

Office of Inspector General

Audit of the Board's Government Travel Card Program



Board of Governors of the Federal Reserve System

September 2012



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

September 28, 2012

MEMORANDUM

TO: Richard Anderson
Chief Operating Officer and Director, Management Division

FROM: Andrew Patchan Jr. *Andrew Patchan Jr.*
Associate Inspector General for Audits and Attestations

SUBJECT: OIG Report: *Audit of the Board's Government Travel Card Program*

The Office of Inspector General (OIG) of the Board of Governors of the Federal Reserve System (Board) is pleased to present its report on the *Audit of the Board's Government Travel Card Program*. The Board's government travel card (GTC) program provides employees with the resources to arrange and pay for official business travel and other travel-related expenses and to receive reimbursements for authorized expenses of such travel. The Board participates in the General Services Administration SmartPay2 program and contracts for GTC services with JPMorgan Chase. For the period of our review, April 30, 2010, to April 30, 2011, cardholders made 21,921 transactions totaling approximately \$6.4 million.

In conducting our audit, we interviewed staff from the Board's Management Division and reviewed the Board's *Travel* policy, *Government Travel Card Procedures*, and other relevant documentation to gain detailed knowledge of the Board's GTC program. We also held meetings with JPMorgan personnel and utilized reports available in JPMorgan's online account management system, PaymentNet.

While we did not identify many instances of improper use, we found that the Board needs to strengthen its internal control framework over the GTC program. We found that cardholders made unauthorized transactions on their GTCs and that the Board has not blocked or flagged several merchant category codes that could potentially allow cardholders to use their GTCs for unauthorized transactions. We also found that the Travel Office did not close GTC accounts for separating cardholders in a timely manner and approved employees' requests for reimbursement for international lodging based on per-diem instead of actual expenses as required by the *Travel* policy. In addition, we found that a number of GTC cardholders had delinquent accounts and the Travel office did not retain documentation of the notifications sent to Board employees.

Our report contains four recommendations designed to help the Board improve internal controls over administering, controlling, and closing GTCs. We provided you with a copy of our report for review and comment. In your response, included as appendix 2, you stated that you concur with recommendations 1, 3, and 4. In addition, you stated that you partially concur with recommendation 2. You also discussed the actions that have been taken, are underway, or are planned to address the report's recommendations.

We appreciate the cooperation that we received from Board staff during our audit. The principal contributors to this report are listed in appendix 3. This report will be added to our public website and will be summarized in our next semiannual report to Congress. Please contact Cynthia Gray, Senior OIG Manager, at 202-973-5040 or me at 202-973-5003 if you would like to discuss this report or any related issues.

Enclosure

cc: Bill Mitchell
Jeff Peirce
Jeff Windsor

Office of Inspector General

Audit of the Board's Government Travel Card Program



Board of Governors of the Federal Reserve System

September 2012

Abbreviations

Board	Board of Governors of the Federal Reserve System
GSA	General Services Administration
GTC	Government Travel Card
JPMC	JPMorgan Chase
MCC	Merchant Category Code

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Background

The Board of Governors of the Federal Reserve System's (Board's) government travel card (GTC) program provides employees with the resources to arrange and pay for official business travel and other travel-related expenses and to receive reimbursements for authorized expenses of such travel. The Board participates in the General Services Administration (GSA) SmartPay2 program and contracts for GTC services with JPMorgan Chase (JPMC).¹ The Board authorizes JPMC to issue GTCs to Board employees and each cardholder bears full responsibility for repaying charges. According to the Board's *Travel* policy, cardholders use the GTC for official travel-related expenses, including the following: air and rail tickets, lodging, cash advances, business meals, parking, taxi fares, travel-related incidentals, rental cars, training, and conference registration fees.

For the period of our review, April 30, 2010, to April 30, 2011, Board cardholders made 21,921 transactions and charged approximately \$6.4 million to their GTCs. As of June 9, 2011, the Board had 1,617 cards issued to employees.

The Government Accountability Office and other Offices of Inspector General have reported that federal agencies have failed to implement adequate safeguards against GTC misuse. In light of these prior reports as well as the GTC program's susceptibility to waste, fraud, and abuse, we conducted this audit.

Contractual Requirements

The JPMC contract and cardholder agreement outline specific requirements pertaining to the use of the GTC. The contract and cardholder agreement state that cardholders should use their GTC to pay for official government travel and travel-related expenses only. Cardholders are fully liable for all charges to their GTCs, and cardholders are responsible for making GTC payments in full when they are due. The Board is not liable for charges to cardholders' accounts. The contract allows JPMC to use a collection agency for delinquency control on cardholders' accounts. Cardholders are bound to the terms and conditions of the agreement when they sign the application form and activate, sign, or use the card. The contract also states, "Risk mitigation controls, policies, and practices are critical tools for ensuring the efficiency and integrity of charge card programs by eliminating payment delinquencies, charge card fraud, waste, and abuse."

1. In June 2007, the GSA awarded a set of master contracts to Citibank, JPMC, and U.S. Bank to provide credit card services to government agencies. The contracts cover a four-year base period (December 21, 2007, through November 29, 2011) and two option periods (November 11, 2011, through November 29, 2015, and November 30, 2015, through November 29, 2018).

Board Policy and Procedures

The Board is not subject to the Travel and Transportation Reform Act of 1998² or the Federal Travel Regulation³ promulgated by the GSA. However, the Board has issued *Travel* policy and *Government Travel Card Procedures* that incorporate the mandatory use of GTCs by federal employees as provided in the Travel and Transportation Reform Act. The Board's policy and procedures cover aspects of the GTC program, such as issuing cards to employees, monitoring card usage for misuse and delinquency, and closing cards. The policy and procedures state that cardholders (1) must use the GTC to pay for air and rail tickets and lodging while on business travel, (2) may use the GTC to pay for other official travel-related expenses, and (3) cannot use the GTC to pay for personal expenses. In addition to defining proper and improper use of the GTC, the procedures provide guidance on applying for a GTC, submitting vouchers for reimbursement of official government travel expenses, and potential disciplinary actions administered for improper use.

Travel Office Government Travel Card Management

Under the Board's *Travel* policy and *Government Travel Card Procedures*, the manager of the Travel Office, which is part of the Board's Management Division, is responsible for administering and managing the GTC program. The responsibilities of the Travel Office include (1) reviewing and approving GTC applications prior to submission to the card issuer, (2) providing administrative training for individual GTC cardholders, (3) processing travel reimbursement claims for individual GTC cardholders, and (4) serving as liaison between the Board and the card issuer. In addition, the GTC procedures state that the Travel Office is responsible for monitoring GTC cardholders' compliance with policy requirements by performing periodic reviews to ensure that cardholders' accounts are current, that cardholders do not engage in unauthorized purchases or inappropriate activity, and that cardholders who have separated from the Board no longer have an active GTC. The Travel Office uses JPMC's online account management system, PaymentNet, to send applications to JPMC for card issuance; to generate reports to monitor cardholder account activity, such as delinquencies and declined transactions; and to close cards.

During our audit, Travel Office staff and Board employees used both a paper-based and an automated system (Travel Manager) to process travel authorizations and travel expense statements. In March 2011, the Board began its transition to a new web-based system (E2 Solutions), which integrated paperless travel authorization and vouchering, travel management center services, and financial system processing with the goal of streamlining the process. Although we have not evaluated the new system, we plan to undertake such a review in the future.

2. Travel and Transportation Reform Act of 1998, 5 U.S.C. 5701 note.

3. Federal Travel Regulation, 41 C.F.R., §§ 300-304.

Objective, Scope, and Methodology

The overall objective for this audit was to evaluate the effectiveness of the Board's controls over the GTC program. More specifically, we assessed whether controls (1) are designed and operate effectively to provide reasonable assurance that cards are properly issued, administered, and controlled; (2) act to detect and prevent unauthorized or fraudulent transactions in a timely manner; and (3) are adequate to ensure proper use of the cards in accordance with Board policy and procedures.

To accomplish our objective, we reviewed the Board's *Travel* policy, the Board's *Government Travel Card Procedures*, and other relevant documentation to gain detailed knowledge of the Board's GTC program. We assessed the program's control processes and compliance with Board policy. We interviewed Travel Office staff responsible for managing the Board's GTC program to obtain information on program operations and controls. We also held meetings with JPMC personnel, as well as the Board's Accounting Section staff, to obtain relevant information. Based on our understanding of the Board's GTC program, we developed detailed summaries of the program's processes and procedures to assess the program's controls and to assist with our fieldwork testing.

We analyzed Board records and various JPMC PaymentNet reports, which we list in appendix 1, for the period April 30, 2010, through April 30, 2011. We evaluated the adequacy and effectiveness of several controls as follows:

- We tested GTC issuance by reviewing the automated application routing process for four applications.
- We tested GTC credit and cash-advance limit increases by selecting all 10 (100 percent) credit limit increases for completeness and proper authorization. There were no cash advance limit increases.
- We tested the proper usage of GTCs by reviewing a randomly selected sample of 302 of 20,687 (approximately 2 percent) transactions from various PaymentNet reports to determine whether controls detect and prevent unauthorized or fraudulent transactions and whether cardholders properly used their GTCs in compliance with Board policy and procedures.
- We tested GTC account delinquencies by randomly selecting four months from PaymentNet's Delinquency History and Suspension-Cancellation Reports and obtaining the records for the notification e-mails sent to cardholders and/or their supervisors.
- We tested the closing of accounts for cardholders prior to their separation from the Board by selecting a random sample of 44 of 322 (approximately 14 percent) separated employees and comparing the GTC account status in PaymentNet with the Board's personnel records to determine whether accounts were closed in a timely manner.

We verified the accuracy and completeness of information by comparing travel vouchers, receipts, supporting records, and PaymentNet reports.

We began our audit in April 2011 and completed the audit fieldwork in February 2012. We performed our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Findings, Conclusions, and Recommendations

While we did not identify many instances of improper use, we found that the Board needs to strengthen its internal control framework over the GTC program. We did not find any weaknesses with the design and operating effectiveness of controls over GTC issuance or with cash advance and credit limit increases, but our audit did find that controls are not providing reasonable assurance that GTCs are properly administered, controlled, and used in accordance with Board policy and procedures. We also found that controls are not detecting or preventing unauthorized transactions. Specifically, we found the following:

- Cardholders made unauthorized transactions on their GTCs.
- The Board has not blocked or flagged several merchant category codes (MCCs) that could potentially allow cardholders to use their GTCs for unauthorized transactions.⁴
- A number of GTC cardholders had delinquent accounts, and the Travel Office did not retain documentation of the notifications sent to Board employees.⁵
- The Travel Office did not close GTC accounts for separating cardholders in a timely manner.
- The Travel Office approved employees' requests for reimbursement for international lodging based on per-diem instead of actual expenses as required by the *Travel* policy.

Our report contains four recommendations designed to help the Board improve internal controls over administering, controlling, and closing GTCs. We have discussed our observations with Travel Office management. The Travel Office responded quickly to our observations by communicating with employees found to have made unauthorized purchases and by initiating new processes, such as reviewing additional reports and retaining documentation.

4. As determined in the GSA's SmartPay2 glossary, an MCC is a four-digit code that identifies the type of business a merchant conducts (e.g., gas station, restaurant, airline). There are 1,004 MCCs. Merchants select an MCC with their bank based on their primary business. However, merchants may offer products that are unrelated to their primary business. Federal agencies may block certain codes to prevent unallowable purchases and flag others that may pose a risk of improper use.

5. An account is considered "delinquent" or "past due" if full payment is not received by the statement due date. With the exception of cash advances, interest does not accrue on outstanding account balances.

Controls Should Be Enhanced to Detect and Prevent Unauthorized Transactions

- 1. We recommend that the Director of the Management Division ensure that the Travel Office strengthens controls to detect and prevent improper use of GTCs by**
 - a. providing periodic training to employees on the proper use of GTCs**
 - b. regularly reviewing reports of attempted and charged transactions and retaining evidence of the reviews**
 - c. reviewing and updating the list of allowable and blocked MCCs**

The Board's *Travel* policy and *Government Travel Card Procedures* set forth the criteria for employees' proper use of GTC, as well as for Travel Office staff's monitoring of GTCs for improper use. The Board has implemented both "detective and preventive" controls to ensure proper use of GTCs. Specifically, the Travel Office utilizes an activity report available in PaymentNet to detect misuse of the GTC and blocks certain MCCs that could be associated with unauthorized transactions. However, during our transaction testing, we found some instances of improper use and noncompliance with Board policy and procedures. In addition, we found that certain MCCs that could be associated with improper use were neither flagged nor blocked.

Ineffective Monitoring System

According to the *Travel* policy, travelers are permitted to use the GTC for official travel-related expenses, including air and rail tickets; lodging expenses for business travel; cash advances not exceeding estimated out-of-pocket expenses; business meals; parking; taxi fares; travel-related incidentals, such as fees for hotel safes or shipping charges for work-related items used for business travel; rental cars; gas for a rental car or personal car used for business travel; training; and conference registration fees. To monitor use of GTCs, the Board's *Government Travel Card Procedures* states that the Travel Office should run a monthly report of transactions by cardholders (Unusual Activity Report) and review the report for GTC misuse. The procedures also state that when the Travel Office supervisor identifies a transaction that does not appear to be travel related, he or she should (1) send an e-mail to the cardholder identifying the date, amount, and merchant involved in the transaction, as well as requesting an explanation for the transaction, and (2) enter this information into a spreadsheet to track misuse of the GTC. In addition, the procedures state that the Travel Office may run a report of attempted transactions declined by the card issuer (Declines Report) to look for patterns of attempted misuse of the GTC.

In practice, Travel Office staff told us that they use only the Unusual Activity Report to monitor employees' use of the GTC; they do not review the Declines Report or any other reports. This practice limits the scope of Travel Office review because the Unusual Activity Report only lists charges to the two MCCs that the Board flags: 7299—Miscellaneous Personal Services (Not Elsewhere Classified) and 7298—Health and Beauty Spas. Moreover, Travel Office staff do not maintain any evidence of their reviews, such as a spreadsheet to track misuse of the GTC. We found that these procedures and controls do not fully detect or prevent unauthorized transactions.

We conducted three separate tests to determine how well controls detect or prevent unauthorized transactions. With data from the Unusual Activity Report and the Transaction Detail Report listing all transactions for cardholders, we tested 302 of the 20,687 transactions (approximately 2 percent) charged during the period of our review⁶, April 30, 2010, to April 30, 2011—44 unusual activity transactions, 170 randomly selected transactions, and 88 questionable MCC transactions.

First Test for Unauthorized Transactions

For the first test, we randomly selected and reviewed 44 of the 115 transactions labeled 7299—Miscellaneous Personal Services (Not Elsewhere Classified) on the Unusual Activity Report. Our testing determined that these transactions were allowable because most were associated with a processing fee at a hotel and others were travel and training related. The report did not list any transactions associated with 7298—Health and Beauty Spas.

Second Test for Unauthorized Transactions

For the second test, we randomly selected 170 transactions from the Transaction Detail Report and traced them back to the travel authorizations and travel vouchers. We found that 6 of the 170 transactions (approximately 4 percent) were unauthorized purchases made by five employees. Additional research into the GTC account activity of these five employees during the review period using the Cash Advance Detail by Hierarchy and the Transaction Detail Reports identified additional instances of unauthorized transactions (table 1).

The most significant unauthorized transactions were made by a single employee whose cash-advance withdrawals and related service charges, gas charges, and restaurant charges during the review period totaled \$14,858.38. This employee had not been on official travel since 2006. The other employees' instances appeared to be unauthorized transactions because they had no travel authorizations or vouchers covering the transaction dates.⁷ The Board did not reimburse employees for any of the unauthorized transactions.

6. In analyzing the Transaction Detail Report, we determined that there were approximately 20,687 charges and 1,234 refunds totaling 21,921 Individual Travel Card transactions. We selected our sample from the 20,687 charges.

7. We referred these instances of unauthorized transactions to appropriate officials for further investigation and/or action as warranted.

Table 1: Summary of Improper Use Identified during Transaction Testing

Employee	Description of Improper Use	Amount of Improper Use
1	Employee used his or her GTC for cash withdrawals, as well as gas and restaurant charges. Our testing identified two transactions totaling \$504.44. We further investigated transactions made by this employee during the scope of our review and identified an additional 66 transactions amounting to \$14,353.94; 41 were cash-advance withdrawals. The employee had no travel vouchers covering these transactions.	\$14,858.38
2	Employee used his or her GTC for a \$223.40 airline ticket. We further investigated transactions made by this employee during the scope of our review and identified 20 additional transactions (hotels, travel charges, etc.) totaling \$8,410.67. The employee had no travel vouchers covering these transactions. The employee is no longer with the Board.	8,634.07
3	Employee used his or her GTC to purchase a \$149 Amtrak ticket. We further investigated transactions made by this employee during the scope of our review and found another rail transaction and a hotel transaction amounting to \$1,647.23. The employee had no travel vouchers covering these transactions.	1,796.23
4	Employee used his or her GTC for a hotel charge of \$297.21. We further investigated transactions made by this employee during the scope of our review and did not identify any additional unauthorized transactions. The employee had no travel vouchers covering this transaction.	297.21
5	Employee used his or her GTC to rent a car for \$173.30. We further investigated transactions made by this employee during the scope of our review and identified a toll charge of \$2.75. The employee had no travel vouchers covering these transactions.	176.05

Source: OIG analysis of PaymentNet reports.

Travel Office staff were not aware of the unauthorized transactions until we brought them to their attention. After we notified the Travel Office supervisor of the unauthorized transactions, he contacted the employees who made the purchases. The employees told him either that they did not know that the GTC cannot be used for personal purchases, even while on official Board travel, or that they used the GTC inadvertently. Therefore, we believe that periodic training for employees on the proper use of the GTC could help prevent unauthorized transactions.

The Travel Office did not detect these instances of improper use due to a lack of robust monitoring. Because Travel Office staff limited their reviews to the Unusual Activity Report, which only lists transactions in the Miscellaneous Personal Services and Health and Beauty Spas MCCs, they could not have found any of the improper use identified in table 1. Travel Office staff told us that they do not review other reports because there have not been many instances of misuse. However, we believe that some instances of improper use could have been detected had Travel Office staff reviewed additional GTC activity reports.

Since bringing these matters to the attention of the Travel Office, staff have begun reviewing the Declines Report and the Cash Advance Detail by Hierarchy Report and retaining evidence of their reviews; however, we have not tested this additional monitoring. In addition, the Travel

Office posted an announcement on the Board's internal website reminding employees that the GTC cannot be used for personal expenses.

Unflagged and Unblocked Merchant Category Codes

The GSA SmartPay2 training program, Travel Basics, explains that one way agencies can mitigate fraud, waste, and abuse is to use MCC blocks to restrict transactions that can be processed on GTCs. Merchants select their MCC based on their primary business, but they may offer products that are unrelated to their primary business. To reduce misuse of the GTC, the Board blocks all transactions associated with certain MCCs at the point of sale and flags other MCCs for monitoring. We found, however, that several unauthorized transactions were processed on GTCs in one unflagged and unblocked MCC, and we believe that unauthorized GTC transactions could be processed in other unflagged and unblocked MCCs as well.

Annually, the GSA offers credit card management training to all users of the SmartPay2 contract. The training includes instruction on how agencies can control the use of GTCs by blocking transactions associated with risky MCCs. Each agency has the discretion to decide which MCCs to block, which to flag, and which to allow for GTC usage. According to reports from PaymentNet, we determined that, of the universe of 1,004 MCCs, the Board blocks 226 and allows 778; included in the 778 are the miscellaneous personal services and health and beauty spas MCCs that are flagged to appear on the Unusual Activity Report. The blocked codes have descriptions such as wire transfer and money-order services and betting and gambling merchants.

Third Test for Unauthorized Transactions

We performed a third test to determine whether controls detect or prevent unauthorized transactions. We reviewed the Board's list of 778 allowable MCCs and identified 13 with descriptions that may be particularly vulnerable to nonbusiness, personal transactions, beyond those MCCs that the Board flags or blocks (table 2). We then filtered the Transaction Detail Report for transactions associated with these codes. Our testing did not identify any transactions taking place during our review period in 6 of the MCCs, but did identify 88 transactions occurring during our review period associated with the remaining 7 codes. We used the MCC description and merchant name listed on the report to determine whether the specific merchant associated with the 88 transactions appeared to provide training or were travel related. For merchants that were not easily identifiable, we performed Internet searches and traced the merchants to travel authorizations and vouchers. We identified 4 of the 88 transactions (about 5 percent) as improper use, all of which were associated with MCC 7999.

Table 2: MCCs Identified by the OIG as Posing Risk of Improper Transactions and Number of Related Transactions

MCC Number and Description		Number of Transactions
4457	Boat Rentals and Leases	0
4468	Marinas, Marine Service and Supplies	0
6300	Insurance Sales and Underwriting	5
6760	Savings Bonds	0
7032	Sporting and Recreational Camps	0
7394	Equipment Rental and Leasing Services, Tool Rental, Furniture Rental and Appliance Rental	4
7997	Membership Clubs (Sports, Recreation, Athletic), Country Clubs, Private Golf Courses	0
7999	Recreation Services, (Includes Swimming Pools, Miniature Golf and Driving Ranges, Ski Slopes, Boat Rentals, Aircraft Rentals, and Sport and Games Instruction)	*4
8011	Doctors	0
8111	Legal Services, Attorneys	3
8398	Charitable and Social Service Organizations	36
8641	Civic, Social, and Fraternal Associations	34
8651	Political Organizations	2
Total		88

Source: OIG analysis of Board records and PaymentNet reports.

* Instances of improper use.

Transactions associated with six of these seven codes appeared to be associated with a business purpose, such as training, travel insurance, and luggage cart rentals. All transactions associated with MCCs 8111, 8398, 8641, and 8651 were associated with training; MCC 7394 transactions were associated with luggage cart rentals; and MCC 6300 transactions were associated with travel insurance. According to the Travel Office, travel insurance is a permissible expense on the GTC. We found that employees did not request reimbursement for travel insurance transactions.

For the seventh code, MCC 7999—Recreation Services (Includes Swimming Pools, Miniature Golf and Driving Ranges, Ski Slopes, Boat Rentals, Aircraft Rentals, and Sport and Games Instruction), we found that two employees each used the GTC for two unauthorized transactions. Specifically, one of the two employees used the card to purchase two museum tickets at a total cost of \$178.20 prior to combined business and personal travel.⁸ Further review of this employee’s transactions during the review period found an additional five instances of improper use. The additional five instances consisted of two additional museum tickets at a total cost of

8. We referred these instances of unauthorized transactions to Travel Office staff for any disciplinary action warranted.

\$96.20 and three train tickets at a total cost of \$892.47.⁹ The total amount of improper use for the employee was \$1,166.87. The other employee used the GTC to purchase tickets to two animal exhibits at a total of \$42.06 while on business travel. We did not identify any additional unauthorized transactions upon further review of this employee's purchases. Board officials told us that the Board did not reimburse any of these instances of improper use.

Although the majority of the transactions identified during the test appeared to be associated with a business purpose, we believe that all of the codes listed in table 2 could pose a risk of improper use of the GTC. At a minimum, management should flag these codes to appear on the Unusual Activity Report as an additional control against GTC improper use. For example, although we found that transactions associated with MCC 8651—Political Organizations were for training, we believe that management should flag this code because Board employees are not permitted to participate in political activities while on duty.

Travel Office staff explained that the list of blocked and allowable MCC codes was last reviewed under the previous contract with Bank of America and has not been updated since the change to JPMC in 2008. The Board's *Travel* policy and *Government Travel Card Procedures* do not address a periodic review of blocked, allowable, and flagged MCCs.

Management Response

Regarding recommendation 1, the Division Director stated the following:

Concur. To help reduce potential misuse, we already have posted one reminder on the Board's intranet regarding the appropriate use of GTCs and we will ensure that the reminders are posted periodically. In addition, we plan to distribute credit card sleeves to all GTC cardholders to help reduce inadvertent use by physically separating the GTC from other credit cards and making it easy to identify. We also have obtained wallet-sized pamphlets produced by the General Services Administration titled "FAQS, what to do and what not to do with the GTC" that we plan to distribute to all cardholders. . . .

In February of this year we began monthly reviews of the Declines Report and the Cash Advance Detail Report. We are retaining documentation of all reviews (including any unusual activity) as well as documentation substantiating communications with employees regarding such use. . . .

Finally, we agree that a review of MCCs to identify those that should be blocked or flagged for inclusion in the Unusual Activity Report is prudent, and we have completed that review. . . . [W]e

9. The Board's *Travel* policy states that in an instance of combined business and personal travel, the traveler may use the GTC for the combined hotel and meal charges, but the traveler should attempt to separate air/rail charges into business and personal amounts. Travelers should only use the GTC for the business portion.

will establish a process to periodically (e.g., annually) review the list of allowable codes.

See appendix 2 for additional management comments related to this recommendation.

OIG Comment

In our opinion, the actions described by the Division Director are responsive to our recommendation, and we plan to follow up on the Division's actions to ensure that the recommendation is fully addressed.

Controls Should Be Enhanced to Provide Reasonable Assurance That Government Travel Cards Are Properly Administered and Controlled

- 2. We recommend that the Director of the Management Division ensure that the Travel Office**
 - a. strengthens controls over GTC delinquencies by notifying a delinquent employee's supervisor before his or her GTC is suspended**
 - b. retains evidence of its delinquency reports and notifications**

The cardholder is responsible for submitting vouchers for reimbursement of official travel expenses and for making GTC payments in full when they are due. Payment delinquencies can impact the integrity of the GTC program. The GSA's SmartPay2 master contract states that it is in the best interest of the government to proactively monitor delinquency, including providing early notification of delinquency. The Board's *Government Travel Card Procedures* requires Travel Office staff to notify cardholders when a GTC is at risk of suspension, suspended, or canceled due to delinquency. However, the procedures do not require Travel Office staff to notify a delinquent cardholder's supervisor until the GTC is suspended or canceled. During our testing, we identified numerous GTC accounts that were delinquent and some that were suspended or canceled. In addition, we found that the Travel Office staff did not properly document and retain evidence of their delinquency reports and notifications for cards that were delinquent, suspended, or canceled.

The Board's *Government Travel Card Procedures* states that travelers should submit a travel voucher within 5 business days after the completion of a trip, and the Travel Office should reimburse travelers within 10 business days of receiving a properly completed travel voucher. The procedures also state that each month, the Travel Office should review the 45-Day Report showing cardholder accounts that are 1–30 days past due and at risk of suspension (pre-suspension stage). The procedures also specify that the Travel Office should then send each cardholder listed on the report a notification that his or her account is past due and at risk of suspension. In addition, on a monthly basis, the Travel Office supervisor should review the Delinquencies with Current Balance Report and identify cardholders whose accounts have been suspended or canceled.¹⁰ The Travel Office supervisor should send notifications to cardholders

10. When a cardholder's account is 61 days past the statement date, the card issuer can suspend the account and, when it is more than 126 days past the statement date, the card issuer may close the account.

and their supervisors and/or staff assistants for accounts that have been suspended due to delinquency. When an account has been canceled because of nonpayment, the Travel Office supervisor should send a notification to the employee's division director. We believe that Travel Office staff should also send a notification to a cardholder's supervisor at the GTC pre-suspension stage as a further risk-mitigation control.

During our testing, we were unable to use the Delinquencies with Current Balance Report or the 45-Day Report that are used by the Travel Office because the office did not retain these reports and they could not be recreated. We tested accounts using data from the Delinquency History and the Suspension-Cancellation Reports, which show accounts that are delinquent and the number of days that accounts are delinquent. The Delinquency History Report, which listed delinquencies from August 2010 through April 2011, indicated that 376 of the 1,617 accounts (approximately 23 percent) were delinquent at some point, most of which (368 accounts) were 1–30 days past due. For our review period, the Suspension-Cancellation Report indicated that 6 accounts were suspended and 2 accounts were canceled. For our testing of accounts at the pre-suspension stage, we randomly selected four months and determined that there were 226 accounts at the pre-suspension stage during that time frame. Because there were only 8 accounts that were suspended or cancelled during that time frame, we tested all of the accounts rather than selecting a sample.

For 226 of the 368 cardholders at the pre-suspension stage, we requested that Travel Office staff provide evidence of the notifications sent to cardholders. For the 8 cardholders at the suspended or canceled stage, we requested that Travel Office staff provide evidence of the notifications sent to the cardholders, their supervisors and, for canceled accounts, their division directors. Travel Office staff told us that they sent notifications to the appropriate personnel or verified that cardholders had a pending travel voucher that would settle the outstanding balance. Travel Office staff did not, however, retain evidence of their reviews; specifically, they could neither provide us copies of the notifications nor identify the accounts that had pending travel vouchers.

Since we brought these matters to management's attention, Travel Office staff have begun retaining evidence of their reports and notifications. We have not tested this new process.

Management Response

Regarding recommendation 2, the Division Director stated the following:

Concur in part. We do not agree that the first part of your recommendation (i.e., notifying an employee's supervisor that his or her GTC is in the pre-suspension stage) would significantly mitigate risks to the Board or the program. . . . We are concerned that notifying an employee's supervisor could create unintended consequences, particularly if the delinquency period is de minimis.

Rather than implement a new supervisory notification process, we note that the Board's travel system has an automatic reminder feature that periodically sends emails to employees after their

return from travel reminding them to complete their voucher and claim reimbursement (which can be paid directly to their GTC account). We have changed the settings from sending the first reminder after 10 days and subsequent reminders every 30 days thereafter, to sending the first reminder after 10 days and subsequent reminders every 15 days. . . .

Regarding the second part of your recommendation, we concur and have already begun centrally retaining the notifications to employees and supervisors when an employee's GTC reaches the pre-suspension, suspension, or cancellation stage.

See appendix 2 for additional management comments related to this recommendation.

OIG Comment

In our opinion, the actions described by the Division Director are responsive to our recommendation. We believe that an automatic email reminder at both 10 and every 15 day intervals will act to decrease employees' GTC delinquencies, and thus meet the intent of our recommendation. We plan to follow up on the Division's actions to ensure that the recommendation is fully addressed.

- 3. We recommend that the Director of the Management Division ensure that the Travel Office improve controls over closing GTCs for separating employees by**
 - a. ensuring supervisory review of all separating employees**
 - b. retaining evidence of employee-separation reviews**

The Board's *Government Travel Card Procedures* requires Travel Office staff to close GTCs for separating Board employees. During our testing, we found that (1) several GTCs were still active after employees separated from the Board and (2) Travel Office staff did not document and retain evidence of their employee-separation reviews.

The Board's *Government Travel Card Procedures* states that every Monday, the Travel Office receives a Transfer and Separation Report, also known as a Termination Report, from the Management Division's Administrative System Automation Program Group. The report lists employees who will be separating from the Board in the following one week, two weeks, and one month. The report also shows employees who separated the previous week. Travel Office staff are required to use the report to identify and close GTCs for employees who will be separating from the Board in the following two weeks, as well as to verify that GTCs for employees who separated from the Board the previous week are closed. However, we found that Travel Office staff's separation reviews did not result in the timely closure of individual GTC accounts for all separated Board employees, and staff did not document and retain evidence of their separation reviews.

We analyzed the Board's Termination Report and identified 322 employees who had separated from the Board from April 30, 2010, through April 30, 2011. We randomly selected 44 of the

322 employees (approximately 14 percent) and traced them to the JPMC Cardholder Profile Report to determine whether they were GTC cardholders. Of these 44 employees, 27 (approximately 61 percent) were individual GTC cardholders. We found that accounts for 23 of the 27 employees (approximately 85 percent) were closed after the cardholder separated from the Board; the average number of days from separation to closure was 7 and the greatest number of days was 31. The remaining 4 accounts (approximately 15 percent) were still open. These cards remained open from 142 to 412 days after the employees separated from the Board.

When we brought these four accounts to the attention of the Travel Office in September, staff closed the cards the same week. Although individuals with active GTCs after separation could potentially use their cards for personal use, we did not identify any improper activity in any of these accounts after the employees had separated from the Board.

Travel Office staff attributed the delays in canceling cards to the way the process was being performed. The Travel Office supervisor selected a sample of separated employees from the Termination Report and verified that the cards for these employees were closed in PaymentNet, instead of reviewing the records for all separated employees.

We believe that management should periodically remind Travel Office staff about the importance of closing accounts in a timely manner and expand the supervisory review process to cover all separating employees. We also believe that documenting and retaining evidence of reviews assures management that a complete and thorough review was performed. At the time of our testing, Travel Office staff stated that because they had the capability to recreate the Termination Report if needed, they did not retain evidence of their review. Without evidence of separation reviews, management cannot be assured that controls are in place and operating effectively. Since we brought these matters to management's attention, Travel Office staff have begun retaining evidence of their reviews. We have not tested this new process.

Management Response

Regarding recommendation 3, the Division Director stated the following:

Concur. As indicated in your report, we already have implemented these changes.

OIG Comment

In our opinion, the actions described by the Division Director are responsive to our recommendation, and we plan to follow up on the Division's actions to ensure that the recommendation is fully addressed.

4. **We recommend that the Director of the Management Division ensure that Travel Office staff and employees**
 - a. **comply with Board policy on reimbursement for international lodging costs**
 - b. **receive periodic training on Board policy on reimbursement for international travel**

The *Travel* policy states, “The Board reimburses actual lodging costs.” We found, however, instances in which employees received reimbursement for international lodging expenses at the per-diem rate, which exceeded actual costs. The policy does not mention any exceptions for the reimbursement of international hotel stays, and the Board does not have a separate policy to cover international travel.

During our testing of the reimbursement process, we selected a random sample of 110 vouchers to test for compliance with Board policy. We determined that 15 of the 110 vouchers (approximately 14 percent) included expenses for international travel. Of these 15 vouchers, 3 (20 percent) were reimbursed at the per-diem rate rather than for actual costs, resulting in a combined overpayment of \$1,696.47. The actual costs for these 3 vouchers totaled \$2,535.53, but the total reimbursement amount for all 3 was nearly 67 percent higher, at \$4,232.00.

According to Travel Office staff, they believed that employees could request and receive reimbursement for international hotel stays at either per-diem rates or actual cost. As a result, Travel Office staff approved payments for vouchers with incorrect amounts. We believe that employees and Travel Office staff should receive periodic training on travel reimbursement requirements to ensure compliance with the *Travel* policy.

Management Response

Regarding recommendation 4, the Division Director stated the following:

Concur. We have reviewed our processes for reimbursing international travel expenses and discussed the policy’s requirements with the Travel Office staff. We will incorporate periodic reminders as part of future staff training activities to ensure compliance with the policy.

OIG Comment

In our opinion, the actions described by the Division Director are responsive to our recommendation, and we plan to follow up on the Division’s actions to ensure that the recommendation is fully addressed.

Appendixes

Appendix 1—List of JPMorgan Chase PaymentNet Reports

Title of Report	Description of Report	Can Report Be Recreated?
Cardholder Profile Report	Can be used to determine which Board employees are GTC cardholders. The report shows cardholder information.	No
Cash Advance Detail by Hierarchy Report	Can be used to analyze cash-advance transactions of cardholders.	Yes
Declines Report	Can be used to monitor the occurrences of cardholders' GTC transactions being declined and the reasons for the declines.	Yes
Delinquency History Report	Can be used to monitor the number of times a cardholder has been past due in paying his or her card balance. The report provides delinquency information over a rolling 12-month period; however, it can be filtered on statement date to adjust the delinquency history displayed.	No
Delinquencies with Current Balance Report	Can be used to monitor past-due accounts by cardholder. Subtotals are provided as well as grand totals for the entire report.	No
45-Day Report	Can be used to monitor delinquencies; the report identifies accounts that are 1–30 days past due or 31–60 days past statement date.	No
Suspension-Cancellation Report	Can be used to identify accounts that have been suspended (includes temporary suspension) or closed.	Yes
Transaction Detail Report	Can be used to monitor the purchases for each account. Transactions as well as line items are included; payments are excluded from this report. Subtotals are provided for each account as well as grand totals for the entire report.	Yes
Unusual Activity Report	Can be used to monitor unusual transaction activity and determine whether the transactions are business related. Subtotals are provided for each merchant category as well as grand totals for the entire report.	Yes

Source: OIG analysis.

Appendix 2—Division Director’s Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
MANAGEMENT DIVISION

DATE: October 1, 2012
TO: Andrew Patchan, Jr.
FROM: Richard A. Anderson /signed/
SUBJECT: Response to the OIG’s Audit of the Board’s Government Travel Card Program

We appreciate the opportunity to comment on the draft report of the OIG’s audit of the Board’s government travel card (GTC) program. We are pleased that the audit did not find any weaknesses with the design and operating effectiveness of controls over GTC issuance or with cash advance and credit limit increases, and that you did not identify any fraud tied to usage of the travel cards. Although the audit identified instances of improper card usage, we believe our processes have been effective in ensuring that the Board does not reimburse employees for such charges. In general, we concur with most of the process improvements included in your recommendations and, as noted in the report, we implemented many of the recommendations earlier this year. The following comments provide additional perspective on the recommendations and management’s planned or completed actions to further enhance our processes and related controls.

OIG Recommendation 1:

We recommend that the Director of the Management Division ensure that the Travel Office strengthens controls to detect and prevent improper use of GTCs by

- a) providing periodic training to employees on the proper use of GTCs**
- b) regularly reviewing reports of attempted and charged transactions and retaining evidence of the reviews**
- c) reviewing and updating the list of allowable and blocked MCCs**

Concur. To help reduce potential misuse, we already have posted one reminder on the Board’s intranet regarding the appropriate use of GTCs and we will ensure that the reminders are posted periodically. In addition, we plan to distribute credit card sleeves to all GTC cardholders to help reduce inadvertent use by physically separating the GTC from other credit cards and making it easy to identify. We also have obtained wallet-sized pamphlets produced by the General Services Administration titled “FAQS, what to do and what not to do with the GTC” that we plan to distribute to all cardholders. While it is impossible to prevent employees from inadvertently selecting the GTC when paying for a non-Board travel expense, these additional measures should help minimize improper use.

In February of this year we began monthly reviews of the Declines Report and the Cash Advance Detail Report. We are retaining documentation of all reviews (including any unusual activity) as well as documentation substantiating communications with employees regarding such use. While we have implemented these reviews, we note that the additional controls are detective, as opposed to preventive, and would have detected only the first instance of improper use listed in Table 1 of your report. We have not identified a cost-effective mechanism to detect all improper transactions, short of a manual review and mapping of every charge card transaction to an approved travel authorization. We will, however, continue to look for additional opportunities to strengthen our detective processes. As noted above, we believe that our controls are effective to ensure the Board does not reimburse employees for improper charges.

Finally, we agree that a review of MCCs to identify those that should be blocked or flagged for inclusion in the Unusual Activity Report is prudent, and we have completed that review. We note that the list of codes does not change frequently, and have been informed by our credit card vendor that, other than codes for specific airlines or hotel chains (which we would include for use), no MCCs have been added or changed since our last review in 2008. Indeed, the vendor informed us that when new codes are added they default to non-enabled status for our GTC users. In order for a Board GTC holder to use the card at a merchant using a new MCC, the Board has to affirmatively add the code to the list. This process mitigates the potential for misuse by ensuring that a new code is blocked automatically. Nevertheless, we will establish a process to periodically (e.g., annually) review the list of allowable codes.

OIG Recommendation 2:

We recommend that the Director of the Management Division ensure that the Travel Office

- a) strengthens controls over GTC delinquencies by notifying a delinquent employee's supervisor before his or her GTC is suspended**
- b) retains evidence of its delinquency reports and notifications**

Concur in part. We do not agree that the first part of your recommendation (i.e., notifying an employee's supervisor that his or her GTC is in the pre-suspension stage) would significantly mitigate risks to the Board or the program. As noted in your report, very few employees' accounts actually reached the suspension or cancelation stage. We believe that our current process of notifying employees at the pre-suspension stage is sufficient to ensure that the vast majority of users do not reach the suspension or cancelation stage. We are concerned that notifying an employee's supervisor could create unintended consequences, particularly if the delinquency period is de minimis.

Rather than implement a new supervisory notification process, we note that the Board's travel system has an automatic reminder feature that periodically sends emails to employees after their return from travel reminding them to complete their voucher and claim reimbursement (which can be paid directly to their GTC account). We have changed the settings from sending the first reminder after 10 days and subsequent reminders every 30 days thereafter, to sending the first reminder after 10 days and subsequent reminders every 15 days. We believe this change will help to encourage employees to file their claims for reimbursement and to ensure that their GTCs are paid on time.

Regarding the second part of your recommendation, we concur and have already begun centrally retaining the notifications to employees and supervisors when an employee's GTC reaches the pre-suspension, suspension, or cancellation stage.

OIG Recommendation 3:

We recommend that the Director of the Management Division ensure that the Travel Office improve controls over closing GTCs for separating employees by

- a) ensuring supervisory review of all separating employees**
- b) retaining evidence of employee-separation reviews**

Concur. As indicated in your report, we already have implemented these changes.

OIG Recommendation 4:

We recommend that the Director of the Management Division ensure that the Travel Office staff and employees

- a) comply with Board policy on reimbursement for international lodging costs**
- b) receive periodic training on Board policy for reimbursement of international travel**

Concur. We have reviewed our processes for reimbursing international travel expenses and discussed the policy's requirements with the Travel Office staff. We will incorporate periodic reminders as part of future staff training activities to ensure compliance with the policy.

Appendix 3—List of Principal Contributors to This Report

Jennifer Rosholt-High, Project Lead and Auditor

Eric Barndt, Auditor

Amanda Sundstrom, Auditor

Cynthia Gray, Senior Office of Inspector General Manager