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Audit Report Number 2005-DP-0002
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TO: Mary Sally Matiella, Assistant Chief Financial Officer for Accounting, Office of the Deputy Chief Financial Officer, FB

*Curtis Hagan*

FROM: Curtis Hagan, Director, Information System Audit Division, GAA

SUBJECT: Controls Over HUD's Travel Card Program Need Improvement

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the U.S. Department of Housing and Urban Development's (HUD) travel card program to determine whether sufficient management controls were implemented to effectively detect inappropriate transactions.

### **What We Found**

HUD needs to improve management controls over the travel card program's training and monitoring functions. Although we found that cardholders traveling on official Government business used the card in accordance with governing policies, we estimated that 6.3 percent of the transactions processed during the audit period (January 2002 through September 2003) were improper in that they were for personal use--purchases or cash advances not associated with official Government travel. Additionally, cardholder accounts were not always closed in a timely manner when HUD employment was terminated and when cardholders were issued a new travel card.

## **What We Recommend**

We recommend that HUD improve its travel card training and monitoring program and more equitably distribute the number of cardholders assigned to each administrative officer for monitoring. We also recommend that HUD establish procedures to ensure that (i) travel card accounts are canceled when employees separate from HUD and (ii) employees are not issued more than one travel card.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

## **Auditee's Response**

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

# TABLE OF CONTENTS

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Background and Objectives	4
Results of Audit	
Finding 1: Travel Cards Were Improperly Used as Personal Credit Cards	5
Finding 2: Accounts Were Not Always Closed in a Timely Manner for Separated Employees, and in Some Instances, Employees Were Issued Multiple Travel Cards	8
Scope and Methodology	10
Internal Controls	11
Appendixes	
A. Auditee Comments and OIG Evaluation	12

## BACKGROUND AND OBJECTIVES

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The Government travel card program was established in 1998. It was expected to facilitate traveler convenience and reduce the Government's workload with respect to processing and administering cash advances. The program's purpose was to reduce the overall cost of travel to the Federal Government through reduced administrative costs and by taking advantage of rebates offered by the travel card contractor based on the volume of transactions and timely cardholder payment.

Government travel cards are available to Federal agencies under a General Services Administration Smartpay Master Contract. The contract allows for the issuance of travel cards to Federal employees for use while on official business travel. The General Services Administration administers the contract and provides guidance for Government agencies. Each agency is required to administer its own card programs and establish the parameters for use by employees, establish dollar limits, and monitor use. The U.S. Department of Housing and Urban Development's (HUD) procedures for administering the travel program are outlined in HUD Handbook 2300.2, "Travel Handbook."

Through the General Services Administration's contract, HUD executed task orders with Bank One to service its travel card program. The effective period of the Bank One task order was November 30, 1998, to November 29, 2003, with five 1-year options to renew. On November 5, 2003, HUD extended the task order with Bank One to November 2004. As of October 2003, more than 6,323 individually billed travel cards had been issued to HUD employees.

The Office of the Chief Financial Officer, Travel Management Division, has overall responsibility for the operations of HUD's travel card program. An agency program coordinator within the division provides day-to-day oversight for the travel program by ensuring that internal controls are in place to prevent/minimize travel card delinquencies. This office also oversees administrative officers who monitor cardholder activity within their respective program office.

Our overall audit objective was to determine whether HUD's travel card program was operated in compliance with applicable laws, regulations, policies, and procedures. Specific objectives were to determine whether cardholders

- (1) Used their travel cards for personal expenses or withdrew cash from automated teller machines while not on official travel,
- (2) Were inappropriately reimbursed for costs that were not incurred,
- (3) Charged unauthorized expenses to the travel card while on official travel, and
- (4) Were adequately monitored.

During the period we audited, January 2002 through September 2003, there were a total of 5,518 cardholders (excluding cardholders within the HUD Office of Inspector General) who had initiated 126,380 transactions with a total value of \$15.3 million.

## RESULTS OF AUDIT

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### Finding 1: Travel Cards Were Improperly Used as Personal Credit Cards

We estimated that 6.3 percent of the 126,380 transactions during the period between January 2002 and September 2003 were improper in that they were for purchases or cash advances not associated with official Government travel. We believe the improper usage was largely due to (i) not all cardholders being aware of HUD policies prohibiting personal use of their travel card and (ii) travel card program managers did not implement an effective monitoring and oversight program to identify and correct any improper travel card practices.

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#### **Travel Cards Were Improperly Used When Cardholders Were Not in an Official Travel Status**

HUD guidance prescribes that the travel card be used by employees only for official travel and travel-related expenses and not for personal, family, or household purposes. Cardholders acknowledged these rules by signing a travel card agreement before establishing a travel card account.

During the period between January 2002 and September 2003, 126,380 transactions valued at \$15.3 million were initiated by 5,518 cardholders (excluding OIG employees)<sup>1</sup>. The majority of the transactions were made in accordance with governing policies. However, we estimated that 7,913 transactions (6.3 percent of all transactions) were for personal purchases and cash advances when cardholders were not in an official travel status. Examples of improper personal use of the card included purchases for airfare, rental vehicles, meals, and gasoline. See Scope and Methodology on page 11 for a detailed discussion of our methodology and results.

#### **Cardholders Did Not Have a Clear Understanding of Program Rules**

Not all cardholders were provided training on the proper use of their travel card. Although travel card use guidelines and resources were available on HUD's

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<sup>1</sup> To ensure audit independence, 17,966 OIG travel card transactions valued at over \$2.5 million were eliminated from the universe of transactions subject to audit review.

intranet and cardholders signed an agreement to use the card only for official travel-related purposes, not all cardholders were aware of program policies. They did not have a clear understanding of what constituted unauthorized use of the card. The travel cards were improperly used to acquire personal items and services unrelated to official travel because cardholders incorrectly believed that, since the card was issued in their name and as long as payments were made in a timely manner, personal use of the card was allowed.

### **Administrative Officers Did Not Effectively Monitor Cardholder Activity**

Although administrative officers were provided training and support to enhance the performance of their travel card responsibilities, more focused training on the development and implementation of monitoring and oversight techniques is needed. HUD guidance requires the agency program coordinator and administrative officers to establish and implement a travel card oversight program. To accomplish this, administrative officers were assigned a number of cardholders to manage. They were provided training on how to access the Bank transaction system and generate certain account activity reports. The officers were instructed to analyze the reports and certify their assessments on a monthly basis. We found that monitoring by administrative officers was inconsistent. For example, while one officer only reviewed transactions for delinquent cardholders, another only briefly scanned transaction history reports. While administrative officers were told to use bank-related systems and reports as a monitoring resource, required certification documentation and instructions did not specify the use of HUD's travel system and related reports as part of the review process. Reports were readily available that identified authorized travel assignments and dates. These reports could have been used by administrative officers to compare cardholder travel assignments to transaction dates to verify authorized travel card use and to detect program abuse.

### **Other Responsibilities Hampered Monitoring of Cardholder Activity**

Administrative officers indicated that other workload requirements and priorities hampered their ability to implement an effective oversight program for monitoring the number of cardholders assigned to them. We were told the officers did not have the time or training to develop, implement, and manage a monthly travel card assessment program.

As of September 2003, HUD had assigned 15 headquarters-level administrative officers to manage the travel card program. Our analyses of the ratio of the number of cardholders assigned to the 15 officers ranged from 12 to 2,005. Seven

of the 15 officers were responsible for monitoring the activity of more than 450 cardholders. While HUD has not developed ratio benchmarks, this analysis appears to support administrative officers' claims of insufficient resources. Because HUD established the administrative officer function only at the headquarters program area level, there are no administrative officers in the field. HUD should consider establishing an administrative officer network at the field supervisory level. Doing so would assign travel card oversight and monitoring responsibilities to those personnel who are most knowledgeable of cardholder travel assignments. Additionally, cardholder supervisors are better able to determine whether cardholder transactions are appropriate, given the nature of the travel.

### **New System Will Enforce Travel Card Policies and Will Prevent Card Use Unless Travel Has Been Authorized**

In an effort to improve travel card operations and reduce the risk of improper travel card use, HUD plans to fully implement the eTravel service initiative by the end of fiscal year 2005. This new system will integrate HUD's accounting, travel card banking, and various travel reservation systems and will replace HUD's travel management system. The eTravel service will simplify enforcement of travel card policies in that cardholders will be prevented from using their travel card unless a travel authorization has been approved. While it appears that this will substantially diminish personal use of a travel card, HUD needs to take interim measures to identify, correct, and minimize improper travel card practices until the eTravel service is fully implemented.

### **Recommendations**

As an interim measure until full implementation of the eTravel service, we recommend that HUD

- 1A. Improve the cardholder and administrative officer training program by ensuring the training addresses proper travel card use and the need for administrative officers to establish a comprehensive cardholder oversight and monitoring program that includes the use of key transaction and travel-related reports.
- 1B. Evaluate administrative officer assignments and take measures to equitably distribute the number of cardholders assigned to each officer. Consider coordinating with the program offices to appoint field-level supervisory personnel as administrative officers.

## Finding 2: Accounts Were Not Always Closed in a Timely Manner for Separated Employees, and in Some Instances, Employees Were Issued Multiple Travel Cards

Procedures used to identify and close accounts associated with terminated employees and employees with multiple accounts need improvement. Because travel card managers were not always notified of employee separations in a timely manner, 234 people (as of October 2003) who were no longer employed by HUD still had active travel card accounts. Because cardholders were not adequately monitored for multiple accounts, 12 (as of October 2003) employees had been issued more than one travel card. These unnecessary, open accounts subject the travel card program to increased risk of improper use and abuse.

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### **Terminated Employee Accounts Were Not Closed in a Timely Manner**

HUD policy requires the travel card program coordinator to close travel card accounts when cardholders are dismissed, retire, or are separated from HUD employment. Comparative data analyses of active travel card accounts and employee separations as of October 2003 showed that of the 1,544 separated employees, 234 (15 percent) still had active travel card accounts. The period of time that the 234 employees had been separated from service ranged from 22 to 659 days.

The Travel Management Division did not establish formal procedures to ensure awareness of official personnel separation actions. Instead, the Division generally relied on notifications provided by employees or administrative officers to initiate account closing procedures. For some program offices, exit procedures for separated, retired, or dismissed employees require employees to relinquish their travel cards as part of the exit process. However, if the Division is not notified, cardholder accounts will remain active or not be closed in a timely manner. To minimize the risks associated with improper travel card practices, the Travel Management Division should develop notification procedures in conjunction with the Office of Human Resources to ensure awareness of employee separations and promptly close travel card accounts when appropriate.

### **Employees Had Multiple Travel Card Accounts**

HUD policy provides that employees establish a single travel card account and be issued only one travel card. If an employee requires a new account due to a lost or stolen card, HUD and Bank One guidelines require that the original account be closed before the establishment of a new account. Our review of 7,016 travel card

accounts, active as of October 2003, showed that 12 employees had more than one active travel card. For 5 of the 12 cardholders, two accounts were established by Bank One on the same day.

While weak credit card account processing controls at the issuing institution caused multiple accounts to be issued to existing cardholders, HUD did not have specific procedures to regularly monitor cardholders to identify those with multiple accounts. According to the agency program coordinator, Bank One did not always verify the existence of a previously established or pending account when processing applications for new accounts and did not always close accounts for cards reported as lost or stolen before issuing a new card. Further, travel program managers did not review cardholder account status and profile reports in a timely manner to identify employees with multiple travel card accounts. Although the Travel Management Division ultimately closed all 12 multiple accounts, they remained active for a period ranging from 144 to 1,934 days. HUD should establish better monitoring controls to promptly identify cardholders with multiple accounts and close accounts when appropriate. Further, HUD needs to coordinate with Bank One to ensure its account processing controls are improved to minimize the number of employees issued multiple travel cards.

## Recommendations

We recommend that HUD

- 1A. Coordinate with the Office of Human Resources and establish notification procedures to ensure awareness of employee separation actions.
- 1B. Develop procedures to review employee separation notifications on a regular basis and close travel accounts when appropriate.
- 1C. Coordinate with Bank One and obtain assurance that sufficient account processing controls are in place to prevent the establishment of more than one travel card account per employee.
- 1D. Establish procedures to periodically monitor travel card accounts to detect cardholders with multiple accounts and initiate corrective action.

## SCOPE AND METHODOLOGY

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We performed the audit from October 2003 through June 2004 in accordance with generally accepted government auditing standards. We included tests of internal controls that we considered necessary under the circumstances. We performed the audit at the Travel Management Division, Office of the Chief Financial Officer, located at HUD Headquarters, Washington DC.

We reviewed applicable guidance and discussed operations with management and staff at the Travel Management Division and key officials from various HUD programs who were assigned travel card management responsibilities.

The audit covered travel card transactions during the period from January 2002 through September 2003. We obtained a data file from Bank One that contained detailed transaction information for purchases and cash advances made by HUD travel cardholders during the period January 1, 2002, through September 30, 2003. The file contained 126,380 transactions made by 5,518 cardholders, excluding OIG employees, that were valued at more than \$15.3 million. We also obtained travel data from the Chief Financial Officer's Financial Datamart System. This file contained detailed information, such as approved travel and voucher dates and amounts claimed, for HUD personnel who traveled on official business.

Using audit software (ACL), we analyzed the 126,380 travel card transactions from January 2002 through September 2003. Using data screening and filtering techniques, we found that 17,585 of the 126,380 transactions (14%) exhibited characteristics of risk for improper use (e.g., purchase or cash advance transaction occurring when cardholder was not on official travel, purchase or cash advance transaction occurring outside the United States, purchases from department stores and other unlikely travel-related merchants). The 17,585 transactions exhibiting risk characteristics were made by 2,640 cardholders (48% of the 5,518 cardholders). The value of the 17,585 transactions was approximately \$2.1 million (14% of the \$15.3 million value of the total 126,380 transactions).

Using statistical sampling techniques, we selected a random sample of 60 of the 17,585 transactions for more detailed examination. For each of the 60 transactions in our random sample, we verified the accuracy of the data within the data file we obtained from Bank One. We discussed the purchase or cash advance transaction with the cardholder and we reviewed all documents available to us (e.g., travel authorizations, vouchers, invoices, and receipts). We found that 27 of the 60 transactions were for personal purchases or cash withdrawals while the cardholder was not traveling on official Government business. We projected this rate of personal use of the travel card, 45 percent, to the sample universe of 17,585 transactions. This resulted in an estimate that 7,913 of the 17,585 transactions exhibiting risk characteristics were for personal use. The estimated number of transactions for personal use, 7,913, is 6.3 percent of the 126,380 total transactions from January 1, 2002, through September 30, 2003.

We also used audit software (ACL) to search for former HUD employees among current cardholders and to search for cardholders with more than one travel card account.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Policies, procedures, control systems, and other management tools implemented to prevent the inappropriate use of Government-issued travel cards.
- Policies, procedures, controls, and other management tools implemented to detect, prevent, and resolve the account status of separated employees and employees with multiple travel accounts.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

HUD did not

- Have management controls over training and monitoring functions sufficient to prevent, detect, and minimize improper travel card use and abusive cardholder practices.
- Establish adequate controls to prevent, detect, and resolve the account status of separated employees and cardholders with multiple travel card accounts.

# APPENDIXES

## Appendix A

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments

 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-3000

OFFICE OF THE CHIEF FINANCIAL OFFICER

NOV -9 2004

MEMORANDUM FOR: Curtis Hagan, Director, Information Systems Audit Division, GAA

FROM: Mary Sally Matiella, Assistant CFO for Accounting, FB *Mary S. Matiella*

SUBJECT: Comments on Draft Audit Report on HUD's Travel Card Program

Thank you for the opportunity to comment on the above subject draft audit report. Our comments follow.

***Finding 1: Travel Cards Were Improperly Used as Personal Credit Cards***

***"Travel Cards Were Improperly Used When Card holders Were Not in an Official Travel Status"***

The report states that during the review period, between January 2002 and September 2003, 126,380 transactions occurred. Of those 126,380 transactions, the IG sampled 60. Of the 60 sampled, 27 were found to for personal use while the cardholder was not traveling on official business. Based on the 27 transactions found, the IG projected that 7,913 transactions of the 126,380 were for improper use. We cannot agree that this projection from such a small sample is valid.

While the finding may be true for the 27 transactions that were actually found, making any such projection cannot be used as an indication of the true status of the universe of the transactions during the sample period.

Based on the relatively small number of improper transactions actually found, and on our own experience, we do not believe that this is a material problem within the program.

***"Other Responsibilities Hampered Monitoring of Cardholder Activity"***

The report makes the suggestion that the program Administrative Officers indicated that other workload requirements and priorities hampered their ability to implement an effective oversight program. We challenge the presumption inherent in this suggestion that the program is not being effectively overseen. There is no evidence presented in this report that supports this presumption.

Quite the contrary, we have much evidence that the program is being very well managed. The travel card program is administered under a Government-wide contract supported by the General Services Administration. In an independent evaluation by GSA of HUD's travel card program, GSA has lauded the CFO's office for its outstanding management of the program at HUD.

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Comment 1

**Comment 2**

We have designed our oversight program around the respective program Administrative Officers. We have provided regular and extensive training to those officers. Those officers have never indicated to us that their workload was in any way hampering their ability to properly oversee their cardholders. We see no indication otherwise.

The statement in the report that "cardholder supervisors are better able to determine whether cardholder transactions are appropriate..." is a bit of a *non sequitur*. It is not the responsibility of cardholders' supervisors to manage the travel card program.

***"New System Will Enforce Travel Card Policies and Will Prevent Card Use Unless Travel Has Been Authorized"***

The new eTravel system will completely prevent even the small number of improper uses of the travel card while not on official travel. Given the few months remaining before the new system is implemented, we do not believe that it would be cost effective to institute any new interim process for a problem that we do not believe is material even now.

***Recommendations***

**1A.** We already have an extensive training program for the Administrative Officers. We also train them regularly on the use of the card issuer bank's on-line card management system. We see no need to change this program.

**1B.** It is up to each program office to determine their staffing needs. The CFO's office cannot direct the program offices to change their staff structure either in Headquarters, or in their respective Field operations, to accommodate additional staff positions for the travel card program.

***Finding 2: Accounts Were Not Always Closed in Timely Manner for Separated Employees, and in Some Instances, Employees Were Issued Multiple Travel Cards***

***"Terminated Employee Accounts Were Not Closed in a Timely Manner"***

The Travel Management Division of the CFO's Office is part of the Department's formal clearance process. As such, all separating employees are required under those procedures to clear the travel division before leaving the Department. As part of that process, leaving employees must surrender their Government issued travel card. The bank is also notified to cancel their account.

If employees, for whatever reason, do not follow the prescribed clearance process, the Travel Management Division has no other way of knowing of a departing employee. The employee must present his completed clearance form to HR before he can be permitted to clear the Department. It is up to the Department HR Division to insure that all employees follow this procedure.

Contrary to the suggestion make in the report, the Travel Management Division cannot, and does not have the authority to establish separate separation procedures apart from those established by

Departmental HR. The solution to the problem is not more processes, but, instead, having the respective program offices and HR enforcing those we already have.

As far as those accounts found to be still active for separated employees, no evidence was presented in the report that there was any improper use by those separated employees of those accounts. Therefore, there was no effect or consequence associated with this finding.

*"Employees Had Multiple Travel Card Accounts"*

The report states that of the 7,016 card accounts reviewed, 12 employees had more than one account issued. The report correctly states that HUD had already identified and closed those accounts before the audit was undertaken. The report also correctly states that it was the bank's issuing process that was the cause of the multiple account issuances. Through the bank's own internal control process, these multiple accounts were discovered and closed.

HUD cannot direct the bank to change its own card management process. Nevertheless, we will continue to work with the bank to see that they do their best to catch any instances of multiple account issuances.

Again, since there were no consequences as a result of these multiple accounts, this finding has no effect. The report does not establish any of the multiple account holders as abusing or misusing their second account. No one was reported as delinquent, or even using the second account.

*Recommendations*

**1A.** As stated above, the Travel Management Division cannot, nor need it, establish any new clearance procedures. What is needed is for the program offices and HR to enforce those that they already have.

**1B.** If employees are permitted to clear without submitting the already required clearance forms, thus getting around the process, there will be no notifications to review.

**1C.** Again, we cannot direct the bank to change its own internal bank processes. We can only ask that they do their best to try to avoid issuing duplicate accounts. Remember, the cards belong to the bank, the consequences of multiple accounts will fall on the bank not HUD. It is they who are at risk. It is to their benefit to make the process work.

**1D.** We do not have the time or staff to do, what essentially, is the bank's job to do for their own account holders. HUD is legally a third party to the agreement between the bank and the cardholders. Our responsibility is limited. We are not directly a party to the agreement. There is no consequence to HUD for multiple accounts. This is not really an issue for us.

## OIG Evaluation of Auditee Comments

The auditee denies the validity of the evidence we collected, the existence of the problems we reported, asserts no authority to resolve the problems if they did exist, and asserts that others would be to blame for the problems if they existed. The comments are not responsive to our findings and recommendations.

- Comment 1** The auditee misstated our methodology. As explained on page 11, using data screening and filtering techniques we found 17,585 transactions among the 126,380 transactions from January 2002 through September 2003 that exhibited characteristics of risk for improper usage of the travel card (e.g., purchase or cash advance transaction occurring when cardholder was not on official travel, purchase or cash advance transaction occurring outside the United States, purchases from department stores and other unlikely travel-related merchants). Using statistical sampling techniques, we selected a random sample of 60 of the 17,585 transactions for detailed examination. We found that 27 of the 60 transactions (45%) were for personal purchases or cash advances while the cardholder was not traveling on official Government business. We projected this rate of personal use of the travel card, 45 percent, to the sample universe of 17,585 transactions. This resulted in an estimate that 7,913 of the 17,585 transactions were for personal use. In perspective, the estimated number of transactions for personal use, 7,913, is 6.3 percent of the 126,380 total transactions from January 1, 2002, through September 30, 2003.
- Comment 2** Regarding the new eTravel system, it does appear (as we state on page 7) that personal use of travel cards will be substantially diminished under the new eTravel system. This is because Bank One is not to accept transactions when a travel authorization is not in effect. Nonetheless, our opinion is that HUD should take interim measures to detect and prevent improper travel card practices until the eTravel service is fully implemented. The new eTravel system will not be a solution to the problems we reported on (i) oversight and monitoring by administrative officers and (ii) closing accounts in a timely manner when employment is terminated.