
- In another instance, a mechanic trainee at the Puget Sound Naval Shipyard was convicted of a felony for illegal possession of a firearm in October 2000 and placed on indefinite suspension by his employer in November 2000. However, neither the security office, which took action against the employee, nor the office where the individual worked notified the APC to cancel or deactivate the cardholder’s government travel card account. Following his suspension, the cardholder used the government travel card to make numerous cash withdrawals and purchases totaling almost \$4,700. The APC was not aware of these abusive charges until the monthly delinquency review identified the account as delinquent. The account balance of \$1,600 was subsequently charged off in January 2002. Although security officers at the Puget Sound Naval Shipyard referred the case to DON CAF in October 2000, our work indicated that the employee, who was still in suspended status as of August 2002, continued to maintain a secret clearance, despite the travel card charge-off and felony conviction.

We also found instances where the APC did not promptly deactivate or terminate the travel card upon being notified of an employee’s death, retirement, dismissal, or separation from the Navy. At one case study site, we audited 10 accounts of employees who died, retired, separated, or were

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otherwise removed since November 2000. Of the 10, 4 cardholders obtained signatures from the travel branch, where the APC works, upon leaving the unit. However, 3 of these 4 accounts were not deactivated or terminated in a timely manner. In one case, a cardholder continued to use the card to make numerous charges totaling \$4,900 for more than 9 months following separation. The cardholder failed to make timely payments on her account and became delinquent in September 2001. The APC did not report this cardholder's delinquent status to the appropriate unit supervisor until the account was 90 days past due. The supervisor stated that she took actions to have the card deactivated immediately upon learning of the delinquency. The individual's account was charged off on November 27, 2001, and as of July 13, 2002, had a remaining balance of \$4,800. Available data also indicated that another cardholder who retired in August 2001 continued to maintain possession of an active card until September 2002, although he did not use the card. Failure to promptly deactivate or terminate travel card accounts of individuals no longer with the Navy increases the risk of delinquencies and charge-offs and can lead to increased cost to the Navy.

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## Access Controls over Bank of America's Travel Card System

Thousands of Bank of America and DOD employees have 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 the 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 users access levels include customer-level access (APCs requiring access to travel data for cardholders under their purview and 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

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that they determined should not have had any level of access. This included 22 employees with super-user 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 their APC duties or after they may have been transferred or terminated. 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 transferred or terminated or no longer had APC responsibilities. Because of 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.

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## Statistical Tests of Key Control Activities

With the weak control environment and related program control weaknesses we identified, it is not surprising that we found weaknesses in the implementation of selected key control activities we statistically tested at the three Navy sites we audited. We selected four key control activities to test related to basic travel transaction and voucher processing. As discussed previously, for the three locations, we estimate that the percentage of transactions during fiscal year 2001 that represented personal use varied from 7 percent at one location to 27 percent at another location.

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 the 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?

Table 8 shows the results of our statistical samples. Appendix II includes the specific criteria we used to assess the effectiveness of these controls.

**Table 8: Results of Testing of Key Internal Controls**

Navy 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
Camp Lejeune	11.5	32.6	11.5	3.1
Patuxent River	3.1	35.4	36.5	1.0
Puget Sound Naval Shipyard	49.0 <sup>a</sup>	39.6	34.4	1.0

Source: GAO analysis.

Note: The numbers in the table represent point estimates of the percentage of failure in the population based on our sampling tests. The confidence intervals for our sampling estimates are presented in app. II.

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

## Controls over Travel Order Approval

Timely approval of the travel orders is the first step in ensuring that travel is authorized. At one of the three installations we audited, Patuxent River, the controls over travel order approval were partially effective. In contrast, Puget Sound Naval Shipyard, which had a failure rate of 49 percent, had ineffective controls over travel order approval. At Puget Sound, the high failure rate was primarily attributable to travel personnel not consistently ensuring that all copies of the six-part travel orders used in fiscal year 2001 were signed before sending the originals to the travelers. Consequently, this unit was unable to provide us with signed copies of the travel orders. Puget Sound Naval Shipyard management informed us that it had recently instituted procedures that require signed copies of travel orders be maintained by the unit.

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## Controls over Travel Voucher Review and Accuracy Were Not Effective

Once travel is completed, the traveler is required 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 accurately calculated. All three case study sites we audited had ineffective controls to ensure that travel orders were properly reviewed for accuracy and support. The estimated failure rates during fiscal year 2001 for the three case study sites ranged from 33 to 40 percent.

Travel voucher errors resulted in both over- and underpayments to the traveler and created an additional administrative burden for the Navy, which had to take additional actions to recover overpayments or make payments on previous underpayments. Travel voucher errors were attributed to ineffective review and audit of travel vouchers. At one case study site we audited, a communication breakdown had occurred between the office that helped travelers prepare vouchers and the office that entered voucher data into the automated system used to record relevant travel voucher data so that payment could be made by DFAS.<sup>31</sup> At this site, each office thought that the other was responsible for reviewing the vouchers for accuracy. As a result, the vouchers were not consistently reviewed to ensure that they were filed in accordance with travel regulations. In addition, we found that the voucher auditing process was not effective, resulting in payment errors that should have been detected. In our samples, we found that most errors were in the following categories.

- *Missing or inconclusive receipts* – We found instances in which voucher packages did not include all receipts required to support claims, as required by DOD and Navy regulations, yet payments were made. For example, a cardholder at Puget Sound Naval Shipyard who claimed cell phone charges totaling more than \$1,000 on several partial vouchers did not submit a detailed breakdown of these phone charges. As a result, there was no indication that all of the charges were for official use. However, the voucher was processed and full payment was made to the traveler.
- *Errors in calculating amounts paid* – We found instances in which the voucher processing units paid for lodging expenses not incurred and

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<sup>31</sup>DFAS is responsible for disbursing payments to the travelers after voucher data have been entered, reviewed, and audited by the voucher processing offices at Navy installations.

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made other errors in calculating incidental expenses, resulting in both over- and underpayments to the traveler. At Patuxent River, one traveler was reimbursed \$395 in lodging expenses and \$33 in lodging taxes; however, the hotel receipt for this travel claim indicated lodging expenses of \$316 and lodging taxes of \$24. Thus, the traveler was overpaid a total of \$88. Other errors related to the reimbursement of telephone calls and car mileage, and the failure to pay excess baggage fees expressly authorized in the travel order. Other errors related to the transposition of numbers. Most of these errors were relatively small in terms of dollar amounts.

However, we found errors that were significant in comparison to the travel voucher amount. For example, at one case study site a traveler claimed an ATM fee of \$17.25 on a voucher totaling less than \$1,000, but the amount was entered into the travel reimbursement system as \$1,725. As a result, the cardholder was overpaid by more than \$1,700. Although this voucher was audited by the voucher processing unit, the error was not detected. As a result of our audit, the Navy unit has taken actions to recover this and other overpayments.

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## 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 Navy 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 card program has resulted in a significant level of delinquencies and charge-offs of bad debts, as well as travel card fraud and abuse. This has resulted in millions of dollars of costs to the Navy, including higher fees, lost rebates, and substantial time pursuing and collecting delinquent travel card accounts.

DOD and the Navy have taken positive steps to reduce the delinquencies and charge-offs, including establishing a system of wage and retirement payment offset for many employees, encouraging the use of split disbursements where travel reimbursements are sent directly to the bank rather than the employee, and making management of the travel program a priority for the Navy commands. These actions have resulted in significant collections of previously charged-off and delinquent accounts. DOD and the Navy have also proposed additional steps as reported in the June 27, 2002, DOD Charge Card Task Force report to improve the controls over the

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travel card program. However, these Navy 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 preventive controls. To effectively reform the travel program, DOD and the Navy will need to work to prevent potentially fraudulent and abusive activity and severe credit problems with the travel card. The fiscal year 2003 Department of Defense Appropriations Act requires the Secretary of Defense to establish guidelines and procedures for disciplinary actions to be taken against cardholders for improper, fraudulent, or abusive use of the government travel card and to deny issuance of the government travel card to individuals who are not creditworthy. Further, the Bob Stump National Defense Authorization Act for Fiscal Year 2003 provides authority for the Secretary of Defense to require (1) use of the split disbursement payment process, where any part of a DOD employee's or service member's travel reimbursement is paid directly to the travel card-issuing bank, and (2) deductions of prescribed amounts from salary and retirement pay of DOD employees or service members, including civilian and military retirees, who have delinquent travel card balances and payment of those amounts to the travel card-issuing bank.

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## Recommendations for Executive Action

To strengthen the overall control environment and improve internal control for the Navy's travel card program, we recommend that the Secretary of the Navy 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.

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### Travel Card Issuance

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

- Provide individuals with no prior credit histories with "restricted" travel cards with low credit and ATM limits.
- Develop procedures to periodically evaluate frequency of card usage to identify accounts of infrequent travelers.

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- Cancel accounts for current infrequent travelers, as noted in the Charge Card Task Force report, in order to minimize exposure to fraud and abuse.
  - Evaluate the feasibility of activating and deactivating all cards, regardless of whether they are standard or restricted cards, so that cards are available for use only during the periods authorized by the cardholders' travel orders. At a minimum, this policy should focus on controlling travel card use by "high-risk" enlisted military personnel in the E-1 to E-6 grades.
  - Develop comprehensive, consistent Navy-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.

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## Monitoring, Review, and Disciplinary Actions

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

- Establish guidance regarding the knowledge, skills, and abilities required to carry out APC responsibilities effectively.
- Establish guidance on APC span-of-control responsibilities so that such responsibilities are properly aligned with time available to ensure effective performance. Determine whether certain APC positions should be staffed on a full-time basis rather than as collateral duties.
- Establish Navy-wide procedures to provide assurance that APCs receive training on their APC responsibilities. The training should include how to use EAGLS transaction reports and other available data to monitor cardholder use of the travel card—for example, reviewing account transaction histories to ascertain whether transactions are incurred during periods of authorized travel and appear to be appropriate travel expenses and are from approved MCCs.

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- Establish guidance requiring APCs to review EAGLS reports to identify cardholders who have written NSF checks for payment of their account balances, and refer these employees for counseling or disciplinary action.
  - Investigate and, if warranted, take appropriate disciplinary actions against cardholders who wrote three or more NSF checks to Bank of America.
  - Establish Navy procedures to develop a data mining program to further facilitate APCs' ability to identify potentially inappropriate transactions for further review.
  - Establish Navy-wide procedures requiring that supervisors and commanders notify APCs of actions taken with respect to delinquent cardholders.
  - Establish a Navy requirement for cognizant APCs to retain records documenting cardholders' fraudulent or abusive use of the travel card.
  - Establish appropriate, consistent Navy-wide procedures as a guide for taking disciplinary actions with respect to fraudulent and abusive activity and delinquency related to the travel card.
  - Review records of individuals whose accounts have been charged off or placed in salary offset to determine whether they have been referred to DON CAF for security reviews.
  - Strengthen procedures used to process employees separating from the service to ensure that all accounts are deactivated or closed, and repayment of any outstanding debts is arranged.
  - Perform periodic review of exit procedures to determine that accounts of separated cardholders are deactivated or closed in a timely manner.
  - Develop procedures to identify active cards of separated cardholders, including comparing cardholder and payroll data.
  - 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.

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- Develop a management plan to ensure that audits of the Navy travel card program are conducted regularly, and the results are reported to senior management.

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## Voucher and Payment Processes

To improve travel voucher accuracy, we recommend that commanders at each unit identify causes of the high error rates related to travel voucher review and provide refresher training to ensure that voucher examiners and auditors are informed and can accurately apply travel regulations and updates.

To ensure that travel vouchers are consistently reviewed prior to processing, we recommend that the Commander of Puget Sound Naval Shipyard take the following actions:

- Issue procedures to clearly assign responsibilities for reviewing the accuracy of the travel vouchers.
- Conduct periodic review to assess the effectiveness of the new procedures in reducing the frequency and amount of voucher errors.

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## Agency Comments and Our Evaluation

In written comments on a draft of this report, which are reprinted in appendix V, DOD concurred with 21 of 23 recommendations and partially concurred with the remaining 2 recommendations. DOD partially concurred with our recommendations regarding (1) establishing Navy-wide procedures requiring that supervisors and commanding officers notify the APCs of actions taken with respect to delinquent cardholders and (2) having commanders at each unit identify causes of the high error rates related to travel voucher review and provide refresher training to voucher examiners and auditors. We believe that DOD's planned actions for these two areas, if effectively implemented, will address the intent of our recommendations.

Concerning our recommendation that APCs be notified of actions by supervisors with respect to delinquent cardholders, DOD responded that providing this type of sensitive information to APCs is not appropriate. DOD considers it to be more appropriate that actions taken with respect to delinquent cardholders be reported up the chain of command and that the department decide at what level and at what frequency this reporting occur. Our recommendation did not contemplate that APCs would

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necessarily need details of disciplinary action, only that the APCs be informed that actions have been taken and by whom. Often the actions taken include verbal counseling. The written documentation maintained by the APC, which should refer to the official from whom authorized personnel may obtain details of the disciplinary actions, will provide a record that actions were taken and be a source for new commanders/supervisors in identifying people with previous credit card problems.

Regarding having commanders identify causes of the high error rate related to travel voucher review and provide refresher training, DOD has requested that NAS conduct a review of the department's end-to-end travel process and make recommendations to improve accountability and efficiency. Upon completion of the NAS review, DOD said it will distribute the appropriate guidance to all major commands. We agree that it would be beneficial for NAS to perform a comprehensive review of the travel process. In addition, to ensure immediate results, we believe that commanders, who are ultimately responsible and are more involved in the day-to-day operations, should take proactive steps in reviewing and correcting the weaknesses identified in this report.

In addition, although DOD concurred with our recommendations to establish policies and procedures governing the issuance of individual travel cards to military and civilian employees, its response regarding employees with no prior credit history indicated that some may be issued cards with "...higher than 'restricted' limits to accomplish their mission." While this may be required on a case-by-case basis, we believe that additional preventive managerial oversight to monitor these accounts would be beneficial. Management should also consider lowering the limit to established restricted levels once the mission is completed.

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As agreed with your offices, unless you announce the contents of this report earlier, we will not distribute this report until 30 days from its date. At that time, we will send copies of this report to interested congressional committees, the Secretary of Defense, the Under Secretary of Defense (Comptroller), the Secretary of the Navy, 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>.

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Managing Director  
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# Background

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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 lower 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 in the same fiscal year.

Under the current GSA master contract, the Department of Defense entered into a tailored task order with Bank of America<sup>32</sup> to provide travel card services to DOD and the military services, including the Navy. Table 9 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.

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<sup>32</sup>The Department of Defense 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. The task order also allowed for five additional 1-year options under the GSA master contract renewal provisions.

**Table 9: Comparison of Number of Individually Billed Travel Cardholders and Related Charges for DOD versus Total Federal Government Charges 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)
Navy (includes Marine Corps)	394,952	\$510
Army	432,460	\$619
Air Force	501,306	\$831
Other DOD	86,922	\$174
<b>Total DOD</b>	<b>1,415,640</b>	<b>\$2,134</b>
Total federal government	2,132,031	\$3,634
DOD percentage of total government	66%	59%

Source: Bank of America.

As shown in table 9, 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 9 also shows that the Navy provided about 395,000 individually billed cards to its civilian and military employees as of September 2001. These cardholders charged an estimated \$510 million to their travel cards during fiscal year 2001.

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## 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 the 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. These rebates are based on the volume of transactions incurred on the card and cardholders paying their monthly travel card bills on time. To help timely payments, the act requires that agencies reimburse cardholders for proper travel claims within 30 days of submission of approved travel vouchers by the cardholders.<sup>33</sup> 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 regulations with their own implementing regulations.

DOD issued its *Financial Management Regulations* (FMR), Volume 9, Chapter 3, Travel Policies and Procedures to supplement 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, in January 2002, the Navy eBusiness Operations Office issued Instruction 4650.1, *Policies and Procedures for the Implementation and Use of the Government Travel Charge Card* to supplement the FMR. In addition,

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<sup>33</sup>The 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 31<sup>st</sup> 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.

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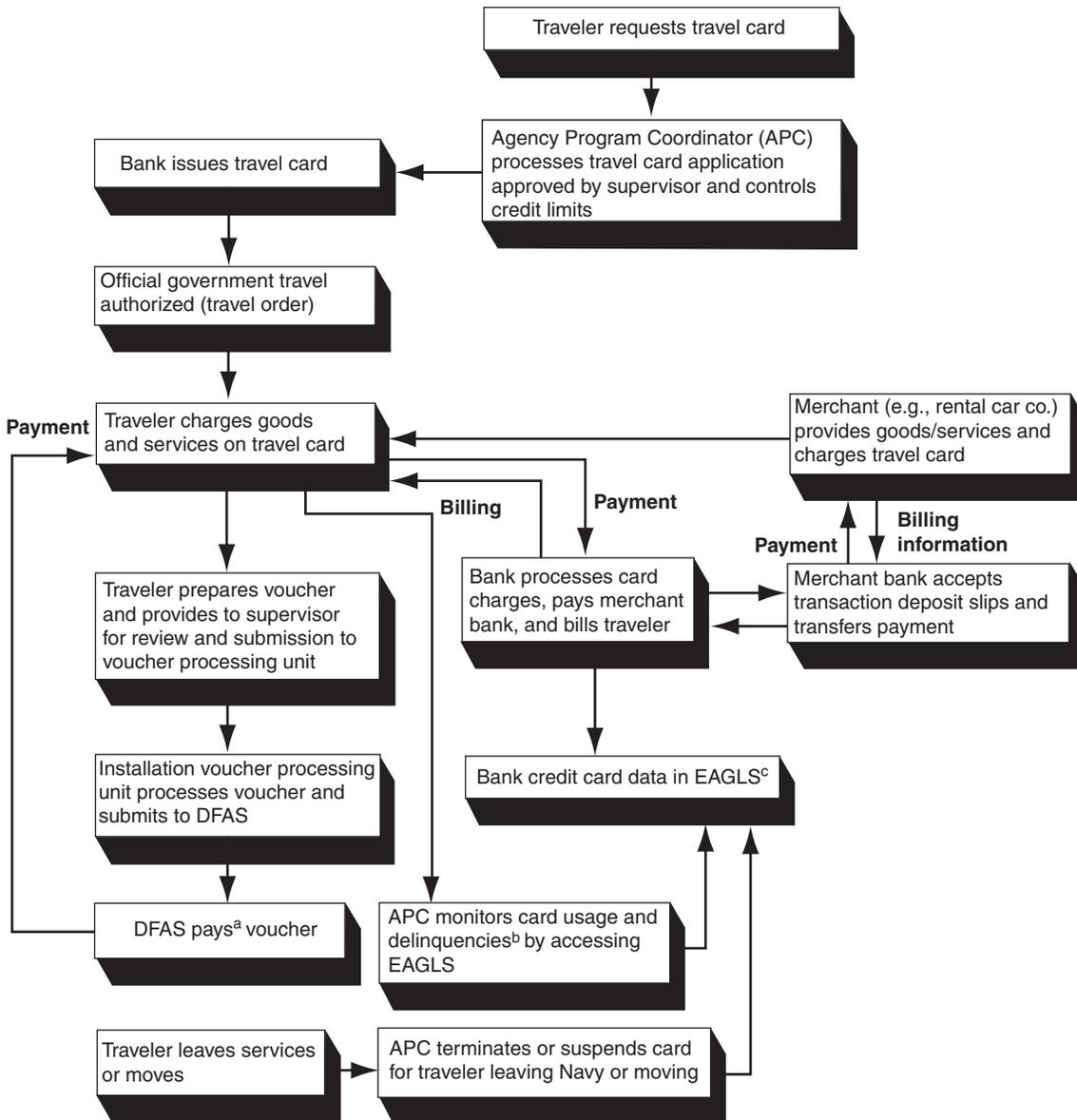
some of the Navy's individual commands and units have issued their own instructions supplementing GSA and DOD guidelines.

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## **The Navy Travel Process**

As shown in figure 6, the Navy'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 6: Overview Flowchart of the Navy Travel Process



Source: GAO analysis.

<sup>a</sup> The Defense Finance and Accounting Service allows travelers to direct a portion, or all, of their voucher reimbursement to Bank of America.

<sup>b</sup> See figure 8 for specific actions to be taken by the Agency Program Coordinator.

<sup>c</sup> Electronic Account Government Ledger System

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Travel Card Issuance and  
Termination

When a Navy 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 7, the application requires the applicant to provide pertinent information, including full name and social security number, and indicate whether he or she is an active, reserve, or a civilian employee of the Navy. 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 a travel card to all applicants for whom it receives completed applications signed by the applicants, the applicants' supervisors, and the APCs.

**Appendix I  
Background**

**Figure 7: Travel Card Application**

Individually Billed Card Account Setup/Application Form (Department of Defense Travel Card Program)			
<b>PART 1: TO BE COMPLETED BY EMPLOYEE</b> (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*: _____ State*: _____	
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: _____	
<b>PART 2: TO BE COMPLETED BY AGENCY PROGRAM COORDINATOR (APC)</b> (Optional fields are italicized and noted by an asterisk)		PLEASE TYPE OR PRINT ALL INFORMATION	
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 0000001 _____			
Organization/Unit Name: _____			
FIPS Code: _____		Is the applicant eligible to obtain Contract City Pair airline fares?* <input type="checkbox"/> 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*: Standard <input type="checkbox"/> Quasi-Generic <input type="checkbox"/>		Cash Access*: Yes <input type="checkbox"/> No <input type="checkbox"/>	
Authorized to Receive Travelers Checks*: 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: _____		Date: _____	
Name & Title/Rank (Please print)		Signature	
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	

Source: Department of Defense.

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, it will suggest to the service that the applicant receive a restricted credit limit of \$2,500 instead of the standard credit limit of \$10,000.<sup>34</sup> However, as shown in figure 7, the application allows the employee to withhold permission for Bank of America to obtain credit reports. If this option is selected, Bank of America automatically issues a restricted credit limit card to the applicant.

When cardholders leave the Navy, they are required to contact their APCs and notify them of their planned departure. Based on this notification from the cardholders, the APCs are to deactivate or 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 amounts of per diem and any cash advances. Further, the Navy 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 Navy 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 travel charge cards for individually billed accounts 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 30 days of the statement closing date. If the cardholder does not pay his or her

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<sup>34</sup>Starting January 2002, the standard and restricted credit limits were reduced to \$5,000 and \$2,000, respectively, per instructions issued by the Navy's eBusiness Operations Office.

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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 Navy 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 the 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 proper voucher takes longer than 30 days, the Navy 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.

After the supervisor approves a cardholder's travel voucher package for payment, it is processed by a voucher processing unit at the location to which the cardholder is assigned. The voucher processing 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." IATS selects 10 percent of vouchers under \$2,500 and all vouchers \$2,500 or greater for audits. If problems with the 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 vouchers are processed and audited, they are sent to DFAS for payment to the cardholder or to Bank of America and the cardholder, if the cardholder elected split disbursements whereby part of the DFAS reimbursement is sent to Bank of America.

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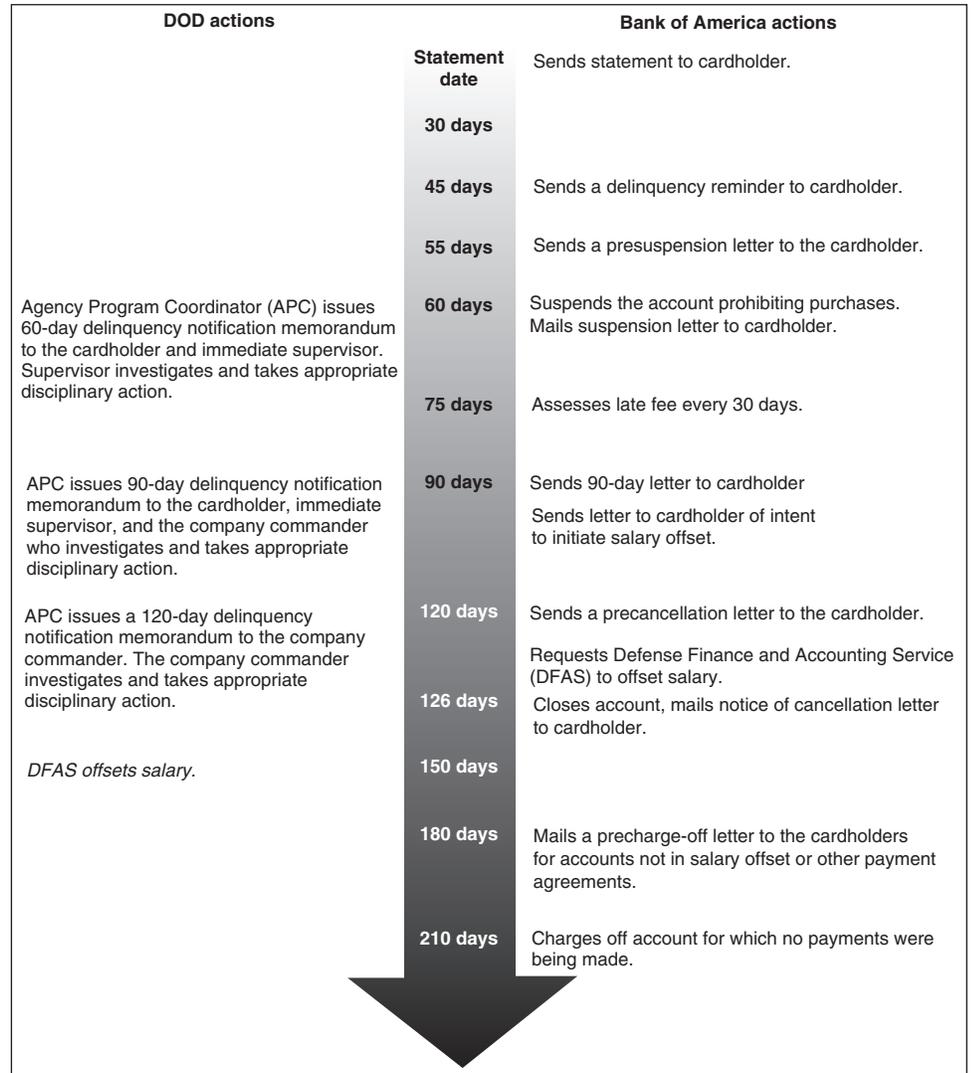
Monitoring Travel Card  
Transaction Activity

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 Navy 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, it is considered delinquent. As summarized in figure 8, there are specific actions required by both DOD and Bank of America based on the number of days a cardholder's account is past due.

**Figure 8: Required DOD and Bank of America Delinquency Process Management Actions**



Source: GAO analysis.

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

The following is a more detailed explanation of the required actions by DOD 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 presuspension 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 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 the company commander’s 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 the 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 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 “precharge-off” or last call letters to cardholders whose accounts were not put in salary offset informing them that Bank of America will charge off their accounts and report them 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 creditworthiness of an individual using credit bureau reports.
- 210 days past due—Bank of America is to chargeoff any delinquent account that it was unable to put in the offset program and, if the balance is \$50 or greater, report it to a credit bureau, unless another form of payments was forthcoming.

Some accounts are pursued for collection by Bank of America’s recovery department, while 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 make timely payments on his or her account, through no fault of his or her own. Under such circumstances, the APC is to notify Bank of America that the cardholder is in “mission-critical” status. By activating this status, Bank of America is precluded 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.

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# Objectives, Scope, and Methodology

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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 Navy. Our assessment covered

- the reported magnitude and impact of delinquent and charged-off Navy travel card accounts for fiscal year 2001 and the first 6 months of fiscal year 2002, along with an analysis of causes and related corrective actions;
- an analysis of the universe of Navy travel card transactions during fiscal year 2001 and the first 6 months of fiscal year 2002 to identify potentially fraudulent and abusive activity related to the travel card;
- the Navy's overall management control environment and the design of selected Navy 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, and (6) access for 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 three Navy units' travel activity including (1) travel order approval, (2) accuracy of travel voucher payments, (3) the timely submission of travel vouchers by travelers to the approving officials, and (4) the timely processing and reimbursement of travel vouchers by the Navy 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),<sup>35</sup> the General Services Administration's (GSA) *Federal Travel Regulation*,<sup>36</sup> and the *Department of Defense Financial Management Regulations*, Volume 9, Travel Policies and Procedures. We also used as criteria our *Standards for Internal Control in Federal Government*<sup>37</sup> and our *Guide to Evaluating and Testing Controls Over Sensitive Payments*.<sup>38</sup> 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 six areas reviewed.

To assess the magnitude and impact of delinquent and charged-off accounts, we compared the Navy's delinquency and charge-off rates to other DOD services and federal agencies. We did not verify the accuracy of the data provided to us by Bank of America and GSA. 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 Navy travel card transactions for individually billed accounts for audit. Our data mining procedures covered the universe of individually billed Navy travel card activity during fiscal

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<sup>35</sup>Travel and Transportation Reform Act of 1998 (Public Law 105-264, Oct. 19, 1998) includes requirements that federal employees use federal travel charge cards for all payments of expenses of official government travel, 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.

<sup>36</sup>*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.

<sup>37</sup>U.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 31 U.S.C. 3512 (c), (d), the Federal Managers' Financial Integrity Act, to issue standards that provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud waste, abuse, and mismanagement.

<sup>38</sup>U.S. General Accounting Office, *Guide to Evaluating and Testing Controls Over Sensitive Payments*, GAO/AFMD-8.1.2 (Washington, D.C.: May 1993), provides a framework for evaluating and testing the effectiveness of internal controls that have been established in various sensitive payment areas.

year 2001 and the first 6 months of fiscal year 2002 and identified transactions that we believed were potentially fraudulent or abusive based upon the nature, amount, merchant, and other identifying characteristics of the transaction. However, our work was not designed to identify, and we did not determine, the extent of any potentially fraudulent or abusive activity related to the travel card.

To assess the overall control environment for the travel card program at the Department of the Navy, we obtained an understanding of the travel process, including travel card management and oversight, by interviewing officials from the Office of the Undersecretary of Defense, Comptroller; Department of the Navy; Defense Finance and Accounting Service (DFAS); Bank of America; and GSA. We reviewed applicable policies and procedures and program guidance they provided. We visited three Navy units to “walk through” the travel process including the management of travel card usage and delinquency. 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.

At each of the Navy locations we audited, we also used our review of policies and procedures and the results of our “walk-throughs” of travel processes and other observations to assess the effectiveness of controls over segregation of duties among persons responsible for issuing travel orders, preparing travel vouchers, processing and approving travel vouchers, and certifying travel voucher payments.

We also reviewed computer system access controls for Electronic Account Government Ledger System (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 Navy travel card transactions processed through the travel system—including the travel order, travel voucher, and payment processes—we obtained and used the database of fiscal year 2001 Navy travel card transactions to review random samples of transactions at three Navy locations. Because our objective was to test controls over travel card expenses, we excluded credits and miscellaneous debits (such as fees) from the population of transactions used to select random samples of travel card transactions to review at each of the three Navy units we audited. Each sampled

transaction was subsequently weighted in the analysis to account statistically for all charged transactions at each of the three units, including those transactions that were not selected.

We selected three Navy locations for testing controls over travel card activity based on the relative size of travel card activity at the 27 Navy 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 one unit from the Naval Sea Systems Command because that command represented 19 percent of the total travel card activity, 9 percent of past due accounts, and 7 percent of accounts charged off during fiscal year 2001. We also selected one unit from Naval Air Systems Command because that command represented approximately 12 percent of travel card activity, 4 percent of past due accounts, and 4 percent of accounts charged off during fiscal year 2001 across the Navy. We also selected U.S. Marine Corps Forces Atlantic because this command represented about 24 percent of Corps charge card activity, 23 percent of accounts past due, and 26 percent of accounts charged off. Each of the units within the commands was selected because of the relative size of the unit within the respective command. Table 10 presents the sites selected and the number of fiscal year 2001 transactions at each location.<sup>39</sup>

**Table 10: Population of Fiscal Year 2001 Travel Transactions at Navy Units Tested**

<b>Navy unit tested</b>	<b>Number of fiscal year 2001 travel transactions<sup>a</sup></b>	<b>Dollar value of fiscal year 2001 travel transactions<sup>a</sup></b>
Camp Lejeune	14,209	\$1,747,316
Patuxent River	179,547	\$20,335,864
Puget Sound Naval Shipyard	80,583	\$11,025,669

Source: GAO analysis based on Bank of America data.

<sup>a</sup>Transactions represent charges for sales and cash advances and exclude credits and fees.

We performed tests on statistical samples of travel card transactions at each of the three case study sites to assess whether the system of internal

<sup>39</sup>The 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 assessment of the effectiveness of controls over the travel order, voucher, and payment processes. However, we included such transactions in order to project the percentage of personal use transactions.

controls 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 trip, (2) the travel voucher payment was accurate, (3) the travel voucher was submitted within 5 days of the completion of travel, and (4) the traveler was paid within 30 days of the submission of an approved travel voucher. We considered transactions not related to authorized travel to be abuse and incurred for personal purposes. The results of the samples of these control attributes, as well as the estimate for personal use—or abuse—related to travel card activity, can be projected to the population of transactions at the respective test case study site only, not to the population of travel card transactions for all Navy 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 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. Otherwise, we concluded that the control was partially effective. Tables 11 through 13 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 11 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 11: Estimates of Fiscal Year 2001 Transactions That Failed Control Tests for Approved Travel**

<b>Navy unit tested</b>	<b>Number of failed transactions</b>	<b>Estimated failure rate (2-sided 95% confidence interval)</b>
Camp Lejeune	11 of 96	11.5% (5.9%, 19.6%)
Patuxent River	3 of 96	3.1 % (0.6%, 8.9%)
Puget Sound Naval Shipyard	47 of 96	49.0% (38.6%, 59.4%)

Source: GAO analysis.

Table 12 shows the results of our test for effectiveness of controls in place over the accuracy of travel voucher payments.

**Table 12: Estimates of Fiscal Year 2001 Transactions That Failed Control Tests for Accurate Travel Voucher Payments**

Navy unit tested	Number of failed transactions	Estimated failure rate (2-sided 95% confidence interval)
Camp Lejeune	14 of 43	32.6% (19.1%, 48.5%)
Patuxent River	34 of 96	35.4% (25.9%, 45.8%)
Puget Sound Naval Shipyard	38 of 96	39.6% (29.8%, 50.1%)

Source: GAO analysis.

Table 13 shows the results of our tests of two key controls related to timely processing of claims for reimbursement of expenses related to government travel—timely submission of the travel voucher by the employee and timely approval and payment processing.

**Table 13: Estimates of Fiscal Year 2001 Transactions That Failed Control Tests for Timely Submission and Processing of Travel Vouchers**

Navy 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 (2-sided 95% confidence interval)	Number of failed transactions	Estimated failure rate (2-sided 95% confidence interval)
Camp Lejeune	11 of 96	11.5% (5.9%, 19.6%)	3 of 96	3.1% (0.6%, 8.9%)
Patuxent River	35 of 96	36.5% (26.9%, 46.9%)	1 of 96	1.0% (0.03%, 5.7%)
Puget Sound Naval Shipyard	33 of 96	34.4% (25.0%, 44.8%)	1 of 96	1.0% (0.03%, 5.7%)

Source: GAO analysis.

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

We briefed Navy managers, including Assistant Secretary of the Navy (Financial Management and Comptroller) officials; and unit commanders and APCs of the details of our audit, including our findings and their implications. We incorporated their comments where appropriate. We conducted our audit work from December 2001 through October 2002 in accordance with 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 December 5, 2002, and have reprinted those comments in appendix V.

# Navy Major Command Delinquency Rates

Table 14 shows the travel card delinquency rates for Navy's major commands (and other Navy organizational units at a comparable level) that had outstanding balances over \$1 million as of March 31, 2002. Commands with a March 31, 2002, balance outstanding under \$1 million have been combined into "other." The Navy'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 amount owed by the command's travel cardholders at the end of each quarter.

**Table 14: Navy Major Command Delinquency Rates<sup>a</sup> (By Quarter) for the 2 Years Ending March 31, 2002**

Major Command	June 2000	Sept. 2000	Dec. 2000	Mar. 2001	June 2001	Sept. 2001	Dec. 2001	Mar. 2002
Naval Reserve Forces	14%	18%	42%	17%	14%	15%	30%	22%
Marine Reserve Forces	15%	21%	30%	15%	16%	24%	26%	18%
U.S. Marine Forces Atlantic	16%	17%	25%	13%	14%	19%	26%	17%
U.S. Marine Forces Pacific	16%	18%	26%	12%	16%	16%	25%	16%
U.S. Atlantic Fleet	18%	21%	20%	15%	14%	19%	17%	14%
U.S. Pacific Fleet	17%	18%	17%	12%	13%	15%	16%	12%
Bureau of Naval Personnel	15%	14%	15%	10%	12%	12%	14%	11%
Naval Special Warfare Command	14%	16%	17%	-11% <sup>b</sup>	12%	11%	13%	9%
Bureau of Medicine and Surgery	11%	13%	16%	9%	9%	13%	12%	8%
Chief of Naval Education and Training	9%	12%	14%	10%	9%	14%	12%	7%
Chief of Naval Operations	6%	8%	11%	5%	5%	7%	7%	4%
Naval Sea Systems Command	6%	7%	8%	4%	5%	6%	4%	3%
Office of the Undersecretary of the Navy	5%	6%	7%	3%	3%	5%	3%	2%
Space and Naval Warfare Systems Command	4%	4%	6%	3%	4%	4%	2%	2%
Naval Air Systems Command	6%	7%	9%	4%	4%	5%	4%	2%
Naval Facilities Engineering Command	5%	5%	7%	3%	4%	5%	3%	2%
All other commands combined	9%	10%	14%	7%	8%	9%	11%	7%
Navy Wide	11%	13%	18%	10%	10%	12%	15%	11%

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

<sup>a</sup>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.

<sup>b</sup>The negative delinquency rate was caused by the correction of a \$2.3 million posting error by Bank of America. The rate adjusted to remove the effect of the error is 10 percent.

# Navy Personnel Grade, Rank, and Associated Basic Pay Rates

Tables 15, 16, and 17 show the grade, rank (where relevant), and the associated basic pay rates for 2001 for Navy's and Marine Corps' military personnel and civilians. The basic 2001 pay rates shown exclude other considerations such as locality pay and any allowances for housing or cost of living.

**Table 15: Navy Military Grades, Ranks, and Associated Average Basic Pay Rates for Fiscal Year 2001**

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

Source: U.S. Navy

<sup>a</sup>Officers' ranks include warrant officers (denoted by WO) and commissioned officers (denoted by O).

**Table 16: Marine Corp Military Grades, Ranks, and Associated Basic Pay Rates for Fiscal Year 2001**

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

Source: U.S. Navy.

<sup>a</sup>Officer's rank includes warrant officers (denoted by WO) and commissioned officers (denoted by O).

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**Appendix IV**  
**Navy Personnel Grade, Rank, and Associated**  
**Basic Pay Rates**

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**Table 17: Civilian Grades and Associated Basic Pay Rates for Calendar Year 2001**

<b>Civilian grade</b>	<b>2001 pay</b>
<b>General Schedule employees</b>	
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
<b>Senior Executive Service</b>	
ES-01 to ES-06	\$109,100 to \$125,700

Source: Office of Personnel Management.

# Comments from the Department of Defense



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

COMPTROLLER

DEC 5 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, "TRAVEL CARDS: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse," dated September 1, 2002, (GAO Code 192064/GAO-03-147).

The Department reviewed the draft report and recognizes the intent of the recommendations. The Department takes travel card abuse and misuse very seriously. The DoD Task Force, which I established, developed a full range of reforms. The Department has implemented many of these reforms and others are in the process. For example, in September and October 2002, approximately 330,000 inactive travel card accounts were cancelled. The Department also implemented salary-offset procedures and consequently has recovered most of the delinquent debts from the cardholders' payroll checks.

We are also 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.

Regarding the specific report on the Navy's Travel Card program, the Department concurs with four recommendations and partially concurs with GAO's other two recommendations. As stated previously, many actions have already been taken or will soon be taken to implement a number of recommendations. 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 is Ms. Jacqueline Jenkins. She may be reached by email: [jenkinsj2@osd.pentagon.mil](mailto:jenkinsj2@osd.pentagon.mil) or by telephone at (703) 697-8282.

Sincerely,

Dov S. Zakheim

Enclosure

GAO DRAFT REPORT, GAO-03-147/CODE 192064

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

DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATIONS

**RECOMMENDATION 1:** The GAO recommended that the Secretary of the Navy establish policies and procedures governing the issuance of individual travel cards to military and civilian employees including the following:

- Provide individuals with no prior credit histories with “restricted” travel cards with low credit and ATM limits.
- Develop procedures to periodically evaluate frequency of card usage to identify accounts of infrequent travelers.
- Cancel accounts for current infrequent travelers as noted in the Charge Card Task Force report in order to minimize exposure to fraud and abuse.
- Evaluate the feasibility of activating and deactivating all cards, regardless of whether they are standard or restricted cards, so that cards are available for use only during the period authorized by the cardholders’ travel orders. At a minimum, this policy should focus on controlling travel card use by “high-risk” enlisted military personnel in E-1 to E-6 grades.
- Develop comprehensive, consistent Navy-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 prohibition 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.

**DoD RESPONSE:** Concur. The Department of the Navy (DON) has either implemented or will soon take action to implement most of the recommended actions.

- The Department concurs with the recommendation to provide individuals with no prior credit histories with “restricted” travel cards with low credit and ATM limits, as is typically the current practice. However, the DON’s position is that some applicants with no prior credit history may need a standard card or a card with higher than “restricted” limits to accomplish their mission. The DON will work with the card contractor and the Department of Defense in implementing the provisions contained in the Fiscal Year 2003

Department of Defense Appropriations Act (Public Law 107-248) which requires the Secretary of Defense to evaluate the credit worthiness of individual travel card applicants.

- In accordance with the procedures outlined in the Under Secretary of Defense (Comptroller), July 19, 2002, guidance, the DON will conduct semiannual reviews of card usage and close the accounts of infrequent travelers.
- In accordance with the recommendations of the Charge Card Task Force, 96,000 Navy and Marine Corps infrequent traveler accounts were cancelled as of September 2002.
- The DON established an internal delinquency metric in April 2002. Any command not meeting the metric must deactivate cards for all personnel, regardless of grade, that are not scheduled for official travel. Additionally, cards cannot be activated until 10 days before official travel is scheduled to begin, and cards must be immediately deactivated at the conclusion of the travel. Also, one of the recommendations from the DoD Charge Card Task Force Final Report was to evaluate whether additional travel card control mechanisms can be incorporated into the Defense Travel System. The feasibility of automatic activation and deactivation of travel charge cards to correspond with travel order approval in the Defense Travel System is a part of the evaluation.
- The Department of the Navy is currently developing a comprehensive computer-based training (CBT) program. The CBT is designed to explain the requirements of the travel card program for cardholders, Agency Program Coordinators (APCs), supervisors, and commanding officers. Specifically, the CBT will address prohibitions for personal use as well as the policies and procedures for processing individual travel orders, vouchers, and reimbursements. Also, in August 2002, the DON prepared and distributed a brochure to cardholders with policy guidelines. Additionally, in October 2002, a video tele-training program was initiated that provided training for cardholders, APCs, supervisors, and commanding officers at various locations. Training topics included delinquency management, recognizing card misuse, and using the EAGLS reporting tools. Subject training will be available throughout fiscal year 2003. The DON also provides all Navy military recruits, between their basic and advanced training sessions, a personal financial management training course. This 2-day course covers topics that include banking and financial management services, checkbook management, the essentials of credit, financial planning and deployment, and official government travel.

**RECOMMENDATION 2:** The GAO recommended that the Secretary of the Navy establish the following specific policies and procedures to strengthen controls and disciplinary actions for improper use of the travel card:

- Establish guidance regarding the knowledge, skills, and abilities required to carry out APC responsibilities effectively.
- Establish guidance on APC span of control responsibilities so that such responsibilities are properly aligned with time available to ensure effective performance. Determine whether certain APC positions should be staffed on a full-time basis rather than as collateral duties.

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**Appendix V**  
**Comments from the Department of Defense**

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- Establish Navy-wide procedures to provide assurance that APCs receive training on their APC responsibilities. The training should include 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.
- Establish guidance requiring APCs to review EAGLS reports to identify cardholders who have written NSF checks for payment of their account balances, and refer these employees for counseling or disciplinary action.
- Investigate and, if warranted, take appropriate disciplinary actions against the cardholders that wrote three or more NSF checks to Bank of America.
- Establish Navy procedures to develop a data mining program to further facilitate APCs' ability to identify potentially inappropriate transactions for further review.
- Establish Navy-wide procedures requiring that supervisors and commanders notify APCs of actions taken with respect to delinquent cardholders.
- Establish a Navy requirement for cognizant APCs to retain records documenting cardholder's fraudulent or abusive usage of the travel card.
- Establish appropriate, consistent Navy-wide procedures as a guide for taking disciplinary actions with respect to fraudulent and abusive activity and delinquency related to the travel card.
- Review records of individual whose accounts have been charged off or placed in salary offset to determine whether they have been referred to the DON CAF for a security review.
- Strengthen procedures used to process employees discharging from the Service to ensure that all accounts are deactivated or closed, and repayment of any outstanding debts is arranged.
- Perform periodic review of exit procedures to determine that accounts of departed cardholders are deactivated or closed in a timely manner.
- Develop procedures to identify active cards of separated cardholders, including comparing cardholder and payroll data.
- 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.
- Develop a management plan to ensure that audits of the Navy travel card program are conducted on a regular basis, and the results reported to senior management.

**DoD RESPONSE:** Partially concur. The DON has either implemented or will soon take action to implement most of the recommended actions. However, the Department has concerns with the recommendation to establish Navy-wide procedures requiring that supervisors and commanding officers notify the APCs of actions taken with respect to delinquent cardholders.

- The Office of the Under Secretary of Defense (Comptroller), the Travel Card Program Management Office, and the Component Program Managers will be tasked to develop the necessary revisions to the “DoDFMR” by March 31, 2003, to establish guidance regarding the knowledge, skills, and abilities required to carry out APC responsibilities. Also, both the Navy and the Marine Corps have issued internal instructions that more clearly define the responsibilities of the APC position and provide commanders with guidelines on the appointment of APCs.
- The Office of the Under Secretary of Defense (Comptroller), the Travel Card Program Management Office, and the Component Program Managers will be tasked to develop the necessary revisions to the “DoDFMR” by March 31, 2003, to establish guidelines on APC span of control responsibilities. Also, the DON has highlighted the importance of the government travel card program to senior management within the Department. Consequently, this increased focus on the travel card program has resulted in a reassessment by commands and activities on the level of personnel and the time they require to manage subject program effectively. This reassessment will be an ongoing effort as attention continues to be focused on the program.
- In May and November 2002, the Navy held APC symposiums. The symposiums consisted of an overview of the travel card program, including the regulations and policies governing the program, and information regarding various tools available to allow APCs to effectively manage the travel card program. The November 2002 symposium included sessions specifically covering the EAGLS reporting tool and the use of the EAGLS reports.
- The DON will issue guidance requiring that APCs review EAGLS reports to identify cardholders who write NSF checks, and that they provide subject information to the individual’s supervisor/commander for appropriate action.
- The Naval Criminal Investigative Service is currently reviewing a list provided by the General Accounting Office of personnel who wrote three or more NSF checks since the inception of the program with Bank of America.
- In June 2002, the Navy began a pilot program to identify potential misuse by monitoring unusual activity. Accounts identified for potential misuse are immediately deactivated until APCs or the cardholders are contacted to confirm the transactions. The process identifies known key card risk factors such as high cash usage, excess or specific retail card usage, and large dollar-value transactions. To further automate this process, the Navy has procured the same software used by the GAO to conduct such data mining effort and is currently negotiating with the card contractor to obtain transaction-level information.

- Partially concur with the recommendation to establish Navy-wide procedures requiring that supervisors and commanding officers notify APCs of actions taken with respect to delinquent cardholders. The DON's position is that providing this type of sensitive information to APCs is not appropriate. The DON considers it to be more appropriate that actions taken with respect to delinquent cardholders be reported up the chain of command. The DON will decide at what level and at what frequency subject reporting should occur.
- The "DoDFMR," Volume 9, Chapter 3, requires APCs to retain documentation of all delinquency notifications sent to a delinquent cardholder's supervisor. The DON, in conjunction with DoD, will issue guidance requiring cognizant APCs to also retain records documenting fraud and abuse.
- The Fiscal Year 2003 Department of Defense Appropriations Act (Public Law 107-248) requires that the Secretary of Defense establish guidelines and procedures for disciplinary actions to be taken against cardholders for improper, fraudulent, or abusive use of government charge cards. The DON will work with the cognizant DoD staff with respect to this provision.
- The DON will work with the DON Central Adjudication Facility to determine the number of accounts referred to them for review.
- In April 2002, the DON directed that APCs must be included as part of the check-in and check-out process. Upon change of duty stations, the DON policy requires the losing activity to deactivate the travel cards of all departing personnel.
- The DON will direct commands to perform a periodic review to ensure that accounts of departed cardholders are deactivated or closed in a timely manner.
- The DoD periodically receives information from the Defense Manpower Data Center identifying employees that are separated, retired, or deceased. The DON will distribute this information to APCs to compare records and close accounts, as required.
- The DON is in the process of reviewing current APC listings and will delete access for individuals who no longer perform APC duties.
- The DON will develop a plan to ensure that audits of the Navy travel card program are conducted on a regular basis and that the results are reported to senior management.

**RECOMMENDATION 3:** The GAO recommended that commanders at each unit identify causes of the high error rate related to travel voucher review and provide refresher training to ensure that voucher examiners and auditors are informed and can accurately apply travel regulations and updates.

**DoD RESPONSE:** Partially concur. The DON has requested the Navy Audit Service to conduct a review of the Department's end-to-end travel process and make recommendations to improve

accountability and efficiency. Upon completion of subject review, the DON will distribute the appropriate guidance to all major commands.

**RECOMMENDATION 4:** The GAO recommended that the Commander of Puget Sound Naval Shipyard issue procedures to clearly assign the responsibilities for reviewing the accuracy of the travel vouchers.

**DoD RESPONSE:** Concur. In accordance with the “DoDFMR,” Volume 9, Chapter 3, the Puget Sound Naval Shipyard’s Central Travel Office (CTO) has been assigned responsibility for review of travel vouchers for completeness, accuracy, and validity. To enhance the performance of this function, the CTO staff has been attending formal Joint Travel Regulation training during fiscal years 2002 and 2003. It is anticipated that the entire staff will have completed subject training by spring 2003. In the interim, Personnel Support Detachment Bremerton has agreed to conduct secondary reviews of travel vouchers before disbursement until the occurrences or errors have diminished.

**RECOMMENDATION 5:** The GAO recommended that the Commander of Puget Sound Naval Shipyard conduct periodic review to assess the effectiveness of the new procedures in reducing the frequency and amount of voucher errors.

**DoD RESPONSE:** Concur. The Puget Sound Naval Shipyard’s CTO, with the assistance of their Command Evaluation and Review Office, will conduct random sampling of completed travel vouchers packages every 6 months to determine improvement in the percentage of (both frequency and amount) voucher errors.

**RECOMMENDATION 6:** The GAO recommended that the Under Secretary of Defense (Comptroller) assess the 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.

**DoD RESPONSE:** Concur. The Department concurs with the recommendation and has already taken action in a number of areas consistent with the GAO’s recommendations for the Department of the Navy. Specifically, the Department has taken the following actions:

- The Under Secretary of Defense (Comptroller) directed the cancellation of charge cards that had not been used within the prior 12 months. That action resulted in the reduction of approximately 330,000 cards in September and October 2002. The Department is currently conducting another review of accounts and has agreed with the Bank of America to regular, periodic review of such accounts.
- The Under Secretary of Defense (Comptroller) approved a request from the Department of the Navy to allow the definition of infrequent traveler to be raised to four or less trips per year as opposed to two or fewer, as determined appropriate by the Navy.
- One of the DoD Charge Card Task Force recommendations was to review the travel voucher settlement processes. The Navy and the Air Force Audit Agencies and the DFAS

Internal Review Office have been requested to review the settlement processes in place for each Military Service and provide recommendations. NOTE: The DFAS processes travel settlement vouchers for the Army and other DoD agencies.

- The Defense Manpower Data Center is beginning to provide the DoD Travel Card Program Management Office with monthly comparisons of separated, deceased, and retired members processed through the personnel systems with active Bank of America travel card accounts. Subject information will be forwarded to each of the Military Services for dissemination to the appropriate APCs. While subject information is not current, it will help reduce the risk of continued use of travel cards after separation, retirement, and/or death. Automatic deactivation of travel cards as individuals are removed from the Defense Travel System is also being evaluated.
- The Department has requested that the Bank of the America assist in identifying charges made on merchant category codes that are blocked. Bank of America has provided transaction data, previously provided to the GAO, in order to allow the Office of the DoD Inspector General to begin preliminary data mining work on the individual travel cards. The Department also requested the assistance of VISA in developing a separate merchant category code for establishments that provide adult entertainment along with food and beverages. Feedback thus far has been that establishing a separate code for subject establishments is unlikely. The Department is continuing to work with both Bank of America and VISA to try to identify methods of prevention or early detection of misuse of the travel card.

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