United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at 10 a.m.
Wednesday, July 17, 2002

TRAVEL CARDS

Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse

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GAO-02-863T

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

Thank you for the opportunity to discuss the Army's internal controls over the government travel card program. This Subcommittee held a hearing in May 2001 that identified substantial delinquencies and charge-offs related to the Department of Defense (DOD) travel cards. As a result of your hearing and our work on internal control over purchase card transactions at two Navy sites in San Diego, California,[1] and continuing concern about fraud, waste, and abuse in DOD's use of both travel and purchase cards, you requested more comprehensive audits of both programs. As part of this requested work, this testimony focuses on the Army travel card program. We plan to issue a detailed report with recommendations on the results of our audit. In addition, we will report to you separately on the results of our Navy and Air Force travel card program audits when completed.

The intent of the travel card program, which is administered by a contractor (Bank of America), was to improve convenience for the traveler and to reduce the government's costs of administering travel. In fiscal year 2001, the Army had about 430,000 individually billed travel card accounts, and about $619 million in related travel card charges.[2] The individually billed travel card program is significantly different from the purchase card program in that cardholders are directly responsible for all charges incurred on their travel cards and the monthly bill is sent to the cardholder for payment. The cardholder is responsible for submitting a properly documented voucher and is reimbursed by the Army for all valid expenses related to official government travel. In contrast, all purchase card charges are billed directly to the government for monthly payment.

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

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

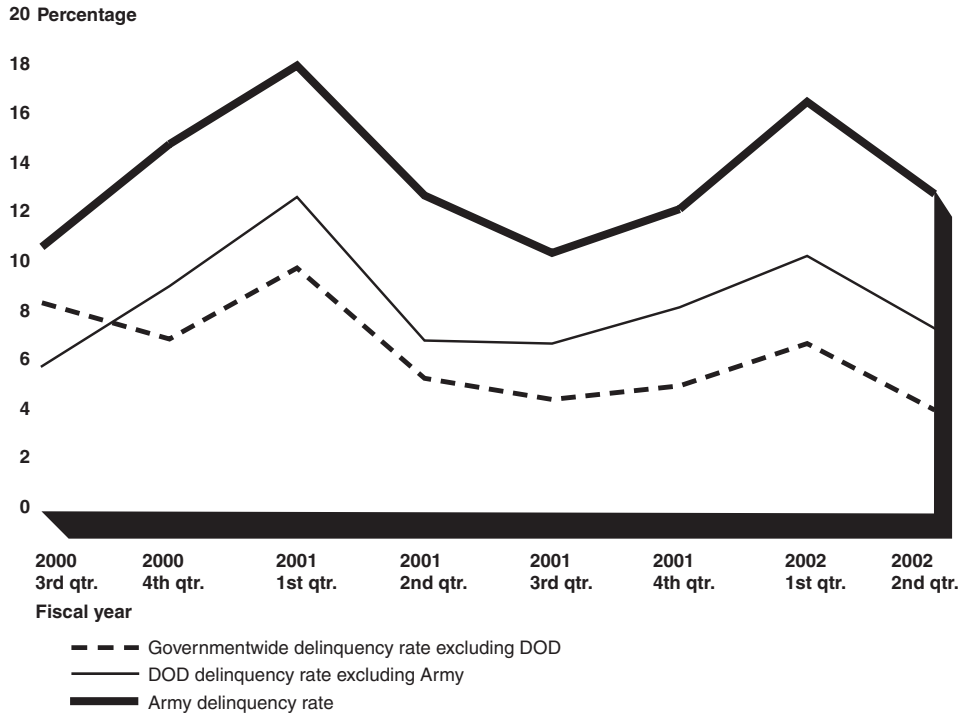
Today, I will provide my perspectives on (1) the reported magnitude and impact of delinquent and charged off Army travel card accounts for fiscal year 2001 and the first 6 months of fiscal year 2002, along with an analysis of related causes, (2) whether indications existed of potentially fraudulent and abusive activity related to the Army travel card during fiscal year 2001, (3) whether abusive activity associated with the travel card is effectively linked to disciplinary actions and security clearances, (4) the effectiveness of the overall control environment and key internal controls for the Army's travel program, and (5) the status of DOD and Army corrective actions. While our audit identified examples of potentially fraudulent and abusive travel card activity, our work was not designed to identify, and we cannot determine, the extent of potentially fraudulent and abusive activity. Appendix I provides more detailed information on our scope and methodology.

Travel Card Delinquencies and Charge-offs

Most Army cardholders properly used their travel cards and paid amounts owed to Bank of America promptly. However, we found that the Army's delinquency rate is higher than any other DOD component or executive branch agency in the federal government.[3] As shown in figure 1, for the eight quarters ending March 31, 2002, the Army's delinquency rate fluctuated from 10 to 18 percent, and on average was about 5 percent higher than the rest of DOD and 7 percent higher than federal civilian agencies. As of March 31, 2002, over 11,000 Army cardholders had $8.4 million in delinquent debt.

[3]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.

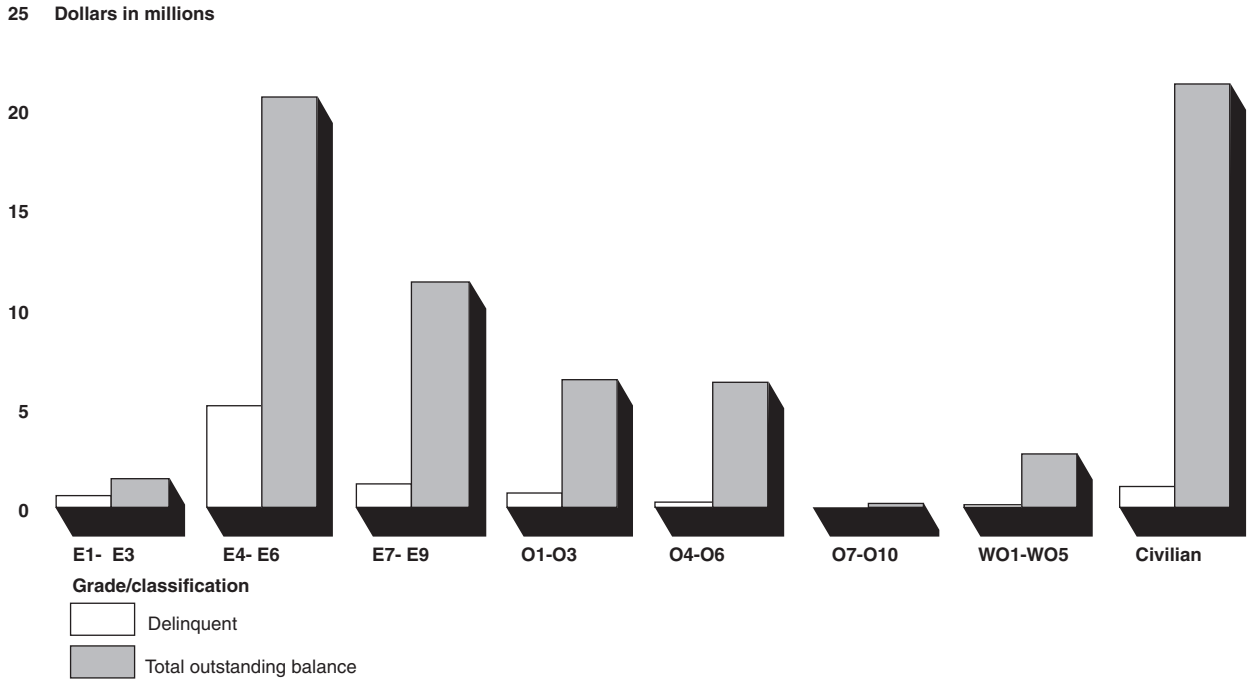
Figure 1: Army, Non-Army DOD, and Civilian Agency Travel Card Delinquency Rates for the 2-Year Period Ending March 31, 2002



Source: General Services Administration data.

We also found substantial charge-offs of Army travel card accounts. Since the inception of the travel charge card task order between DOD and Bank of America on November 30, 1998, Bank of America has charged off over 23,000 Army travel card accounts with nearly $34 million of bad debt. As shown in figure 2, the travel cardholder's grade (and associated pay) is a strong predictor of delinquency problems. We found that the Army's delinquency and charge-off problems are primarily associated with young, low- and midlevel enlisted military personnel with basic pay levels ranging from $11,000 to $26,000. A more detailed explanation of each of these grades along with their associated basic pay rates is provided in appendix II.

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



Source: GAO analysis of Bank of America data.

These delinquencies and charge-offs have cost the Army millions of dollars in lost rebates, higher fees, and substantial resources spent pursuing and collecting past-due accounts. For example, we estimated that in fiscal year 2001, delinquencies and charge-offs cost the Army $2.4 million in lost rebates, and will cost $1.4 million in increased automated teller machine (ATM) fees[4] annually.

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

Potentially Fraudulent and Abusive Travel Card Activity

Our work also identified numerous instances of potentially fraudulent[5] and abusive activity[6] related to the travel card. We found that during fiscal year 2001 at least 200 Army employees wrote three or more nonsufficient funds (NSF) or "bounced" checks to Bank of America as payment for their travel card bills—a potentially fraudulent act.[7] Appendix III provides a table summarizing 10 examples, along with more detailed descriptions, of cases in which cardholders wrote three or more NSF checks to Bank of America and had their travel card accounts subsequently charged off. For example, in one case, an Army employee from Ft. Jackson, who was convicted for writing NSF checks prior to receiving the government travel card, wrote over 86 NSF checks to Bank of America.

Further, we found instances in which cardholders abused their travel cards by using them to purchase a wide variety of personal goods or services that were unrelated to official government travel. As shown in figure 3, all government travel cards are clearly marked, "For Official Government Travel Only."

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

[6]We considered abusive travel card activity to include (1) personal use of the card—any use other than for official government travel—regardless of whether the cardholder paid the bill and (2) cases in which cardholders were reimbursed for official travel and then did not pay Bank of America, thus benefiting personally.

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

Figure 3: Federal Travel Card

In addition, upon receipt of their travel cards, all Army cardholders are required to sign a statement of understanding that the card is to be used only for authorized official government travel expenses. However, as part of our statistical sampling results at the four sites we audited, we estimated that personal use of the government travel card ranged from 15 percent of fiscal year 2001 transactions at one site to 45 percent at another site. Government travel cards were used to pay for such diverse goods and services as dating and escort services; casino and Internet gambling; cruises; tickets to musical and sporting events; personal clothing; closing costs on a home purchase; and, in one case, the purchase of a used automobile. For example, we were able to determine that, during fiscal year 2001, approximately $45,000 was spent Army-wide to purchase cruise packages or to pay for a variety of activities or services on cruise ships. We found that charged-off accounts included both those of (1) cardholders who were reimbursed by the Army for official travel expenses but failed to pay Bank of America for the related charges, thus pocketing the reimbursements, and (2) cardholders who used their travel cards for personal purchases for which they did not pay Bank of America. Appendix IV provides a summary table and supporting narrative describing examples of both types of abusive travel card activity.

As detailed in appendix V, we also found instances in which cardholders used their travel cards for personal purposes, but paid their travel card bills when they became due. For example, we found that a Lieutenant Colonel used his travel card to purchase accommodations and tickets to attend the

Tournament of Roses in Pasadena, California. These cardholders benefited by, in effect, getting interest-free loans. Personal use of the cards increases the risk of charge-offs related to abusive purchases, which are costly to the government and the taxpayer.

We also found several instances of abusive travel card activity where Army cardholders used their cards at questionable 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" for a 10 percent fee. For instance, a cardholder may charge $330 to the government travel card at one of these clubs and receive $300 in cash. Subsequently, the club receives payment from Bank of America for a $330 restaurant charge. For fiscal year 2001, we identified about 200 individuals who charged almost $38,000 at these establishments. For example, we found that 1 cardholder obtained more than $5,000 in cash from these establishments.

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

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

In addition, we found that 40 of 105 travel cardholders we examined that had their accounts charged-off still had active secret or top-secret clearances as of the beginning of May 2002. Some of the Army personnel holding security clearances who have had difficulty paying their travel card bills may present security risks to the Army. Army regulations provide that an individual's finances are one of the key factors to be considered in whether an individual should continue to be entrusted with a secret or top-secret clearance. However, we found that Army security officials were unaware of these financial issues and consequently could not consider

their potential effect on whether these individuals should continue to receive security clearances.

Key Internal Control Breakdowns

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

At the four units we audited, we found management was focused primarily on delinquencies and often only after severe problems were discovered and major commands began demanding improved performance in reducing the amount of such delinquencies. There were few indications that management placed any emphasis on controls designed to prevent or provide for early detection of travel card misuse. In addition, we identified two key overall control environment weaknesses: (1) the lack of clear, sufficiently detailed policies and procedures and (2) limited travel card audit and program oversight. First, the units we audited used DOD's travel management regulations (*DOD Financial Management Regulation*, volume 9, chapter 3) as the primary source of policy guidance for management of Army's travel card program. However, in many areas, the existing guidance was not sufficiently detailed to provide clear, consistent travel management procedures to be followed across all Army units. Second, as recognized in the DOD Inspector General's March 2002 summary report[8] on the DOD travel card program, "[b]ecause of its dollar magnitude and mandated use, the DOD travel card program remains an area needing continued emphasis, oversight, and improvement. Independent internal audits should continue to be an integral component of management controls." However, the DOD Inspector General report noted that only two internal review reports were issued from fiscal year 1999 through fiscal year 2001 concerning the Army's travel card program.

We found that this overall weak control environment contributed to design flaws and weaknesses in a number of management control areas needed for an effective travel card program. For example, many problems we

[8]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).

identified were the result of ineffective controls over issuance of travel cards. Although DOD's policy allows denial of travel cards for certain groups or individuals with poor credit histories, we found that, without exception, the Army processed all travel card applications it received, regardless of an applicant's credit history. For the cases we reviewed, we found a significant correlation between travel card fraud, abuse, and delinquencies and individuals with substantial credit history problems. The prior and current credit problems we identified for Army travel cardholders included charged-off credit card and automobile loans, defaulted and foreclosed mortgages, bankruptcies, and convictions for writing NSF checks.

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

Table 1 summarizes our statistical tests of four key control activities related to basic travel transaction and voucher processing at four Army locations.

Table 1: Results of Testing of Key Internal Controls

	Percentage of failure			
Army unit	Travel orders are approved prior to travel	Travel voucher reimburse-ments are accurate	Travel vouchers are submitted within 5 days of travel completion	Travel vouchers are paid within 30 days of submission
Ft. Drum, Forces Command	0	10	22	5
Ft. Bragg, Special Operations	3	7	30	7
Ft. Bragg, Forces Command	6	19	39	8
California National Guard	1	42	28	61

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

Source: GAO analysis.

Substantial delays in travel voucher reimbursements to cardholders can have a significant impact on high delinquency rates. For example, such delays at the California National Guard contributed to the high delinquency rate for that unit. We found a substantial number of California National Guard employees and several employees at other units audited who may have been due payments for late fees because their reimbursements were late.[9] We also found errors in travel voucher processing that resulted in both overpayment and underpayment of the amounts that cardholders should have received for their official travel expenses.

[9]The Defense Finance and Accounting Service does not have the systems in place to identify late payments and thus reported that it made no late fee payments for fiscal year 2001.

Corrective Actions

DOD has taken a number of actions focused on reducing delinquencies. In October 2000, the Vice Chief of Staff of the Army issued a directive to cut the Army's delinquencies by 50 percent by the end of March 2001. Further, the Vice Chief of Staff established a goal of a delinquency rate of no more than 4 percent[10] of active cardholders as soon as possible and ordered commanders throughout the Army to provide additional attention to the government travel card program. Beginning in November 2001, DOD began a salary and military retirement offset program—similar to garnishment. As a result of these actions, Army experienced a significant drop in charged-off accounts in the first half of fiscal year 2002. In addition, DOD has encouraged cardholders to make greater use of split pay disbursements. This payment method, by which cardholders elect to have all or part of their reimbursement sent directly to Bank of America, has the potential to significantly reduce delinquencies. Split disbursements are a standard practice of many private sector companies. DOD reported that for about 27 percent of the travel vouchers paid in April 2002 at one of its major disbursing centers, cardholders elected this payment option.

Further, the DOD Comptroller created a DOD Charge Card Task Force to address management issues related to DOD's purchase and travel card programs. We met with the task force in June and provided our perspectives on both programs. The task force issued its final report on June 27, 2002. However, we have not yet had an opportunity to review the report's findings in detail. To date, many of the actions that DOD has taken primarily address the symptoms or "back-end" result of delinquency and charge-offs after they have already occurred. We are encouraged by the DOD Comptroller's recent announcement concerning the deactivation of all travel cards of cardholders who have not been on official government travel within the last 6 months. Actions to implement additional "front-end" or preventive controls will be critical if DOD is to effectively address the high delinquency rates and charge-offs, as well as potentially fraudulent and abusive activity, discussed in this testimony.

To that end, we will be issuing a related report in this area with specific recommendations, including a number of preventive actions that, if effectively implemented, should substantially reduce delinquencies and

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

potentially fraudulent and abusive activity related to the travel cards. For example, we plan to include recommendations that will address actions needed in the areas of exempting individuals with a history of financial problems from the requirement to use a travel card; providing sufficient infrastructure to effectively manage and provide day-to-day monitoring of travel card activity related to the program; deactivating cards when employees are not on official travel; moving towards mandating use of split disbursements; providing strong, consistent disciplinary action to employees who commit fraud or abuse the travel cards; and ensuring that information on any financial problems related to the travel cards of any cardholders with secret or top-secret security clearances is provided to appropriate security officials to consider in determining whether such clearances should be suspended or revoked.

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

Contacts and Acknowledgments

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Scope and Methodology

We used as our primary criteria applicable laws and regulations, including the Travel and Transportation Reform Act of 1998 (Public Law 105-264),[11] the General Services Administration's (GSA) *Federal Travel Regulation*,[12] 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*;[13] and our *Guide to Evaluating and Testing Controls Over Sensitive Payments*.[14] To assess the management control environment, we applied the fundamental concepts and standards in the GAO 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 Army's delinquency and charge-off rates to other DOD services and the other executive branch agencies in the federal government. We also analyzed the trends in the delinquency and charge-off data from fiscal year 2000 through the first half of fiscal year 2002.

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

[11]Travel and Transportation Reform Act of 1998 (Public Law 105-264, October 19, 1998) includes requirements that, unless specifically exempted, (1) call for federal employees to use federal travel cards for paying all expenses of official government travel, (2) provide that and employee be reimbursed within 30 days of submitting a proper voucher, and (3) allow for offsetting an employee's pay with undisputed travel card charge delinquencies for an amount up to 15 percent of the amount of the employee's disposable pay for a pay period.

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

[13]Our *Standards for Internal Control in Federal Government* (GAO/AIMD-00-21.3.1, November 2000) was prepared to fulfill our statutory requirement under the Federal Managers' Financial Integrity Act to issue standards that provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

[14]Our *Guide to Evaluating and Testing Controls Over Sensitive Payments* (GAO/AFMD-8.1.2, May 1993) provides a framework for evaluating and testing the effectiveness of internal controls that have been established in various sensitive payment areas.

determine, the extent of any potentially fraudulent or abusive activity related to the travel cards.

To assess the overall control environment for the travel card program at the Department of the Army, we obtained an understanding of the travel process, including travel card management and oversight, by interviewing officials from the Office of the Undersecretary of Defense Comptroller, Department of the Army; Defense Finance and Accounting Service (DFAS); Bank of America; and GSA, and reviewing applicable policies and procedures and program guidance they provided. We visited four Army units to "walk through" the travel process including the management of travel card usage and delinquency. We visited the DFAS Orlando location to "walk through" the voucher review and payment process used for two of the four Army locations we tested. We also assessed actions taken to reduce the severity of travel card delinquencies and charge-offs. Further, we contacted one of the three largest U.S. credit bureaus to obtain credit history data and information on how credit scoring models are developed and used by the credit industry for credit reporting. At each of the Army 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 preparing travel vouchers, processing and approving travel vouchers, and certifying travel voucher payments.

To test the implementation of key controls over individually billed Army travel card transactions processed through the travel system—including the travel order, travel voucher, and payment processes—we obtained and used the database of fiscal year 2001 Army travel card transactions to review random samples of transactions at four Army 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 four Army units we audited. Each sampled transaction was subsequently weighted in the analysis to account statistically for all charged transactions at each of the four units, including those transactions that were not selected for review at those locations.

We selected the four Army locations for testing controls over travel card activity based on the relative size of travel card activity at the 13 Army commands and of the units under these commands, the number and percentage of delinquent accounts, and the number and percentage of accounts charged-off. We selected two units from Army's Forces Command because that command represented approximately 19 percent of travel card activity, 22 percent of the delinquent accounts, and 28 percent of accounts charged-off during fiscal year 2001 across the Army. We also selected an Army National Guard location because the Army National Guard represented 13 percent of the total travel card activity, 22 percent of the delinquent accounts, and 15 percent of charge-offs for fiscal year 2001. The Special Operations Command represents about 6 percent of Army's charge card activity, 5 percent of the delinquent accounts and 4 percent of Army travel card accounts charged-off in fiscal year 2001. Each of the units within the commands was selected because of the relative size of the unit within the respective command. Table 2 presents the sites selected and the universe of fiscal year 2001 transactions at each location.[15]

Table 2: Universe of Fiscal Year 2001 Travel Transactions at Army Units Tested

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

Note: Transactions represent charges for sales and cash advances and excludes credits and fees.

Source: GAO analysis based on Bank of America data.

[15]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 selections travel order, voucher, and payment process controls. However, we included such transactions in order to project the percentage of personal use transactions.

We performed tests on statistical samples of travel card transactions at each of the four case study sites to assess whether the system of internal control over the transactions was effective and to provide an estimate of the percentage of transactions that were not for official government travel by unit. For each transaction in our statistical sample, we assessed whether (1) there was an approved travel order prior to the trip, (2) the travel voucher payment was accurate, (3) the travel voucher was submitted within 5 days of the completion of travel, and (4) the travel voucher was paid within 30 days of the submission of an approved voucher. We considered transactions not related to authorized travel to be abusive 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,[16] 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 Army cardholders.

Table 3 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).

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

Table 3: Estimate of Fiscal Year 2001 Transactions That Failed Control Tests for Approved Travel

	Approved travel order	
Army unit tested	**Number of failed transactions**	**Estimated failure rate (95% confidence interval)**
Forces Command Fort Bragg	6 of 96	6.2% (2.3%, 13.1%)
Forces Command Fort Drum	0 of 96	0% (0%, 3.8%)
Special Operations Command, Fort Bragg	3 of 96	3.1% (0.6%, 8.9%)
California National Guard	1 of 96	1.04% (0.03%, 5.7%)

Source: GAO analysis.

Table 4 shows the results of our test for effectiveness of controls in place over the accuracy of travel voucher payments.

Table 4: Estimate of Fiscal Year 2001 Transactions That Failed Control Tests for Accurate Travel Voucher Payments

	Effective voucher review and accurate reimbursement to traveler	
Army unit tested	**Number of failed transactions**	**Estimated failure rate (95% confidence interval)**
Forces Command, Fort Bragg	18 of 96	18.8% (11.5%, 28.00%)
Forces Command, Fort Drum	10 of 96	10.4% (5.1%, 18.3%)
Special Operations Command, Fort Bragg	7 of 96	7.3% (3.0%, 14.4%)
California National Guard	18 of 43	41.9% (27.0%, 57.9%)

Source: GAO analysis.

Table 5 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 5: Estimate of Fiscal Year 2001 Transactions That Failed Control Tests for Timely Submission and Processing of Travel Vouchers

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

Source: GAO analysis.

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

We briefed DOD managers, including officials in DOD's Defense Finance and Accounting Service, and Army Managers including Assistant Secretary of the Army (Financial Management and Comptroller) officials, Army Forces Command and Special Operations Command Unit Commanders, unit-level APCs, and Army National Guard Bureau management and the California National Guard Adjutant General, and Bank of America officials on the details of our review, including our objectives, scope, and methodology and our findings and conclusions. We incorporated their comments where appropriate. With the exception of our limited review of access controls at the California National Guard, we did not review the general or application controls associated with the electronic data processing of Army travel card transactions. We conducted our audit work from December 2001 through July 2002 in accordance with generally accepted government auditing standards, and we performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency. Following this testimony,

we plan to issue a report, which will include recommendations to DOD and the Army for improving internal controls over travel card activity.

Army Personnel Grade, Rank, and Associated Basic Pay Rates

Tables 6 and 7 show the grade, rank (where relevant), and the associated basic pay rates for fiscal year 2001 for the Army's military and civilian personnel, respectively.

Table 6: Army Military Grades, Ranks, and Associated Basic Pay Rates for Fiscal Year 2001

Military grade	Military rank	Fiscal year 2001 pay
Enlisted personnel		
E-1 to E-3	Private	$11,033 to $14,449
E-4 to E-6	Corporal to staff sergeant	$17,739 to $26,253
E-7 to E-9	Platoon sergeant to sergeant major	$31,563 to $46,445
Officers[a]		
WO-1 to WO-5	Warrant officer	$29,302 to $60,152
O-1 to O-3	First lieutenant, second lieutenant, captain	$26,731 to $45,339
O-4 to O-6	Major, lieutenant colonel, colonel	$56,635 to $84,317
O-7 to O-10	General	$98,960 to $132,826

[a]Officer's rank includes warrant officers (denoted by WO) and commissioned officers (denoted by O).

Source: U.S. Army.

Table 7: Army Civilian Grades and Associated Basic Pay Rates for Fiscal Year 2001

Civilian grade	Fiscal year 2001 pay
General Schedule employees	
GS-1 to GS-3	$16,032 to $19,832
GS-4 to GS-5	$22,559 to $25,241
GS-6 to GS-8	$28,126 to $34,625
GS-9 to GS-12	$38,240 to $55,455
GS-13 to GS-15	$65,949 to $91,667
Senior Executive Service	
ES-01 to ES-05	$111,650 to $125,700

Source: Office of Personnel Management.

Nonsufficient Fund Checks Written to Bank of America

Table 8: Examples of Cases in Which Cardholders Wrote Three or More Nonsufficient Fund Checks to Bank of America and Account Subsequently Charged Off

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

Source: GAO analysis.

Eight of the ten cardholders included in table 8 had significant credit problems prior to card issuance, such as charged-off credit card accounts and automobile loans; mortgage foreclosures; bankruptcies; serious delinquencies; referrals to collection agencies for unpaid utility bills, medical fees, and department store accounts; and, in one case, prior criminal convictions for writing NSF checks. The remaining two cardholders had similar credit problems subsequent to issuance of the Bank of America travel cards. The following provides detailed information on some of these cases.

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

  Between July 1999 and November 2000, the cardholder wrote approximately 86 NSF checks—some on closed or invalid accounts—to Bank of America. Industry regulations require that an account be credited immediately upon receipt of a check. Consequently, when Bank of America posted the NSF checks, the accounts appeared to have been paid, which provided credit to the cardholder to make additional purchases. Thus, by writing successively larger NSF checks, which Bank of America credited to his travel card account, the staff sergeant was able to, in effect, successively increase his credit limit to over $35,000—a practice known as “boosting.” He used each of these successive increases in his effective credit limit to charge additional items on his travel card. Despite the 86 NSF checks and associated increases in the cumulative unpaid balance on the cardholder's government travel card account, records we obtained indicate that the

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

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

  In addition, between October 2000 and September 2001, the employee wrote four NSF checks totaling more than $7,700 to the Bank of America. The cardholder's account had an unpaid balance of $3,257 at the time it was charged off in September 2001. Shortly after our investigators contacted this cardholder, she paid her account balance in full.

  We also found that no disciplinary action has been taken against this individual. The two APCs responsible for this cardholder's account were not aware that the employee had problems with her account, much less that the account was charged-off, until contacted by our investigators. The APCs told us they had little time to devote to reviewing individual accounts because they have oversight responsibilities for over 500 cardholders assigned as a collateral duty. In addition, while, according to a Bank of America official, APCs have had access to NSF check information in its database since 2000, one of the

APCs told us she only recently received training on how to use the Bank of America's database.

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

Abusive Travel Card Activity Where Accounts Were Charged Off

Table 9: Examples of Abusive Travel Card Activity Where Accounts Were Charged Off

Cardholder	Grade	Unit	Total charged-off amount	Transactions contributing to charge-off	Credit history/problems	Documented follow-up/ disciplinary action
1[a]	GS-12	Ft. McPherson	$7,373	Used reimbursed travel money for closing costs on a house. Wrote NSF checks	Serious credit card delinquencies prior to travel card issuance; mortgage foreclosure, other charge-offs, and referrals to collection agencies since 2000	Counseled; salary offset
2[b]	E-7	West Virginia ROTC	$5,259	$4,100 to Budget-Rent-A-Car for purchase of a used automobile	Bankruptcy judgment, automobile repossession, and serious delinquencies prior to travel card issuance	Letter of reprimand. Salary offset
3	E-6	Army Forces Command	$2,278	$110 in “club” cash from Spearmint Rhino Adult Cabaret	Serious credit card and other delinquencies prior to travel card issuance	None
4	E-4	Army Reserve Command	$1,253	$500 to Cryptologic, Inc. by spouse for Internet gambling	Numerous referrals to collection agencies prior to travel card issuance	None
5	O-5	California National Guard	$5,419	Did not use reimbursement to pay travel card charges	Serious delinquencies, including delinquency on the American Express government travel card, prior to travel card issuance	Promotion to lieutenant colonel. Salary offset
6	E-8	Ft. Bragg Special Operations	$4,704	ATM withdrawals in hometown area without travel order	Serious delinquency prior to travel card issuance	Verbal counseling
7	E-4	Ft. Bragg Forces Command	$8,709	Numerous charges at Wal-Mart Supercenter	Serious delinquency prior to travel card issuance	None
8	E-3	Ft. Drum Forces Command	$1,058	Cash from Dream Girls Escort Service	None prior. Serious credit card delinquencies in 2002	None
9	E-4	Ft. Drum Forces Command	$10,029	Numerous personal charges, including casino gambling	Referral to collection agency prior to travel card issuance	None
10	E-4	Ft Drum Forces Command	$7,643	Numerous charges at local restaurants, gas stations, grocery stores, and hotels in vicinity of Ft. Drum	Referrals to collection agencies prior to travel card issuance	None

[a]Same as NSF case #4.

[b]Same as NSF case #5.

Source: GAO analysis.

The following include details of some of the example cases summarized in table 9.

- Cardholder #1 was a GS-12 employee in Army Forces Command at Ft. McPherson, Georgia. In August 2000, the cardholder used the card to pay for authorized charges associated with a permanent change of station move from Qatar to Fort McPherson. The cardholder did not elect split disbursement of his travel reimbursement between himself and Bank of America when filing travel vouchers. Thus, the entire reimbursement for travel expenses was electronically deposited in the cardholder's own checking account. The cardholder did not pay his travel card bill, but instead used the reimbursement to, among other things, pay the closing costs on the purchase of a home. The cardholder was counseled by the APC and his supervisors after his travel card account became delinquent, but no disciplinary action was taken. The cardholder is now in the salary offset program. The cardholder informed us that he was briefed, at the time of card issuance, of his responsibility to make timely payments to Bank of America in payment of expenses claimed on approved travel vouchers.

- Cardholder #2 was a sergeant first class with the West Virginia Army Reserve Officers' Training Corps. Army investigative records showed that in January 2001, the cardholder's spouse used his government travel card to make two payments of $2,050 each to Budget-Rent-A-Car for the purchase of a used automobile. In addition, several ATM withdrawals were made using the card at times when the sergeant was not on official travel status. The cardholder received a letter of reprimand and subsequently retired. In February 2002, after his account was charged off, the cardholder's account was put into the offset program and a portion of his annuity automatically withheld for repayment to Bank of America.

- Cardholder #9 was an Army specialist (E-4) at Ft. Drum and received a total of three travel card accounts. According to the cardholder, shortly after receiving his first card, he incurred over $5,000 in personal charges, including charges for casino gambling. He then notified Bank of America that his wallet, which contained his government travel card and driver's license, was stolen and that the charges on the card were not made by him and therefore were fraudulent charges. Bank of America closed this account, wrote off the amount as a fraud loss, and issued the soldier a second card. The soldier then incurred over $4,000 in personal charges for casino gambling and notified Bank of America

that this card was also lost. Bank of America closed this account and issued a third card to the soldier. The soldier incurred approximately $4,000 in personal charges on this account, including charges for casino gambling. Bank of America personnel began to question the soldier regarding the transactions made on all three accounts because the accounts showed transactions at the same casino and the signatures on the charge receipts were similar to the soldier's signature.

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

- Cardholder #10, another Army specialist (E-4) at Ft. Drum, used his government travel card to make numerous purchases of personal items totaling $2,841 over a 3-month period from May 2000 through July 2000. The personal items included 38 restaurant charges, 37 charges at gas stations, 14 charges at grocery stores, and 5 hotel charges in the vicinity of Ft. Drum. The specialist, who had received a $10,000 credit limit on his government travel card, had an unpaid balance of $7,643 as of December 11, 2000. As of April 17, 2002, the travel card was in charge-off status and the specialist no longer worked for the Army. Our review of the soldier's credit report showed that he received his government travel card from Bank of America in May 1999. Since that time the soldier opened numerous credit card and other consumer accounts with other vendors, almost all of which had unpaid balances and were in collection status or had been charged off. We found no evidence that the APC detected the soldier's personal use of the government travel

card. As a result, the Army could not take timely action to cancel or suspend the soldier's travel card account. We also found no evidence that disciplinary action was taken to address personal use of the travel card or the unpaid debt once the Army became aware of the problem.

Abusive Travel Card Activity Where Cardholders Paid the Bill

Table 10 shows cases of travel card use for personal expenses where the cardholder paid the bill.

Table 10: Examples of Abusive Activity Where the Cardholders Paid the Bill

Cardholder	Unit	Grade	Vendor	Amount	Nature of transaction	Documented disciplinary action
1	U.S. Army Element Allied Command	E-5	Celebrity Cruises	$5,192	Reservations for four on the *Millennium* cruise ship which sails to the Bahamas and Caribbean.	None
2	U.S. Army Reserve Command	O-5	Purdue University Rose Bowl Tour	$3,998	Accommodations for 2 for 4 nights during the Rose Bowl. Package included a pep rally, New Year's Eve event, and premium seats to the parade	None
3	U.S. Army Reserve Command	O-2	Louisiana Superdome	$1,395	45 tickets to the Essence Music festival on July 5, 2001	None
4	Army Corps of Engineers	GM-15[a]	Georgetown Prep Tennis Club	$826	Tennis club membership	None
5	California National Guard	E-4	GEICO	$491	Automobile insurance	None
6	Ft. Bragg Special Operations	E-7	Russell's For Men	$191	Purchases made through a toll-free number for “fine gifts for men”	None
7	Ft. Bragg Forces Command	E-5	Victoria's Secret	$172	Women's lingerie	None
8	Ft. Bragg Forces Command	E-4	1-800-CONTACTS	$80	Contacts and contact solutions	None
9	Ft. Drum Forces Command	E-5	Gateway Direct	$329	Computer equipment	None
10	Ft. Drum Forces Command	E-6	Sunshine Entertainment	$275	Personal escort service	None

[a]Equivalent to GS-15

Source: GAO analysis.