



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

MEMORANDUM

DATE: September 11, 2019

TO: Ricardo A. Aguilera
Chief Financial Officer
Board of Governors of the Federal Reserve System

FROM: Peter Sheridan *Peter Sheridan*
Associate Inspector General for Information Technology

SUBJECT: OIG Report 2019-IT-B-010: *Forensic Evaluation of the Board’s Government Travel Card Program*

Executive Summary

We are issuing this memorandum to highlight observations identified during our forensic evaluation of the Board of Governors of the Federal Reserve System’s (Board) government travel card (GTC) program. Our objective was to identify potentially illegal, improper, or erroneous uses of GTCs. The evaluation consisted of reviewing and analyzing Board GTC transactions and related travel, leave, and employee data (hereafter, *travel program data*) from October 1, 2017, through September 30, 2018 (fiscal year [FY] 2018).

Overall, we did not find significant indicators of systemic fraud or illegal, improper, or erroneous use of GTCs. Based on the results of a series of 15 algorithms run on FY 2018 travel program data, we conducted follow-up tests to determine whether there were exceptions to (meaning, indications of noncompliance with) the Board’s *Travel Policy* and *Government Travel Card Procedures*. This memorandum includes observations based on six tests that resulted in exceptions. We are not issuing formal recommendations in this memorandum.

Background

The Board’s GTC program provides employees with resources to arrange and pay for official travel and training-related expenses and to receive reimbursements for these authorized expenses. Through participation in the U.S. General Services Administration’s (GSA) SmartPay program for government employees, the Board provides an individually billed charge card to each employee. The Board has issued the *Travel Policy* and the *Government Travel Card Procedures*, which outline the requirements regarding the use of the GTC and detail the requirements of the travel program.

During FY 2018, 1,814 cardholders made 26,293 transactions on their GTCs totaling \$9,391,146.00. For the same period, the Board reimbursed employees \$14,563,228.00 for travel-related expenses based on 9,877 closed vouchers.¹

The Board's Travel Policy and Government Travel Card Procedures

Under the Board's *Travel Policy* and *Government Travel Card Procedures*, the manager of the Travel section, which is part of the Board's Division of Financial Management, is responsible for administering and managing the Board's GTC program. The *Government Travel Card Procedures* state that the Travel section is responsible for monitoring GTC cardholders' compliance with policy requirements by performing periodic reviews to ensure that cardholders' accounts are current and that cardholders do not make unauthorized purchases or engage in inappropriate activity.

According to the *Travel Policy*, cardholders must comply with applicable federal regulations and relevant Board policies and guidance. The *Travel Policy* and the *Government Travel Card Procedures* state that cardholders (1) must use the GTC to pay for air and rail tickets and may also use the GTC to pay for lodging while on business travel, (2) may use the GTC to pay for other official travel-related expenses, and (3) must not use the GTC to pay for personal expenses. In addition to defining proper and improper use of the GTC, the procedures provide guidance on submitting vouchers for reimbursement of official travel expenses and potential disciplinary actions for improper use.

The *Travel Policy* also prescribes specific guidance related to tax exemptions for lodging, allowable reimbursements for international travel, combining personal leave with business travel, and unauthorized use of the GTC. In addition, the *Government Travel Card Procedures* state that cardholders are fully responsible for all charges to their GTCs and for making GTC payments in full when they are due.

The Board will not reimburse employees for charges associated with unauthorized use of the GTC. In addition, it will only reimburse cardholders for amounts up to the established government rate for air or rail fare and hotel charges. Finally, the Board will not reimburse travelers for state tax charges if a state tax exemption applies.²

Information Systems Used by the Board's Travel Program

The Board uses the web-based E2 Solutions system, which integrates paperless travel authorizations and vouchering, travel management center services, and financial system processing. We obtained E2 Solutions data to test closed vouchers for employee travel that occurred during FY 2018.

Cardholders and program officials use the J.P. Morgan Chase PaymentNet electronic credit card management system to review transactions, and program officials use the system to run reports for

¹ The reimbursement total is higher than the GTC total because employees are reimbursed for some travel expenses that are not charged to their GTC, such as parking and per diem.

² Federal government travelers may be exempt from state taxes in select states. State tax exemption forms, official business travel documentation, or federal government identification may be required to receive state tax exemption.

program administration. We obtained J.P. Morgan Chase PaymentNet data to evaluate all charges incurred by cardholders during FY 2018.

The Board uses PeopleSoft, an Oracle system, to manage human resource records, such as hiring and separation information. PeopleSoft also stores time and attendance data, such as leave records. We obtained FY 2018 PeopleSoft data to determine the status of employees (active or separated) and to examine leave records.

Objective, Scope, and Methodology

Our overall objective was to identify potentially illegal, improper, or erroneous uses of GTCs. To accomplish our objective, we reviewed and analyzed the Board's travel program data from October 1, 2017, through September 30, 2018.

We independently extracted travel reimbursement data, travel card transaction data, and personnel separation data from Board systems, and we observed the Board's extraction of leave data from PeopleSoft. We obtained and reviewed information security control reports for systems to determine whether the data within each system were reliable for the purpose of our review. We also verified the accuracy and completeness of the data we received by tracing the data to source documents, as appropriate.

Specifically, we ran a series of 15 data mining algorithms,³ which included a series of tests designed to compare GTC transactions to leave accounts, GTC transactions to travel data, and travel data to leave data. We also used the travel records to assess the reasonableness of reimbursements for completed trips, such as airfare and lodging. We reviewed and analyzed 100 percent of these exceptions to determine whether there may have been illegal, improper, or erroneous GTC use.

We conducted detailed tests on the potential exceptions identified from the testing algorithms to determine whether these were true exceptions with respect to the requirements in the Board's *Travel Policy* and the *Government Travel Card Procedures*.

We conducted this evaluation in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

Observations

Table 1 summarizes the results of the six tests in which we identified true exceptions using FY 2018 Board travel program data. Five of our tests revealed exceptions that indicated noncompliance with the Board's *Travel Policy*, and although not a violation of policy or procedure, the sixth test detected a lack of

³ An algorithm is a program developed using software that is used to analyze datasets and, in our case, to identify potentially erroneous records.

documentation related to the process for approving transactions on blocked merchant category codes (MCCs).⁴

Table 1. Number of Exceptions and Amount by Test

Test name	Number of exceptions	Value
Reimbursement for lodging tax exemptions	103	\$5,151.24
Reimbursement for hotel or meals and incidental expenses while on leave	18	\$3,368.48
Reimbursement for overlapping vouchers on multicity trips	2	\$118.25
Reimbursement for international travel	2	\$178.00
Use of GTC while on leave	60	\$2,185.44
Charges for prohibited MCCs	26	\$0.00
Total	211	\$11,001.41

Source: OIG analysis of Board travel program data.

Reimbursement for Lodging Tax Exemptions

We identified 103 exceptions totaling \$5,151.24 in which the Board reimbursed travelers for lodging taxes charged in tax-exempt states. The Board's *Travel Policy* states,

Prior to traveling, employees must check the GSA tax website to determine whether they are exempt from lodging taxes in the state and locality where they are traveling. In locations where tax exemptions apply, the employee must present the appropriate tax-exemption forms (available on the GSA site) to the hotel when checking in. The Board does not reimburse for taxes that could have been avoided by using the tax-exemption forms, the GTC, or other documentation, such as a government ID.

The policy also indicates that it is the employee's responsibility to ensure that state taxes are removed from their lodging bill if a tax exemption applies in that location; the Board will not pay the state tax or reimburse the traveler for such charges.

As a best practice, GSA recommends that travelers call the hotel to verify state law compliance. Although we recognize that some individuals noted their attempts to have lodging taxes exempted, there were

⁴ An MCC is a code assigned by the card issuer that identifies the merchant's type of business.

several cases in which employees did not attempt to have the hotel refund the tax that was improperly charged.

Periodically reminding travelers that they should (1) check the GSA tax website prior to their trip to determine whether they are exempt from lodging taxes in the state and locality to which they are traveling and (2) if they are traveling to a tax-exempt state and locality, call the hotel in advance of their stay to inquire as to whether the hotel accepts tax-exempt forms could address this observation. If the hotel does not accept the forms, the traveler can choose another hotel.⁵

Reimbursement for Hotel or Meals and Incidental Expenses While on Leave

We identified 18 exceptions totaling \$3,368.48 in which Board employees were reimbursed for lodging or meals and incidental expenses while on leave. The Board's *Travel Policy* says that "if a trip involves both business and personal travel, the Board will reimburse employees for the constructive cost of the business part of the trip as long as the primary purpose of the trip was for business reasons." *Constructive cost* refers to the cost a traveler would have incurred if a trip that combined both business and personal travel had been only for business travel. Personal transactions must be charged to the traveler's personal credit card.

Periodically reminding travelers to accurately record their leave in the E2 travel system and instructing approving officials to perform a comprehensive review of the approved leave on vouchers submitted in the E2 travel system and reconcile those vouchers with PeopleSoft leave data may help to ensure accurate reimbursements.

Reimbursement for Overlapping Vouchers on Multicity Trips

We identified that in two instances, a traveler submitted separate overlapping vouchers requesting two per diem reimbursements for one night on a multicity trip. These two exceptions totaled \$118.25. Per the Board's *Travel Policy*, for trips with multiple destinations, the allowable per diem rate is based on the location of the lodging that evening. A traveler cannot claim per diem in multiple locations simultaneously.

Informing travelers and approving officials that multicity trips should be combined on one voucher could address this observation. Submitting a single voucher will allow the travel system to correctly calculate the reimbursement for the city where the traveler spends the night.

Reimbursement for International Travel

We identified two exceptions totaling approximately \$178.00 in which travelers on international trips claimed lodging amounts that were higher than the actual cost. The Board's *Travel Policy* states that the Board will only reimburse actual lodging costs. In these two cases, we determined that travelers used a

⁵ Likewise, travelers may want to avoid booking hotels that they know from prior experience do not accept tax-exempt forms.

higher-than-reasonable exchange rate when calculating their lodging reimbursements submitted on their vouchers, thereby receiving a larger reimbursement for their lodging expenses than they were entitled to.

Reinforcing for travelers the policy requirement that they will be reimbursed for actual lodging expenses only, specifically as it relates to exchange rates associated with international travel, and requiring travelers to attach a copy of the charges from their credit card statement to confirm the cost in U.S. dollars may help to ensure that travelers are properly reimbursed for international charges.

Use of GTC While on Leave

We identified 60 exceptions totaling \$2,185.44 in which travelers used their GTCs while on leave. The Board's *Travel Policy* states that travelers may only use their travel card for business travel expenses. The policy further states that employees who improperly use their GTC for expenses not related to business travel may be subject to disciplinary or adverse action. We confirmed that the charges were not included on any vouchers submitted by the employees and thus were not reimbursed by the Board.

Reinforcing for employees the policy requirement that they may not use the GTC to pay for personal transportation or commuting-related expenses when not on official travel could address this observation.

Charges for Prohibited MCCs

We identified 26 transactions in which Board employees made purchases that fell within prohibited MCCs. The Board's *Government Travel Card Procedures* state that charges related to certain MCCs are not authorized, such as vendors with an MCC for liquor stores. At the request of the Board, the GTC issuer blocks all charges related to certain merchants or MCCs.

An individual in the Travel section informed us that the process for unblocking and reblocking MCCs is as follows: A cardholder or a Division Administrator notifies the Travel section that a GTC was declined. The individual then specifies why they need an MCC unblocked, such as to use the GTC for a conference fee. Once the Travel section verifies that the request is appropriate and was authorized in the E2 system, an individual in the Travel section directs the GTC issuer to unblock the code. After verifying with the cardholder that the transaction went through successfully, an individual in the Travel section calls the GTC issuer again to have the code reblocked.

We noted that the Travel section does not document and track when Board employees request that a specific MCC be opened for a period of time to post a charge on that individual's GTC, nor does it document the unblocking and reblocking process.

Developing a log to document all requests for a specific MCC to be unblocked, as well as the reblocking of the MCC once the transactions have posted, could address this observation.

Conclusion

Although the results of our tests yielded exceptions, we did not find significant indicators of systemic fraud or illegal, improper, or erroneous use of GTCs. We provided an official draft, and because there were no formal recommendations, the program office (Division of Financial Management) decided not to

provide official comment to be included with the memorandum. We appreciate the cooperation that we received from the Travel section during this forensic evaluation. We plan to provide a copy of this memorandum to our Office of Investigations and our Office of Audits and Evaluations for informational purposes.

cc: Steve Bernard
Craig Delany