

NATIONAL SCIENCE FOUNDATION  
4201 WILSON BOULEVARD  
ARLINGTON, VIRGINIA 22230



MEMORANDUM

DATE: September 25, 2002

TO: Thomas N. Cooley  
Chief Financial Officer

FROM: *Deborah H. Cureton*  
Deborah H. Cureton  
Associate Inspector General for Audit

SUBJECT: Audit of NSF's Travel Charge Card Program  
OIG Report Number 02-2-013

Attached please find the final report on our audit of NSF's Travel Charge Card Program. Generally, we concluded that, although NSF has taken steps to monitor delinquent travel card accounts, its policies and practices do not yet address monitoring the unauthorized use of travel cards. We received your response and have included it as an appendix to this report.

Please furnish our office with a time-phased action plan to address the report recommendation within 60 calendar days of the date of this report.

I would like to express my appreciation for the courtesies and assistance provided by your staff during the audit. If you have any questions, please contact Karen Scott or Jill Schamberger at (703) 292-7100.

Attachment

# Audit of NSF's Travel Charge Card Program

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# AUDIT OF NSF'S TRAVEL CHARGE CARD PROGRAM

## INTRODUCTION

### Background

Reducing federal travel costs has been a longtime goal of the U.S. Government. To this end, Congress passed the Travel and Transportation Reform Act of 1998<sup>1</sup> (the Act), which streamlines agencies' travel processes, while allowing the government to take advantage of additional savings through credit card rebate programs. The Act requires federal employees to use a government credit card to pay for official government travel expenses such as hotels, transportation costs, and meals. Thus, agencies reduce administrative costs associated with processing federal travel by consolidating travel expenditures with a single credit card vendor and by streamlining the process for advancing travel funds to federal employees. At the same time, the travel cards improve convenience for federal travelers.

The General Services Administration (GSA) issues the Federal Travel Regulation that implements the requirements of the Act, and administers government travel cards through its SmartPay Program. Under this program, GSA has contracted with five banks, each offering travel charge cards, as well as fleet and purchase cards. From these five approved contractors, each federal agency selects a provider, and negotiates its own task order under the SmartPay master contract. The task order identifies the specific charge card services the selected bank will provide the agency, and documents the agreed upon fees, including additional negotiated rebate percentages.

The master contract allows each agency to receive rebates based on purchase dollar volume and payment performance. The minimum rebate percentage is .06 percent of total purchases, travelers checks, and automated teller machine (ATM) transactions made with the government travel cards. Uncollected account balances reduce the purchase dollar volume, thus reducing the amount of the agency's rebate. The bank also pays a portion of the agency's rebate to GSA as a service fee. Although generally minimal when compared to an agency's total official travel expenditures, rebates nevertheless help to reduce agencies' travel costs.

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<sup>1</sup> Public Law 105-264, October 19, 1998.

Upon selection, the bank vendor issues individual travel charge cards to agency employees and enters into a credit card agreement directly with the employee.<sup>2</sup> Under the agreement, the employee is responsible for paying the credit card bill to the bank and seeking reimbursement for the travel costs from the agency. Federal standards of conduct require federal employees to pay their debts in a timely manner and federal travel regulations specifically prohibit the use of an individual's travel card for any purpose other than official travel. Once the employee uses the travel card, the employee must pay his own balance, in full and on time, presumably from monies the agency has paid to the individual as a result of his request for reimbursement. However, because the employee is the responsible party on the individual account, the agency is under no obligation to pay the bill; the employee must pay the travel card bill, even if he has not yet received reimbursement from the agency.<sup>3</sup>

Delinquency and nonpayment of an individual's account are serious matters for both the individual and the agency. Delinquent accounts that are not the subject of a billing dispute may harm the individual's credit rating, and the bank may suspend or even cancel the individual's travel card if the outstanding account balance becomes overdue. Furthermore, such a suspension or cancellation may affect the employee's ability to travel on official business, and thus may impair the individual's ability to perform his official duties.

While responsibility for payment rests with the individual, agencies also have a responsibility, as well as a financial incentive, to ensure that accounts are paid timely and in full. GSA's master contract describes the agencies' travel card program responsibilities. These include ensuring that cardholders use the card only for authorized purposes by monitoring account activity; and managing delinquencies and misuse through employee and management notification, taking appropriate disciplinary action, and, as a last resort, collecting the overdue amount from the employee through salary offsets. Additionally, the negotiated rebate provides a financial incentive for the agency to act to ensure that its employees' overdue balances are paid in full. Because unpaid account balances reduce the amount of the rebate the agency receives, it is important that the agency minimize delinquent accounts. Monitoring and managing delinquencies also helps the agency avoid potential negative publicity that comes with unpaid accounts.

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<sup>2</sup> Each agency also has the option of having a centrally billed travel card account. Unlike with individual travel charge cards, under this option the agency itself is responsible for payment of the centrally billed account, rather than the employee.

<sup>3</sup> Federal travel regulations require employees to submit requests for reimbursement within five days of completing their travel. The regulations also require agencies to reimburse an employee within 30 days of the employee submitting a proper claim for reimbursement to the approving official. If agencies do not reimburse the employee within the 30-day timeframe, the agency must pay the employee a late fee.

Using GSA's SmartPay Program, the National Science Foundation (NSF) has contracted with Bank of America (BoA) for its travel card services. Approximately 850 NSF employees currently have a travel card and incur approximately \$1.5 million in charges each year. NSF received a rebate in FY 2001 amounting to approximately \$2,300. Within NSF, the Office of Budget, Finance, and Award Management's Division of Financial Management (DFM) manages the travel card program.

### **Objectives, Scope, And Methodology**

The objectives of our audit were to determine the following:

- Does NSF have controls in place to ensure that NSF employees pay their government travel charge card bills in a timely manner?
- To what extent are NSF employees delinquent in paying their travel card account balances?
- Does NSF have controls in place to ensure that government travel cards are used only for official government travel?

To meet these objectives, we examined delinquent accounts as of December 2001 and June 2002. We then compared these results to assess the effectiveness of NSF's new policies and procedures, implemented in February 2002.<sup>4</sup> We also reviewed applicable laws, regulations, and standards including the Travel and Transportation Reform Act of 1998; GSA's Federal Travel Regulation; agency internal control standards as outlined in the Office of Management and Budget's Circular Number A-123; and the Standards of Ethical Conduct for Employees of the Executive Branch. We also reviewed NSF policies for travel charge cards and procedures for monitoring travel card activity. We interviewed agency officials responsible for the government travel card program and discussed travel card issues with the GSA contracting officer. To assess potential unauthorized use of NSF travel cards, we analyzed employees' ATM transaction data and compared it to their travel authorization data. Finally, we examined NSF's records of delinquent and written off accounts to determine if NSF had taken proper actions to ensure the accounts were paid timely.

We conducted our work between September 2001 and August 2002 in accordance with generally accepted government auditing standards.

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<sup>4</sup> We did not include in our analysis travel card transactions that were charged to NSF's centrally billed travel card account.

## **RESULTS OF AUDIT**

NSF has implemented an effective process to identify and address delinquent employee travel card accounts, but needs to enhance its procedures to monitor and manage unauthorized use of government travel charge cards. The Federal Travel Regulation specifies that travel charge cards be used only for official government travel. However, a number of NSF employees have used their travel cards for unauthorized ATM transactions. Such use violates federal ethics standards because employees are, in effect, receiving interest-free loans. Furthermore, such activities leave the agency vulnerable to negative publicity, and, although the dollar amount is not great, NSF is artificially inflating its purchase volume upon which its rebate from the bankcard contractor is based.

### **NSF Is Effectively Monitoring and Managing Its Delinquent Travel Card Accounts**

While the individual employees are the responsible cardholders under the federal government's travel card program, NSF is responsible for ensuring that its employee cardholders use the travel card properly by monitoring account activity for delinquencies. However, as of December 2001, we found that, out of approximately 850 employee travel card accounts, 17 had balances that were 60 to 180 days delinquent, totaling over \$22,000. In addition, BoA had written off as uncollectible another 14 accounts with balances that were more than 180 days old, totaling over \$21,000. Thus, at that time, NSF had 31 delinquent and written off accounts totaling over \$43,000.

This situation happened because, at the time, NSF took a more reactive approach to managing these delinquent and written off accounts and had no documented policies and procedures for monitoring travel card delinquencies. When BoA raised questions or notified NSF about delinquent balances they planned to write off, NSF would respond. However, NSF did not monitor its cardholder account balances in an effort to proactively take steps to prevent such write offs from occurring.

NSF developed new policies and procedures to better oversee and manage its employees' travel card activities, and implemented these procedures in February 2002. NSF now notifies employees of their delinquent accounts once the accounts reach 60 days overdue. It sends employees letters advising them not only of the delinquency, but also informing them of the availability of credit counseling and the ramifications of the delinquency, including possible disciplinary action that may be taken against them. The employee's Assistant or Division Director is also notified. In addition, to ensure collection, NSF established a salary offset program for those persons whose account balances are over 120 days delinquent.

After providing affected employees with adequate notification, NSF began to actually offset employee salaries for overdue account balances in May 2002.

Since NSF began taking more proactive actions, many of its employees' delinquent accounts have been addressed or resolved. The number of accounts less than 180 days delinquent dropped from 17 in December 2001 to 7 in June 2002, and the delinquent account balances were reduced by more than 60 percent, from over \$22,000 to about \$8,600. All seven employees with currently delinquent balances have been adequately notified as appropriate, depending on the age of the delinquent balance.

NSF is also actively addressing accounts that BoA has written off as uncollectible. As of December 2001, BoA had written off 14 accounts for over \$21,300. Since that time, six of those account balances have been paid in full, five are being reduced through salary offsets, and BoA is handling three itself because the employees no longer work for NSF. Between December 2001 and June 2002, BoA has written off an additional 5 accounts for about \$14,300. Of those five, one employee has since paid off the account balance, two are incurring salary offsets, and two are being handled by BoA as the employees no longer work at NSF.

Therefore, as of June 2002, about \$3,000 of the approximately \$35,600 that BoA had written off has been paid. Although this recovery only represents about 10 percent of the outstanding written off balance, NSF continues to pursue, through salary offsets, another approximately \$19,000 for individuals still employed at NSF. Also, NSF's new procedures should keep future delinquencies to a minimum.

Delinquent accounts not only jeopardize employees' credit histories and their ability to travel on official business, they can compromise the government's ability to contract with credit card issuers willing to do business under the travel card program. Agencies also face the risk of negative publicity and damage to their reputations when such delinquencies occur. In addition, written off balances negatively impact the amount of rebate money the agency receives. In FY 2001, NSF received only about \$2,300, and received no rebate in fiscal year 2000. Although NSF's payment performance and other incentives also affect its total rebate, written off accounts reduce the rebate even more.

We commend NSF for its recent actions to address travel card delinquencies and encourage NSF to continue its efforts to proactively monitor and manage delinquent cardholder accounts.

## **NSF Needs To Monitor, Identify, and Address Unauthorized Transactions on Travel Charge Cards**

We also determined that some NSF employees are using their government travel charge cards for purposes other than authorized travel.<sup>5</sup> Out of a sample of 31 employees, we found that, between October 2001 and June 2002, 16 employees used their NSF travel cards for 174 ATM transactions, withdrawing approximately \$23,400 in cash, without being on authorized government travel. Nine of these employees had between 8 and 42 ATM transactions each, withdrawing a total of approximately \$20,800. One of these nine employees allowed the account to become delinquent, and NSF was offsetting this employee's salary when the employee left the agency. However, NSF was only aware of the delinquency and had not detected the unauthorized use of the card.

These unauthorized transactions occurred even though NSF and BoA inform NSF employees in several ways that the travel card may only be used for authorized government travel. Not only is "For Official Government Travel Only" stated on the front of card, all cardholders also sign a travel card application that states that the employee agrees to use the card for official travel and official travel related expenses only. In addition, a February 2002 NSF travel bulletin reminds employees that the government travel card is not for personal use.

While NSF informs employees about unauthorized use, such use has continued in part because its monitoring procedures only address delinquent accounts and do not identify or address this issue. Since most of the employees making unauthorized ATM withdrawals pay their credit card bills on time, NSF's oversight reviews do not identify these improper card uses.

Although minimal in comparison to the total amount of travel card activity, unauthorized use of federal travel cards is a violation of federal ethics standards that state that employees should not use their official position for financial gain. Making ATM withdrawals for other than official government travel is, in effect, providing the employee with an interest-free loan. These unauthorized transactions increase the potential risk of negative publicity for NSF, as well as artificially inflate the purchase volume that determines the amount of the rebate BoA pays to NSF.

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<sup>5</sup> To examine the unauthorized use of travel cards by NSF employees, we reviewed 776 ATM transactions made by 144 NSF employees during the period October 2001 through June 2002. Of these employees, 89 had less than 5 ATM withdrawals, and the remaining 55 employees had between 5 and 50 ATM withdrawals. Of these 55, we selected a judgmental sample of 31 employees, and compared the dates of their withdrawals to their official travel orders. We considered an ATM withdrawal to be associated with authorized travel if it occurred within seven calendar days of the start of the employee's travel date.



## **RECOMMENDATION**

We believe NSF should expand its oversight of travel card activity to include detecting and addressing employees' unauthorized use of travel cards. As such, we recommend that the Chief Financial Officer develop and implement comprehensive policies, procedures, and controls to provide for:

- Monitoring travel card activity for unauthorized use; and
- A comprehensive disciplinary program that addresses unauthorized use, employee and supervisory notification, and consistent and appropriate disciplinary actions.

## **AGENCY RESPONSE**

NSF responded to our draft report and concurred with our recommendation. We have attached the agency's response as Appendix A.

Appendix A

Audit of NSF's Travel Charge Card Program

Agency Response

**MEMORANDUM**

DATE: SEP 18 2002

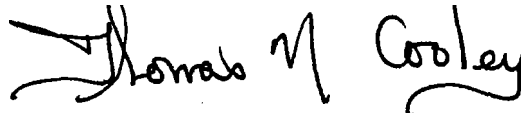
FROM: Chief Financial Officer

SUBJ: Official Draft Report: Audit of NSF's Travel Charge Card Program

TO: Deborah H. Cureton, Associate Inspector General for Audit

We have reviewed your office's draft report on NSF's travel card program and agree with your one recommendation to include procedures for monitoring unauthorized use. In October 2002, DFM will develop procedures and start reviewing monthly Bank of America reports for unauthorized use as discussed with your audit staff. These procedures will include employee and Division Director notification. Similar to our procedures for delinquent accounts notifications, we will suggest NSF Division Directors contact HRM for any appropriate disciplinary action. Thank you for your assistance in reviewing our travel card program.

If you have any questions, please contact Cheryl Kaminski, who is our program coordinator, at (703) 292-4452.



Thomas N. Cooley