



U.S. Securities and Exchange Commission  
Office of Inspector General  
Office of Audits

Controls Over the SEC's Travel Charge Card Program  
Could Be Strengthened To More Fully Comply With  
Requirements and Maximize Benefits





OFFICE OF  
INSPECTOR GENERAL

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**M E M O R A N D U M**

March 30, 2020

**TO:** Caryn Kauffman, Chief Financial Officer

**FROM:** Carl W. Hoecker, Inspector General

**SUBJECT:** *Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits,*  
Report No. 560

Attached is the Office of Inspector General (OIG) final report detailing the results of our audit of controls over the U.S. Securities and Exchange Commission's (SEC) travel charge card program. The report contains 15 recommendations that should help improve the SECs oversight and management of the program.

On March 13, 2020, we provided management with a draft of our report for review and comment. In its March 25, 2020, response, management concurred with our recommendations. We have included management's response as Appendix III in the final report.

Within the next 45 days, please provide the OIG with a written corrective action plan that addresses the recommendations. The corrective action plan should include information such as the responsible official/point of contact, timeframe for completing required actions, and milestones identifying how the Office of Financial Management will address the recommendations.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me or Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

Attachment

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# Executive Summary

## Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits

Report No. 560  
March 30, 2020

### Why We Did This Audit

In fiscal year (FY) 2018 and FY 2019 quarters 1-2 (FY 2019 Q1-2), the U.S. Securities and Exchange Commission (SEC or agency) spent almost \$12 million on work-related temporary duty travel and transportation. About 72 percent of this amount (or more than \$8.6 million) was paid using a government travel charge card. Although annual government travel charge card expenses are immaterial to the SEC's financial statements, compliance with laws and regulations and efficient and effective stewardship of resources are important Federal internal control objectives.

The Travel and Transportation Reform Act of 1998 (the Reform Act) requires Federal employees to use their government travel charge cards for all payments of expenses for official government travel. Travel charge cards provide benefits to the agency such as improved oversight of government spending, tax exemptions, and refunds based on sales volume. However, travel charge cards are susceptible to misuse, fraud, waste, and abuse. To prevent abuse of government charge cards, Congress enacted the Government Charge Card Abuse Prevention Act of 2012 (the Charge Card Act), which requires, among other things, agencies to establish and maintain specific internal control activities.

We conducted this audit to assess the SEC's controls over its travel charge card program during FY 2018 and FY 2019 Q1-2, and to determine whether the agency complied with applicable laws, regulations, policies, and procedures.

### What We Recommended

We made 15 recommendations, including that the SEC update out-of-date or conflicting policies, increase outreach efforts to make travelers and authorizing officials aware of their responsibilities and obligations, and consider cost savings opportunities. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

### What We Found

The SEC established and maintained many of the internal control activities required by the Charge Card Act, or relied on alternate controls that were generally effective for addressing certain risks associated with government travel charge card programs. The SEC has controls in place related to recordkeeping, training, and establishing effective systems, techniques, and technologies to prevent or identify improper travel card purchases. However, the agency did not implement all travel card-related internal control objectives required by the Reform Act, the Charge Card Act, and the Federal Travel Regulation, or fully comply with certain standard minimum requirements established by the Office of Management and Budget. Moreover, although some controls established in SEC policy conformed to higher-level requirements, the controls were either ineffectively designed or implemented. Specifically, we found that the SEC did not:

- Clearly and consistently, require employees to establish Individually Billed Accounts (IBAs) and use their government travel charge cards as the method of payment for all official travel expenses. As a result, we estimate that, in FY 2018, the SEC lost about \$3,200 in refunds associated with lodging expenses alone and accepted additional financial risk.
- Ensure that employees and authorizing officials minimized costs to the agency by (1) adequately supporting requests for premium-class air travel expenses claimed under the 14-hour rule; (2) providing justifications and support for claimed travel expenses; and (3) pursuing exemptions to state taxes, where available. We identified \$109,882 in unsupported travel costs and estimate that the SEC could have put \$121,573 to better use had the agency pursued available tax exemptions.
- Monitor sales refunds for accuracy and to ensure they were received. SEC officials were unaware that they had not received the agency's first quarter FY 2018 refund, totaling \$9,900.
- Enforce requirements for conducting alternative creditworthiness assessments before issuing or renewing restricted travel charge cards.
- Issue travel charge card payments directly to the travel card-issuing bank, as required, until July 2019.
- Immediately cancel all separated employees' IBAs.
- Ensure that employees timely submitted travel vouchers or paid account balances.

Finally, we identified an opportunity for potential cost savings through Tax Advantage Travel Card Accounts, available under the General Services Administration SmartPay 3 contract. If SEC employees had been able to use these accounts in FY 2018 and FY 2019 Q1-2, the agency would have potentially avoided paying about \$406,760 in state lodging and rental car taxes.

For additional information, contact the Office of Inspector General at (202) 551- 6061 or <http://www.sec.gov/oig>.

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## ABBREVIATIONS

AAB	Account Analysis Branch
CBA	Centrally Billed Account
Charge Card Act	Government Charge Card Abuse Prevention Act of 2012
DAS	Data Analytic Solutions, Inc.
E2	SEC's travel system
FTR	Federal Travel Regulation
FY	fiscal year
FY 2019 Q1-2	fiscal year 2019, first and second quarter
GAO	U.S. Government Accountability Office
GSA	General Services Administration
IBA	Individually Billed Account
M&IE	meals and incidental expenses
OFM	Office of Financial Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
POV	privately owned vehicle
Reform Act	Travel and Transportation Reform Act of 1998
SEC or agency	U.S. Securities and Exchange Commission
SECR	SEC Administrative Regulation
TDY	temporary duty

## Background and Objectives

### Background

Federal agencies, including the U.S. Securities and Exchange Commission (SEC or agency), rely on travel to achieve a broad range of missions. For many SEC employees, travel is essential to their official duties. As Table 1 shows, between October 1, 2017, and March 31, 2019 (that is, fiscal year [FY] 2018 and the first two quarters of FY 2019 [FY 2019 Q1-2]), the SEC spent almost \$12 million on work-related travel and transportation to and from temporary duty (TDY) locations.<sup>1,2</sup> In FY 2018 and FY 2019 Q1-2, about 72 percent of the SEC's travel expenses (more than \$8.6 million) was paid using a government travel charge card.

**Table 1. SEC Travel Expenses for FY 2018 and FY 2019 Q1-2**

Expense Category	Amount		
	FY 2018	FY 2019 Q1-2	Total
Air Transportation	\$1,720,753	\$853,717	\$2,574,470
Rail Transportation	620,931	230,130	851,061
Lodging	2,650,340	1,001,983	3,652,323
Lodging Tax	295,169	103,680	398,849
Meals and Incidental Expenses (M&IE)	1,417,167	560,707	1,977,874
Rental Car	132,879	55,679	188,558
Privately Owned Vehicle (POV) Expenses	247,130	97,067	344,197
Local Transportation during TDY Travel	511,881	203,418	715,299
All Other Travel Expenses or Fees	1,044,556	238,364	1,282,920
<b>Total</b>	<b>\$8,640,806</b>	<b>\$3,344,745</b>	<b>\$11,985,551</b>

Source: Office of Inspector General (OIG)-generated based on TDY travel expenses from closed SEC travel vouchers during the periods specified. This excludes expenses from local travel vouchers.

Government charge card use, including use of government travel charge cards, offers many benefits for the Federal government and taxpayers, including (1) reduced administrative costs and time for purchasing and paying for goods and services; (2) improved oversight of government spending; and (3) refunds based on sales

<sup>1</sup> This includes travel expenses incurred by external experts and witnesses under contract with the SEC, others traveling at the agency's invitation such as candidates for employment, and employees traveling to and from TDY locations for official business.

<sup>2</sup> A TDY location is a place, away from an employee's official station, where the employee is authorized to travel.

volume, productivity, and corrective payments.<sup>3</sup> Although government charge cards can be beneficial, they are susceptible to misuse, fraud, waste, and abuse. The administration, including the Office of Management and Budget (OMB), has encouraged agencies to adopt cost-savings efforts, promote efficient travel spending, and ensure there are appropriate controls in place.<sup>4</sup> In addition, to help agencies manage their respective travel programs, the U.S. General Services Administration (GSA) established the SmartPay® Program and promulgates the Federal Travel Regulation (FTR) [codified at 41 C.F.R., Subtitle F, Chapters 300-304 and further discussed on page 4 of this report], which implements statutory requirements and Executive branch policies that Federal entities must follow concerning government-related travel.

**GSA SmartPay® Program.** In 1998, GSA established the SmartPay program, which provides charge cards to U.S. government agencies, as well as tribal governments, through master contracts that are negotiated with major banks. The Smart Pay program helps reduce the administrative costs associated with processing and administering official travel, and was designed to streamline transaction processing, increase accountability, and provide a more efficient and effective way for agencies to monitor spending and identify fraud, waste, and abuse.

The SEC uses the GSA SmartPay 3 Master Contract with U.S. Bank<sup>5</sup> for travel charge card services for the following two types of travel accounts:

1. *Individually Billed Account (IBA).* The bank issues a travel charge card to an employee (the cardholder) to pay for official travel and travel-related expenses. The bank bills the employee, and the government reimburses the employee for authorized expenses. The employee is responsible for all transactions charged to the travel charge card and for paying the card balance. Therefore, IBAs place the financial risk on the employee, not the agency.
2. *Centrally Billed Account (CBA).* The bank bills and is paid directly by the agency. Therefore, the agency, not its employees, bears the financial risk.

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<sup>3</sup> In addition to sales refunds based on the dollar or "spend" volume during a specified period and productivity refunds based on the timeliness and/or frequency of payments to the bank that issued the travel charge card, agencies receive refunds to correct improper or erroneous payments or to adjust invoices. For simplicity, all three types of refunds are collectively referred to as "sales" refunds.

<sup>4</sup> Executive Order No. 13589, *Promoting Efficient Spending* (November 9, 2011), requires agencies to reduce their combined costs in a variety of administrative categories (including travel) by at least 20 percent in FY 2013 from FY 2010 levels, and to designate a senior travel official to be responsible for developing and implementing policies and controls to ensure efficient spending on travel and other activities. In May 2012, OMB issued Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*, which describes "practical steps agencies can take to improve operations, increase efficiency, and cut unnecessary spending," including on travel. On November 25, 2016, OMB amended Memorandum M-12-12 by issuing Memorandum M-17-08, *Amending OMB Memorandum M-12-12, Promoting Efficient Spending to Support Agency Operations*.

<sup>5</sup> The SEC's SmartPay 2 Master Contract expired on November 29, 2018. On November 30, 2018, and under the agency's SmartPay 3 Master Contract, U.S. Bank replaced Citibank as the SEC's payment provider for purchase and travel charge cards.

Before applying for a government travel charge card, all prospective cardholders must complete GSA SmartPay online training. Cardholders must also complete online refresher training at least once every 3 years. The purpose of the training is to ensure that cardholders understand their roles and responsibilities and to help reduce the risk of unauthorized travel charge card use and late payment of bills. Cardholders must certify that they have received the training, understand the regulations and procedures, and know the consequences of inappropriate actions.

Although employees are financially responsible for IBA transactions and management of their travel charge cards, agency management has overall responsibility for administering the agency travel charge card program and establishing and maintaining effective risk management controls, policies, and practices. As of April 2019, 2,340 SEC employees had IBAs. During FY 2018 and FY 2019 Q1-2, SEC employees charged \$5,232,639 to their IBAs, while the SEC charged \$3,384,922 to its CBA.

**Roles and Responsibilities.** The Account Analysis Branch (AAB) of the SEC's Office of Financial Management (OFM) is responsible for the agency's travel charge card program, including monitoring for travel charge card misuse, abuse, and delinquency and, in some instances, reviewing travel authorizations and travel vouchers. AAB staff monitor the use of IBAs and the SEC's CBA. In addition, appointed authorizing officials (that is, managers and supervisors) review employees' travel authorizations to ensure planned travel is appropriate and necessary. AAB staff rely on authorizing officials to ensure that any required justifications or analyses are included in employees' travel authorizations. For example, according to the *Travel Policy for SEC Employees* (SEC Travel Policy), if an employee requests to use his or her own vehicle while on official travel and receive reimbursement for miles driven, the employee must provide a justification and analysis supporting the request. AAB staff indicated that authorizing officials are responsible for the review and approval of the employees' justifications.

AAB staff also act as the authorizing official for Commissioners, Division Directors, Office Heads, and Regional Directors, and review witness and foreign travel authorizations. Additionally, on May 30, 2019, OFM modified the design of internal controls in the SEC's travel system (known as E2) to require OFM's review and approval of all requests for premium-class air travel and hotel rates over per diem (that is, upgraded lodging).

Once an employee's travel is completed, the employee is responsible for submitting a travel voucher for his or her expenses. According to the FTR and the SEC Travel Policy, the employee is required to submit the voucher within 5 working days after completing the trip.<sup>6</sup> The authorizing official should verify that (1) the travel authorization was approved before the trip; (2) receipts are included for any lodging expense regardless of the amount and for any other expense more than \$75; and (3) amounts entered in E2 match amounts on the receipts.

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<sup>6</sup> The employee must submit a travel voucher every 30 days if the employee is in continuous travel status.

**Applicable Federal Laws, Regulations, and Guidance.** Travel-related Federal laws and regulations include the FTR and the Travel and Transportation Reform Act of 1998 (the Reform Act).<sup>7</sup> The GSA promulgates the FTR, which implements statutory requirements and Executive branch policies for travel by Federal civilian employees and others authorized to travel at government expense. This includes the general principle that employees traveling on official government business should exercise the same prudence as if traveling on personal business. The FTR addresses numerous travel-related topics beyond use of a government travel charge card including, but not limited to, the class of airline accommodation a Federal employee is required to use, when a traveler may rent a car, when a traveler is eligible for M&IE, and when receipts are required for reimbursement. With respect to government travel charge cards, the FTR requires Federal employees to use their cards for payment of all official travel expenses unless exempted.<sup>8</sup> The Reform Act also requires employees to use government travel charge cards, although the Reform Act states that an agency can exempt from this requirement any payment, person, type, or class of payments, or type or class of agency personnel if the agency head or designee determines the exemption to be necessary in the interest of the agency. However, the agency, not later than 30 days after granting such an exemption, shall notify the GSA Administrator in writing. According to the AAB Branch Chief, the SEC has not granted any such exemptions.

In addition, to prevent abuse of government charge cards, Congress enacted the Government Charge Card Abuse Prevention Act of 2012 (the Charge Card Act).<sup>9</sup> Among other things, the Charge Card Act requires the head of each executive agency that has employees that use government travel charge cards to ensure the proper, efficient, and effective use of the cards by establishing and maintaining the internal control activities shown in the figure below.

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<sup>7</sup> Public Law 105-264, 112 Stat. 2350 (October 9, 1998).

<sup>8</sup> FTR § 301-51.2-3 states that (1) expenses for which payment by government travel card is impractical (for example, vendor does not accept credit cards) or imposes unreasonable burdens or costs (for example, fees are charged for using the card) are exempt from use of the government travel card; (2) an agency may also exempt an official travel expense when it is necessary in the interest of the agency; and (3) certain classes of employees are exempt from mandatory use of the government travel card, including employees who have a travel card application pending and employees who are not eligible to receive a government travel card.

<sup>9</sup> Public Law 112-194, 126 Stat. 1445 (October 5, 2012).

**Figure. Government Travel Card Internal Control Activities Required by the Charge Card Act**

IBA Internal Control Activities	CBA Internal Control Activities
<ul style="list-style-type: none"> <li>• Recordkeeping</li> <li>• Monitoring of the receipt and accuracy of sales refunds</li> <li>• Periodically reviewing whether each cardholder needs a government travel card</li> <li>• Training cardholders and approving officials</li> <li>• Establishing agency-specific policies to minimize financial risk to the Federal Government</li> <li>• Determining cardholder creditworthiness</li> <li>• Establishing effective systems, techniques, and technologies to prevent or identify improper purchases</li> <li>• Immediately invalidating cards of former employees</li> <li>• Issuing payments directly to the card-issuing bank</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring CBA charges are not reimbursed to employees</li> <li>• Disputing and resolving unallowable and erroneous CBA charges</li> <li>• Submitting requests to servicing airlines for refunds of fully or partially unused tickets paid for with a CBA</li> </ul>

Source: OIG-generated based on the Charge Card Act.

The Charge Card Act also requires Inspectors General of agencies with more than \$10 million in annual government travel card spending to conduct periodic audits or reviews of travel charge card programs to analyze risks of illegal, improper, or erroneous purchases and payments. Notably, the SEC's travel charge card program is not subject to required periodic audits or reviews because the agency spends less than \$10 million annually on government travel charge cards.

Furthermore, the *2018 Collective Bargaining Agreement Between U.S. Securities and Exchange Commission and the National Treasury Employees Union*, Article 12—Travel, states, “The Employer will adhere to applicable laws, rules and regulations related to travel.” The Collective Bargaining Agreement also indicates that “in the administration of all matters covered in this Agreement, the Parties are governed by:

- 1) existing or future laws;
- 2) the Employer's rules and regulations in effect upon the effective date of this Agreement, unless contrary to the terms of this Agreement or government-wide rules or regulations;
- 3) government-wide rules or regulations in effect upon the effective date of this Agreement; and
- 4) government-wide rules or regulations issued after the effective date of this Agreement that are not in conflict with this Agreement.”

Finally, Appendix B to OMB Circular No. A-123, *Improving the Management of Government Charge Card Programs* (January 15, 2009) (OMB Circular No. A-123,

Appendix B) consolidates government-wide charge card program management requirements and guidance issued by OMB, GSA, the U.S. Government Accountability Office (GAO), the Department of the Treasury, and other Federal agencies. OMB Circular No. A-123, Appendix B also establishes standard minimum requirements and best practices for government charge card programs, including travel charge card programs that may be supplemented by individual agency policies and procedures. During our audit, on August 27, 2019, OMB revised OMB Circular No. A-123, Appendix B. Many of the overall requirements and best practices for government charge card programs remained unchanged; however, we assessed the SEC's management of its travel charge card program against the 2009 guidance. As a result, references to OMB Circular No. A-123, Appendix B throughout this report are to the 2009 revision and we recommended, where appropriate, that the agency take action to implement OMB's latest guidance.

## Objectives

The objectives of the audit were to assess the SEC's controls over its travel charge card program during FY 2018 and FY 2019 Q1-2 (the scope period), and to determine whether the agency complied with applicable laws, regulations, policies, and procedures. Specifically, we (1) determined whether the SEC effectively implemented the safeguards and internal controls established by the Charge Card Act, and (2) assessed agency travel charge card transactions from the scope period.

To address our objectives, among other work performed, we:

1. reviewed applicable Federal laws, regulations, and guidance, and SEC policies and procedures;
2. interviewed SEC personnel responsible for monitoring government travel charge card usage;
3. assessed the SEC's internal and information system controls as they relate to the agency's travel charge card program;
4. reviewed the SEC's travel charge card contract with U.S. Bank, sales refund formulas, and amounts refunded to the SEC during the scope period;
5. tested 100 percent of travel charge card cash advances, premium-class air travel, and state lodging taxes paid during the scope period; and
6. tested a random statistical sample of 203 closed TDY travel vouchers from the scope period.<sup>10</sup>

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<sup>10</sup> During FY 2018 and FY 2019 Q1-2, the SEC closed (that is, processed and paid) 11,837 travel vouchers for employees' TDY travel.

We relied on GAO's *Standards for Internal Control in the Federal Government* to assess the design and implementation of relevant internal controls.<sup>11</sup> We also engaged a contractor—Data Analytic Solutions, Inc. (DAS)—to (1) help identify FY 2018 closed TDY travel voucher expenses that did not have corresponding IBA or CBA transactions, and FY 2018 IBA and CBA transactions that did not have corresponding closed voucher expenses; and (2) create a methodology for statistical analysis of closed TDY travel vouchers and projection of results, where possible.

Appendix I includes additional information about our objectives, scope, and methodology; our review of internal controls and computer-processed data; and prior coverage. Appendix II includes our calculation of monetary impacts (that is unsupported costs, questioned costs, and funds that could be put to better use) we identified during our audit.<sup>12</sup>

## Results in Brief

The SEC established and maintained many of the internal control activities required by the Charge Card Act, or relied on alternate controls that were generally effective for addressing certain risks associated with government travel charge card programs. However, the agency did not implement all travel card-related internal control objectives required by the Charge Card Act, the Reform Act, and the FTR, or fully comply with certain standard minimum requirements established in OMB Circular No. A-123, Appendix B. Moreover, although some controls established in SEC policy conformed to higher-level requirements, the controls were either ineffectively designed or implemented. As a result, the SEC has not fully complied with all Federal laws, regulation, and guidance applicable to its travel charge card program, and may not be maximizing the benefits of the program, particularly with respect to IBAs. Although annual government travel charge card expenses are immaterial to the SEC's financial statements,<sup>13</sup> compliance with laws and regulations and efficient and effective stewardship of resources are important Federal internal control objectives.

**The SEC Established and Maintained Many Government Travel Charge Card Internal Control Activities Required by the Charge Card Act, or Relied on Alternate Controls.** The SEC established and maintained Charge Card Act-required internal control activities related to (1) recordkeeping; (2) training; (3) establishing effective systems, techniques, and technologies to prevent or identify improper IBA purchases; (4) ensuring CBA charges are not reimbursed to employees; and

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<sup>11</sup> U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014). According to the GAO's *Standards for Internal Control in the Federal Government*, a deficiency in design exists when (1) a control necessary to meet a control objective is missing or (2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system.

<sup>12</sup> As stated in Appendix II, we relied on the Inspector General Act of 1978, as amended (Public Law 95-452; 5 U.S.C. App.), to define monetary impact terms.

<sup>13</sup> During GAO's audit of the SEC's FY 2018 and 2019 financial statements, GAO determined that the amount of the SEC's travel expenses was not material enough to test separately.

(5) disputing and resolving unallowable and erroneous CBA charges. Specifically, AAB staff maintained records of IBA cardholders with annotated credit limits, and tracked the required travel charge card training of IBA cardholders and approving officials. To prevent non-travel expenditures, AAB staff blocked certain types of merchants, such as department stores, based on merchant category codes used to classify merchants and businesses by the type of goods or services provided. AAB staff also monitored for improper or questionable travel charge card transactions and followed up as needed. We reviewed IBA transactions from our scope period and did not identify any improper or questionable transactions that AAB staff had not already identified and resolved. We also verified that CBA airfare expenses were not reimbursed to employees. Finally, we determined that AAB established a reconciliation process to match all charges on the CBA statement to a purchase order in the SEC's financial accounting system, thereby identifying unallowable or erroneous CBA charges. We reviewed AAB's CBA reconciliations from our scope period and did not identify any unallowable or erroneous charges.

In addition, although the SEC does not (1) perform periodic reviews to determine whether each cardholder needs a government travel charge card, or (2) track the status of CBA refunds of unused tickets, AAB staff relied on alternate controls to meet these Charge Card Act requirements.<sup>14</sup> The alternate controls were generally effective for addressing related risks.

For example, in November 2018 and before transitioning from Citibank to U.S. Bank, AAB staff reviewed all active SEC government travel charge card accounts and provided a U.S. Bank travel charge card only to those employees who had traveled within the previous 2 years. According to the AAB Branch Chief, U.S. Bank also monitors SEC employees' travel charge card usage and purges inactive cards.<sup>15</sup> Furthermore, OFM officials explained that most common carriers (that is, airlines, railroad services, and bus services) notify the SEC's travel management center, CI Travel, when employees do not use all or a portion of their tickets. In such cases, travel management center personnel verify that the employee did not travel as planned and then initiate the refund process with the common carrier on behalf of the SEC. We reviewed the SEC's FY 2018 CBA purchases and identified 152 transactions that appeared to be canceled trips. We tested a judgmental sample of 15 of these transactions (or about 10 percent) and found corresponding refunds for each transaction tested.

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<sup>14</sup> In 2011, GAO reported that the SEC did not have procedures detailing the steps and documents required to effectively control and monitor travel expenses paid through the CBA, including required procedures for ensuring receipt of refunds for travel/tickets that were previously billed and paid but subsequently canceled [U.S. Government Accountability Office, *Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures* (GAO-11-348R, March 2011)]. The SEC's October 2016 remediation plan indicates that the agency accepted the risk of this finding.

<sup>15</sup> The bank considers a travel card "inactive" if (1) there has been no activity for 22 months, (2) the account balance is \$0, and (3) the account has reached its expiration month.

**The SEC Did Not Implement All Required Government Travel Charge Card Internal Control Objectives and Some Controls Were Either Ineffectively Designed or Implemented.** The SEC did not implement all government travel card internal control objectives required by the Charge Card Act, the Reform Act, and the FTR, or fully comply with certain standard minimum requirements established in OMB Circular No. A-123, Appendix B. Moreover, although some controls established in SEC policy conformed to higher-level requirements, the controls were either ineffectively designed or implemented. Specifically, we found that the SEC did not:

- clearly and consistently require employees to establish an IBA and use their government travel charge cards (Finding 1);
- ensure that employees and authorizing officials minimized or justified costs to the agency (Finding 2);
- monitor sales refunds for accuracy and to ensure refunds were properly recorded as a receipt of the agency (Finding 3);
- enforce requirements for alternative creditworthiness assessments before issuing and renewing restricted travel charge cards (Finding 4);
- issue travel charge card payments directly to the travel card-issuing bank (Finding 5);
- timely cancel all separated employees' IBAs (Finding 6); and
- ensure that employees timely submitted travel vouchers or paid account balances (Finding 7).

We further describe each of these findings in the Results section that follows.

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## Results

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### **Finding 1. The SEC Did Not Clearly and Consistently Require Employees To Establish an IBA and Use Their Government Travel Charge Cards**

The Reform Act requires Federal employees to use government travel charge cards for all payments of expenses related to official government travel, unless exempted. Likewise, FTR § 301-51.1 states that Federal employees “are required to activate the government contractor-issued travel charge card once [they] receive it, and then use it as the method of payment for *all* [emphasis added] official travel expenses unless exempted. . . .” Finally, the Charge Card Act requires agencies to minimize the financial risk to the Federal Government, while OMB Circular No. A-123, Appendix B directs agencies to maximize available refunds by ensuring “appropriate charge card use.” Nonetheless, AAB staff did not ensure that SEC employees established IBAs and used their government travel charge cards as required. According to the AAB Branch Chief, as of April 18, 2019, 87 SEC employees had IBAs but did not use their travel charge cards for official travel expenses between January 1, 2017, and December 31, 2018. An additional 183 SEC employees traveled more than 3 times in the previous 2-year period but did not have IBAs and were not exempted from travel card use. The Branch Chief stated that these 270 employees generally used the SEC’s CBA for common carrier transportation expenses and other payment methods, including personal credit cards, for all other travel expenses. This occurred because AAB staff believed they could not compel SEC employees to establish an IBA or use their government travel charge cards. The AAB Branch Chief also believed that employees’ use of the CBA for transportation expenses satisfied the Reform Act and FTR requirements. Moreover, the SEC’s travel charge card policies are unclear and inconsistent.

For example, the OFM Reference Guide Chapter 91.03, *Travel Payments Process Document* (May 2016), and the SEC Travel Policy collectively require all SEC employees who travel two or more times per year (that is, frequent travelers) to establish an IBA.<sup>16</sup> However, the applicable SEC Administrative Regulation—SECR 14-3, *Travel Charge Card Monitoring Policy* (January 31, 2017) (SECR 14-3)—defines a frequent traveler participating in the government travel charge card program as an employee who takes five or more trips per year.

Regarding use of employee travel charge cards, the SEC Travel Policy states:

As an SEC employee on travel, you must use your government travel charge card for all official expenses if it is an accepted form of payment. Example: lodging, meals, airline ticket, rental car, taxi, parking at the airport, and other expenses as approved on your travel authorization.

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<sup>16</sup> The OFM Reference Guide is the repository for OFM’s financial policies and procedures, business process narratives, issue papers, and reference materials. OFM Reference Guide, Chapter 91, *Expenses and Costs – Travel*, establishes certain SEC travel charge card policies.

However, the OFM Reference Guide Chapter 91.03 permits employees to use “personal financial resources for legitimate travel expenses” and states that transportation expenses for the SEC’s Division of Enforcement are charged the CBA. The AAB Branch Chief stated that the OFM Reference Guide is under revision and the SEC’s Division of Enforcement currently does not exclusively use the CBA for transportation expenses.

Throughout our audit, many employees and senior management officials acknowledged and/or expressed a desire to avoid using IBAs or requiring employees to use their IBAs. For a variety of reasons, some viewed (or acknowledged that others viewed) employee travel charge cards and management of IBAs as inconvenient and of little benefit. Increased outreach and education as well as effective implementation of available GSA products and services, including Tax Advantage Travel Card Accounts (discussed in Finding 2) and split disbursement processes (discussed in Finding 5), should help address these concerns.

By not clearly and consistently establishing the threshold for requiring an IBA and enforcing the requirement for employees to use their government travel charge cards, when possible, to pay for official travel expenses, the SEC has not (1) fully complied with applicable Federal laws and guidance, or (2) maximized available refunds based on sales volume. For example, we estimate that, in FY 2018, SEC employees did not use an IBA to pay for about \$550,000 in lodging expenses.<sup>17</sup> This equated to an estimate of \$3,200 in lost refunds for this type of expense.<sup>18</sup> In addition, allowing employees to charge transportation expenses to the CBA instead of their IBAs shifts the financial risk of those transactions from the employees to the SEC.

In a July 2019 memorandum, the SEC announced the establishment and use of split disbursement. Furthermore, the announcement indicates, “Under the Federal Travel Regulation (FTR) and SEC Policy, travelers are required to use a government-issued travel charge card for expenses directly related to official travel with limited exceptions. OFM will be reaching out to frequent travelers without an IBA card after July 1 to complete the new card application.”<sup>19</sup>

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<sup>17</sup> We subtracted from the FY 2018 closed travel voucher total lodging and lodging tax amount (\$2,945,509) the lodging and lodging taxes charged to IBAs (\$2,395,346) to arrive at the amount not charged to IBAs (\$550,163).

<sup>18</sup> The SEC could not provide the Citibank task order that established the refund percentage negotiated by the agency. Therefore, we estimated that the refund percentage was about 0.59 percent by dividing the total refunds received in FY 2018 (\$36,129) by the total dollars spent on travel charge cards that year (\$6,153,954), excluding cash advances and fees. We applied the estimated refund percentage to the amount of lodging expenses not charged to IBAs in FY 2018 (0.59 percent X \$550,163 = \$3,246). This analysis assumes that the SEC received the appropriate amount of refunds in FY 2018, which we discuss in Finding 3.

<sup>19</sup> The AAB Branch Chief indicated that, subsequent to this announcement, an SEC office requested AAB to initiate government travel card applications for the office’s frequent travelers without IBA cards; however, AAB placed the process on hold because of the OIG’s audit.

## Recommendations, Management's Response, and Evaluation of Management's Response

To improve the SEC's oversight and management of its travel charge card program, we recommend that AAB:

**Recommendation 1:** Increase outreach efforts to make SEC employees aware of their obligation to use their government travel charge cards, and the benefits to the agency from their use of government travel charge cards.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management has sent several communications on this topic in recent months and will send a targeted email to frequent travelers without individual travel cards to stress the need to use a travel card for all official travel expenses. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

**Recommendation 2:** Update Office of Financial Management Reference Guide Chapter 91.03, *Travel Payments Process Document*; SEC Administrative Regulation 14-3, *Travel Charge Card Monitoring Policy*; and the SEC Travel Policy. The updates should (a) be consistent and compliant with the Travel and Transportation Reform Act of 1998, the Federal Travel Regulation, the Government Charge Card Abuse Prevention Act of 2012, and the 2019 revision to Office of Management and Budget Circular No. A-123, Appendix B; and (b) provide clear and consistent guidance on the need for and use of government travel charge cards.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management will update its policies, procedures, and guidance accordingly. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

**Recommendation 3:** Identify those SEC employees who are considered "frequent travelers" but who do not have Individually Billed Accounts, and either (a) seek an exemption to Federal requirements regarding such accounts, or (b) require those employees to apply for and use Individually Billed Accounts or Tax Advantage Travel Card Accounts, as discussed in Finding 2.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management will review and update current SEC Travel Policy regarding the use of the Individually Billed Account for frequent and infrequent travelers and take steps to communicate

and enforce the updated policies. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

## **Finding 2. The SEC Did Not Always Ensure That Employees and Authorizing Officials Minimized or Justified Costs to the Agency**

As previously stated, various Executive Orders and OMB guidance have encouraged agencies to adopt cost-savings efforts and promote efficient travel spending. However, in FY 2018 and FY 2019 Q1-2, the SEC did not ensure that employees and authorizing officials:

- supported the need for premium-class air travel expenses claimed under the 14-hour rule;
- pursued exemptions to state taxes, where available; and
- provided justifications and support for lodging and POV expenses.

These conditions occurred because, although OFM used a combination of controls to prevent, detect, and correct unauthorized transactions and delinquency, in many instances, OFM relied on and deferred to authorizing officials' review and approval of employee travel authorizations and vouchers. In addition, the SEC Travel Policy did not establish the expectation or requirement that employees and authorizing officials should minimize travel costs to the agency, such as exemptions to state taxes, when possible. As a result, in FY 2018 and FY 2019 Q1-2, the SEC paid (1) \$103,496 in premium-class air travel, although we could not determine whether authorizing officials and OFM considered less costly alternatives; (2) \$119,273 in state lodging taxes that could have potentially been avoided; (3) an estimated \$2,300 in state rental car taxes that could have potentially been avoided; and (4) at least \$6,386 in unsupported lodging and POV expenses for the sample of vouchers we tested. We project with 95 percent confidence that, from the total population of 11,837 FY 2018 and FY 2019 Q1-2 closed TDY vouchers, 1,749 vouchers (or about 15 percent) included at least 1 instance of unsupported lodging or POV expenses. We discuss each of these issues below.<sup>20</sup>

**Unsupported Requests for Premium-Class Air Travel.** Generally, government employees are required to use coach class accommodations provided by domestic and international common carriers for their transportation needs. An employee may request and receive approval from his or her authorizing official and OFM for an upgrade to business-class accommodations (that is, premium-class air travel) under circumstances established in FTR § 301-10.123 and SEC policy. Such circumstances include those in which (1) no space is available in coach-class accommodations in time to accomplish the mission, which is urgent and cannot be postponed; (2) business-class accommodations are necessary because of a disability or other special need; (3) the upgrade results in an overall cost savings by avoiding other expenses that would have been incurred; (4) coach-class accommodations on an authorized/approved foreign air carrier do not provide adequate sanitation or health standards; (5) the transportation costs are paid in full through agency acceptance of payment from a non-federal source; and (6) the scheduled flight time, including non-overnight stopovers and change of

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<sup>20</sup> Appendix II includes calculations of monetary impacts.

planes, exceeds 14 hours (known as “the 14-hour rule”). According to FTR § 301-10.125, under the 14-hour rule, the employee’s origin and/or destination must also be outside the continental United States and the employee is required to report to duty the following day or sooner. According to the SEC Travel Policy, when considering requests for premium-class travel under the 14-hour rule, authorizing officials should consider the following:

- the constructive cost, which is the cost of premium-class accommodations versus the cost of coach-class accommodations, including the cost of a rest stop, if applicable; and
- the purpose and urgency of the trip, including whether the trip can be delayed or postponed or whether the employee can schedule a rest stop en route or an earlier flight to allow for a rest period upon arrival and avoid premium-class travel costs.

We reviewed all 41 trips involving premium-class air travel by SEC employees during FY 2018 and FY 2019 Q1-2, which had a total cost of \$262,223. Authorizing officials and OFM approved 12 of these 41 trips (or about 29 percent, totaling \$103,496) based on the 14-hour rule.<sup>21</sup> Although the approval of the 12 trips generally complied with the FTR’s requirements under the 14-hour rule, we could not determine whether authorizing officials and OFM considered less costly alternatives to premium-class air travel. In these 12 instances, officials did not prepare or maintain constructive cost documentation, including whether a rest stop could be scheduled, the cost of a rest stop, or whether the employee was required to report the next day or sooner. When asked about this lack of support, OFM personnel stated the following:

1. authorizing officials are responsible for ensuring that travel authorizations comply with the FTR and SEC policy;
2. constructive costs are discussed but not documented; and
3. OFM plans to remove the constructive cost requirement from the SEC Travel Policy because it is not explicitly required in the FTR.

The intent of constructive cost analysis is to avoid costs associated with premium-class air travel when possible. By not requiring travelers and approving officials to document their rationale for premium-class air travel in all cases, including under the 14-hour rule, responsible officials, including OFM, cannot determine whether other travel scenarios are more advantageous to the government. On May 30, 2019, OFM began reviewing and approving all requests for premium-class travel, including those made under the 14-hour rule.

**Payment of Avoidable State Taxes.** As noted in OMB Circular No. A-123, Appendix B, the Federal Government is not liable for State and local government taxes, and thus, any such taxes paid must be recovered. However, when a government employee is directly billed and later reimbursed—as is the case with IBAs—each state has the ability

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<sup>21</sup> Most of the FY 2018 and FY 2019 Q1-2 trips involving premium-class air travel (25 of 41) were based on special needs.

and authority to assess taxes. Although most states and U.S. territories assess taxes on purchases charged to IBAs, according to GSA, the following 12 states and 2 U.S. territories exempt some or all taxes on such purchases:

- Alaska
- Delaware
- Florida
- Kansas
- Louisiana
- Massachusetts
- Missouri
- New York
- Oregon
- Pennsylvania
- Texas
- Wisconsin
- Puerto Rico
- U.S. Virgin Islands<sup>22</sup>

Specifically, Alaska, Delaware, and Missouri exempt all taxes on IBA purchases.<sup>23</sup> Florida, Massachusetts, New York, Texas, Wisconsin, and the U.S. Virgin Islands exempt taxes on lodging and rental car purchases charged to IBAs. Finally, Kansas, Louisiana, Oregon, Pennsylvania, and Puerto Rico exempt only taxes on lodging purchases charged to IBAs. Each of these states and territories (referred to hereafter as “the tax-exempt states and territories”) has requirements for establishing and documenting tax-exempt status. For example, many require individuals to provide a government ID or file a form at the point of purchase to claim or certify qualifying exemptions.

OMB Circular No. A-123, Appendix B, Chapter 11, *State and Local Tax Recovery*, states:

Federal Government transactions, for which any of the government charge cards are used, are exempt from State and local taxes. The agency should work with the charge card vendor cooperatively to ensure that merchants and States do not tax these transactions. Agencies must be prepared to provide vendors with proof of tax exempt status via their agency’s Tax Identification Number.

In instances where the tax-exempt status is not recognized at the point of sale, agencies should work with their charge card merchants and State or local authorities to accomplish tax recovery. In the case of individually billed accounts, travelers must provide a tax exemption certificate to lodging vendors, when applicable, to exclude state and local taxes from their hotel bills. Agencies have historically experienced difficulty getting certain vendors and States to recognize tax exemption on Federal charge card transactions and subsequent attempts to recover incorrectly assessed taxes is proven complicated and time-consuming.

Nonetheless, agencies are required to make good-faith attempts to accomplish these actions.

<sup>22</sup> <https://smartpay.gsa.gov/content/state-tax-information>. Accessed on December 30, 2019. Notably, the 12 states that exempt some or all taxes on purchases charged to IBAs include 5 states housing SEC regional offices.

<sup>23</sup> Alaska does not have state sales and use tax and is, therefore, exempt by default.

In addition, GSA's mandatory government travel charge card training states that it is the cardholder's responsibility to "review and understand the state tax policy for your state and have all necessary forms or information prepared before traveling."<sup>24</sup> Furthermore, the FTR reminds travelers to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business, and states that agencies will not pay for excess costs resulting from services unnecessary or unjustified in the performance of official business.

We sought to determine whether SEC employees and authorizing officials pursued exemptions to state taxes, where available. First, we assessed payments or exemptions of lodging taxes when SEC employees used their IBAs to pay for lodging in the tax-exempt states and territories. We found that, during FY 2018 and FY 2019 Q1-2, the SEC paid to the tax-exempt states and territories \$119,273 in lodging taxes that could have potentially been avoided.<sup>25</sup> We also identified three instances (totaling \$209) in which the SEC reimbursed employees for lodging tax expenses claimed on the employees' travel vouchers but not paid by the employees.<sup>26</sup> AAB agreed with our analysis and recouped the \$209.

Next, when reviewing closed TDY travel vouchers, we noted that SEC employees who used their IBAs to pay for rental car purchases usually paid sales taxes even when such taxes could have been avoided. We estimate that the SEC could have potentially avoided an additional \$2,300 in sales taxes on rental car purchases.<sup>27</sup>

These conditions occurred because, although the SEC Travel Policy addresses state tax exemptions, it does not encourage or require employees to take advantage of such exemptions. Moreover, AAB had not established controls or processes to ensure employees take advantage of such exemptions, where available. According to AAB staff, the SEC has the authority to pay state taxes when assessed on charges to employees' IBAs. Therefore, the agency reimburses employees for such expenses regardless of whether the employees could have sought and received an exemption. Reimbursing employees for unnecessary and avoidable expenses is wasteful and does not promote good stewardship of the resources entrusted to the agency.<sup>28</sup>

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<sup>24</sup> The training suggests contacting hotels to verify their compliance with state tax exemption policies before traveling so that employees have time to find another hotel if the one booked is not compliant.

<sup>25</sup> From the total population of 11,837 closed TDY travel vouchers in FY 2018 and FY 2019 Q1-2, we identified 4,917 vouchers for travel to the tax-exempt states and territories. We determined that 2,126 of these vouchers (submitted by 952 employees) included a total of \$119,273 in state lodging taxes.

<sup>26</sup> In these instances, SEC employees claimed lodging taxes that they were not charged or that were subsequently removed from the hotel bill or refunded to the employee's government travel card.

<sup>27</sup> We estimated the rental car sales tax savings by multiplying the total number of rental car purchases charged to IBAs in states that offered tax exemptions on such purchases in FY 2018 and FY 2019 Q1-2 (230) by an estimated average per-purchase sales tax of \$10.

<sup>28</sup> In the 2018 revision to the *Government Auditing Standards* (GAO-18-568G, July 2018), GAO defines "waste" as "the act of using or expending resources carelessly, extravagantly, or to no purpose." GAO states that an example of waste is "Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive."

Although tax exemptions on IBA purchases are offered only in certain states and U.S. territories and require travelers to provide forms or other qualifying information at the point of purchase, use of Tax Advantage Travel Card Accounts (newly available under the GSA SmartPay 3 Master Contract, which went into effect on November 30, 2018) would automatically exempt taxes on SEC employees' lodging and car rental purchases in all states and U.S. territories. When using a Tax Advantage Travel Card Account, charges for lodging and rental cars are automatically billed to the agency's CBA for payment, taking advantage of the government's tax-exempt status. Other travel-related purchases, such as M&IE, are billed to the IBA portion of the account, will still incur tax, and the individual traveler will still be liable for payment to the bank for those charges. We determined that, if SEC employees had been able to use Tax Advantage Travel Card Accounts in FY 2018 and FY 2019 Q1-2, the agency would have potentially avoided paying about \$406,760 in state lodging and rental car taxes,<sup>29</sup> demonstrating the potential impact Tax Advantage Travel Card Accounts could have in future periods. Furthermore, agencies can negotiate higher refunds for Tax Advantage Travel Card Accounts, which take advantage of split disbursement processes (discussed in Finding 5).



Source: GSA SmartPay Tax Advantage Travel Card Account brochure (March 2019)

According to the AAB Branch Chief, implementing Tax Advantage Travel Card Accounts would require several potential updates to the E2 travel system, which is operated by the Enterprise Services Center (a Federal shared service provider). Moreover, the Enterprise Services Center would need to initiate these updates for all their customers, not just the SEC. The AAB Branch Chief added that, because Tax Advantage Travel Card Accounts split travel expenses between the SEC and the traveler, new monthly credit card statements would come to the SEC and would need to be reconciled to individual trips. The AAB Branch Chief concluded that any efficiencies gained would likely be lost in the reconciliation effort. However, AAB staff acknowledged that they had not performed or documented a formal cost-benefit analysis to support this conclusion.

**Unsupported Lodging and POV Expenses.** We reviewed closed TDY travel vouchers from our scope period to determine whether documents supporting travel expenses employees claimed in FY 2018 and FY 2019 Q1-2 complied with the FTR and the SEC Travel Policy. We selected and tested a random statistical sample of 203 closed TDY travel vouchers<sup>30</sup> and found that, although the vouchers generally included required documents, there were instances of lodging and POV expenses that employees and

<sup>29</sup> The SEC would have potentially avoided about \$398,000 in state lodging taxes and an additional estimated \$8,760 in state rental car taxes. We estimated the potential rental car tax savings by multiplying the total number of car rental purchases charged to IBAs during the scope period (876) by an estimated average per-purchase sales tax of \$10.

<sup>30</sup> The SEC closed (that is, processed and paid) 11,837 TDY travel vouchers during FY 2018 and FY 2019 Q1-2. The sample size of 203 was determined using a desired confidence level of 95 percent. The sample included randomly selected closed TDY travel vouchers from the SEC's divisions, offices, and regional offices, excluding the OIG.

authorizing officials did not properly justify or adequately support, totaling \$6,386. Table 2 summarizes our findings.

**Table 2. Results of Closed TDY Travel Voucher Testing**

Expense Category	Requirements	Test Results
Actual lodging expense instead of per diem	According to the SEC Travel Policy, "Actual expense travel must be requested in advance with a justification noted on your travel authorization and approved by OFM prior to departure for your trip."	We identified 15 vouchers that included lodging expenses over the approved per diem rate. In seven of these instances, employees did not provide and authorizing officials did not require proper justification, resulting in the SEC paying \$513 in unsupported lodging expenses.
POV	FTR § 301-70.102(d) requires agencies to establish policies and procedures governing when the use of a POV is considered advantageous to the government. Analyses must consider the total cost of using a POV as compared to the total cost of using a rental vehicle. Moreover, according to the SEC Travel Policy, the employee must provide a justification that analyzes all applicable factors, including but not limited to, the amount of per diem; the amount of lost work time; the total distance traveled; the number of points visited; the number of travelers; and the energy conserved.	We identified 59 vouchers that included POV expenses. In 16 of these instances, employees did not provide and authorizing officials did not require proper justification or analyses, resulting in the SEC paying \$2,751 in unsupported POV expenses.
Missing receipts	FTR § 301-52.4 requires employees to substantiate their claimed travel expenses by providing a lodging receipt (regardless of amount) and a receipt for every authorized expense over \$75.	We identified 149 vouchers that included lodging expenses. In eight of these instances, employees did not provide and authorizing officials did not require lodging receipts, resulting in the SEC paying \$3,122 in unsupported lodging expenses.
Total amount of unsupported expenses paid for vouchers tested: \$6,386		

Source: OIG-generated based on the FTR, the SEC Travel Policy, and the results of OIG tests of a random statistical sample of 203 closed TDY travel vouchers from FY 2018 and FY 2019 Q1-2.

We discussed with OFM personnel the unsupported lodging and POV expenses we identified as a result our sample testing. Regarding requests for upgraded lodging, OFM responded that, as of May 30, 2019, OFM personnel review and approve all requests. Regarding POV expenses, an OFM Assistant Director indicated the amounts are immaterial, and AAB staff stated that the approving officials are responsible for reviewing the traveler's justification and documentation and approving the travel authorization.

Finally, during our testing we noted travelers were not always providing receipts for airfare and rail tickets purchased with the CBA. When we asked about the missing CBA receipts for airfare and rail expenses, the OFM Assistant Director stated that receipts are not necessary for expenses paid using the CBA as they are not expenses claimed for reimbursement by an employee. However, we suggest a best practice would require travelers to provide airfare and rail receipts purchased with the CBA. *GSA SmartPay Travel Training* indicates the approving official is responsible for ensuring that all purchases made by the account holder(s) within his/her span of control are appropriate

and the charges are accurate. Purchases not only should be legal and proper but also should be considered “mission essential.”

Based on the results of our closed TDY travel voucher testing, we project that, from the total population of 11,837 FY 2018 and FY 2019 Q1-2 closed TDY vouchers, 1,749 vouchers (or about 15 percent) included at least one instance of unsupported lodging or POV expenses.<sup>31</sup> Unsupported expenses increase the risk for abuse or misuse of government travel charge cards, as well as the financial risk to the SEC.

## Recommendations, Management’s Response, and Evaluation of Management’s Response

To improve the SEC’s oversight and management of the travel charge card program, we recommend that AAB:

**Recommendation 4:** Increase outreach efforts to make authorizing officials aware of their responsibilities and obligations when reviewing and approving travel authorizations and travel vouchers.

**Management’s Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management will update its Travel Approver training materials to address this recommendation and otherwise improve the effectiveness of training to Travel Approvers. Management’s complete response is reprinted in Appendix III.

**OIG’s Evaluation of Management Response.** Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

**Recommendation 5:** Ensure explanations and justifications for premium-class air travel, above per diem lodging, and usage of personal vehicles are documented and included in travel authorization files.

**Management’s Response.** Management concurred with the recommendation. According to the Chief Financial Officer, in addition to requiring a justification in the travel system for premium-class air travel and above-per-diem lodging, the Office of Financial Management added a new dynamic routing on May 30, 2019, whereby all such requests are routed to the Office of Financial Management for approval. The Office of Financial Management will evaluate the ability to include a system justification for the use of personal vehicles, and will review the current SEC Travel Policy with respect to personal vehicles. Finally, the Office of Financial Management will update its Travel Approver training materials to address this recommendation. Management’s complete response is reprinted in Appendix III.

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<sup>31</sup> Using a confidence level of 95 percent, the confidence interval for the proportion of errors translates to an upper limit of 2,431 instances and lower limit of 1,129 instances.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

**Recommendation 6:** Encourage travelers and authorizing officials to take advantage of state tax exemptions, where available, and develop a process for recouping state tax payments that were paid when an exemption existed.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the SEC Travel Policy provides information regarding lodging tax exemptions and there is a link on the Travel intranet site for printing the required forms. The Office of Financial Management will update its Travel Approver training materials to address this recommendation. With respect to developing a process for recouping state tax payments that were paid when an exemption existed, the Office of Financial Management will reach out to other agencies to determine if a cost effective process can be implemented for the SEC. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

**Recommendation 7:** If cost-effective and feasible, transition to GSA SmartPay Tax Advantage Travel Card Accounts for all SEC employees with Individually Billed Accounts.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, to determine feasibility, the Office of Financial Management will communicate with the Department of Transportation's Enterprise Service Center, which operates the E2 travel system used by the SEC and numerous other agencies, to learn when they plan to undertake the system upgrades that will permit agencies to use these new GSA Tax Advantage travel cards. To determine cost-effectiveness, the Office of Financial Management will undertake an assessment of the costs and benefits of transitioning to GSA Tax Advantage travel cards. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

**Recommendation 8:** Re-emphasize the approving official's responsibility to verify that all required receipts are included in travel vouchers.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management will update its Travel Approver training materials to address this recommendation. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

### **Finding 3. The SEC Did Not Monitor the Receipt or Accuracy of Sales Refunds**

As previously discussed, sales refunds are a significant benefit of using government travel charge cards. According to GSA, since the SmartPay program's inception in 1998, customers have earned more than \$3 billion in net refunds for mission support. The Charge Card Act requires agencies to have internal controls to monitor the receipt and accuracy of refunds. Moreover, OMB Circular No. A-123, Appendix B, Chapter 7, *Refund Management*, makes clear that proper management of sales refunds is critical to ensuring that agencies maintain cost-effective charge card programs. To assist agencies in these efforts, GSA provides a refund guide and a refund review tool.

We requested evidence that the SEC received the quarterly refund checks from travel charge card banks for FY 2018 and FY 2019 Q1-2, and found that AAB staff were unaware that the SEC had not received the first quarter FY 2018 refund check. Subsequently, AAB staff contacted Citibank, and the SEC received the refund (totaling about \$9,900) in August 2019. AAB staff could not explain why the SEC had not received the check on time and added that personnel were not tracking the issuance or receipt of refund checks or validating the accuracy of refund amounts. Furthermore, AAB did not have policies or procedures addressing these issues. Finally, the AAB Branch Chief indicated that responsibility for confirming receipt of refunds was transferred from one AAB staff member to another.

During our audit, AAB established new procedures to monitor and validate receipt of sales refunds and the accuracy of refund amounts.<sup>32</sup> According to the AAB Branch Chief, in 2020, OFM will include the new procedures in an OFM travel card process document. AAB staff also verified the accuracy of the refund amounts received for FY 2019 Q1-2, and we confirmed the accuracy of their calculations. Furthermore, we confirmed that the SEC received the sales refunds, and we validated the accuracy of the U.S. Bank refunds for the last two quarters of FY 2019. However, we could not validate the accuracy of the FY 2018 sales refunds received because agency personnel were unable to provide the Citibank task order that established the refund percentage negotiated by the SEC. As a result, the SEC did not fully comply with applicable Federal law and guidance and may not have received the correct amount of FY 2018 sales refunds.

### **Recommendation, Management's Response, and Evaluation of Management's Response**

To improve the SEC's oversight and management of the travel charge card program, we recommend that AAB:

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<sup>32</sup> U.S. Bank sends to OFM a sales refund report 2 weeks after each quarter ends. As part of OFM's new procedures, OFM personnel will run IBA and CBA activity reports independently and recalculate refund amounts.

**Recommendation 9:** Document procedures for monitoring receipt of travel charge card refunds and verifying their accuracy.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, with the implementation of SmartPay3, the Office of Financial Management has created a new process to validate the receipt and accuracy of rebates and will update policies and procedures accordingly. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

## **Finding 4. The SEC Did Not Enforce Requirements for Alternative Creditworthiness Assessments Before Issuing and Renewing Restricted Travel Cards**

OMB Circular No. A-123, Appendix B, Chapter 6, *Credit Worthiness*, states, “Credit worthiness assessments are an important internal control to ensure that charge cardholders are financially responsible.” According to the OFM Reference Guide Chapter 91.05, *Expenses and Costs – Travel: Government Travel Credit Cards* (July 2016, revised March 2019), credit checks reduce the risk of late payments and establish maximum credit amounts to reduce the amount at risk of nonpayment. The Charge Card Act and the Consolidated Appropriations Act, 2008<sup>33</sup> require agencies to ensure a creditworthiness assessment is conducted before issuing a travel charge card to first-time applicants. Both Acts and OMB Circular No. A-123, Appendix B discuss requirements and processes for issuing a “restricted” travel card<sup>34</sup> to a first-time applicant if the individual has unsatisfactory credit (that is, a credit score of less than 660), or when it is not possible to obtain a credit score (for example, the individual refuses to consent to a credit check or does not have a credit history). In such cases, agencies must conduct an alternative creditworthiness assessment, which must be reassessed before the cardholder is issued a renewed card. OMB Circular No. A-123, Appendix B specifies that the alternative assessment must involve either reviewing the proposed applicant’s most recent Standard Form 85P, Section 22 (Financial Record), *Questionnaire for Public Trust Positions*, or using “a similar vehicle containing the same type of questions . . . to assess credit worthiness.”

The OFM Reference Guide addresses the need for credit checks and restricted travel charge cards but does not discuss the requirement or process for conducting alternative creditworthiness assessments. According to the AAB Branch Chief, the travel card bank performs “soft credit checks,” which have no impact on employee credit scores. However, AAB allows SEC employees to opt out of such credit checks and does not perform required alternative creditworthiness assessments. As of October 2019, 130 of the 2,340 SEC employees with IBAs (or almost 6 percent) had restricted travel charge cards. However, agency officials could not identify which of the 130 cardholders had a restricted card because the cardholders opted out of the soft credit check and which had a restricted card for other reasons, including unsatisfactory credit. As a result, the SEC has not fully complied with applicable Federal laws and guidance and cannot ensure that all cardholders are financially responsible.

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<sup>33</sup> Public Law 110-161, 121 Stat. 2032 (December 26, 2007).

<sup>34</sup> SEC employees with restricted cards have only a \$1 credit limit, which AAB staff raise to \$7,500. SEC employees without such restrictions receive travel cards with a credit limit of \$15,000.

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## Recommendations, Management's Response, and Evaluation of Management's Response

To improve the SEC's oversight and management of the travel charge card program, we recommend that AAB:

**Recommendation 10:** Update the Office of Financial Management Reference Guide Chapter 91.05, *Expenses and Costs – Travel: Government Travel Credit Cards*, to address the requirement and process for conducting alternative creditworthiness assessments in accordance with the 2019 revision to Office of Management and Budget Circular No. A-123, Appendix B, and the Government Charge Card Abuse Prevention Act of 2012.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management will review the guidance provided by the Office of Management and Budget and the General Services Administration, and reach out to other agencies for best practices and to determine a process for conducting alternative creditworthiness assessments. The Office of Financial Management will also update its policies and procedures accordingly. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

**Recommendation 11:** Determine which employees with Individually Billed Accounts opted out of the creditworthiness evaluation, as of the date of this report, and ensure these employees undergo an alternative creditworthiness assessment.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, because the Office of Financial Management is unable to determine which employees with Individually Billed Accounts opted out of the creditworthiness evaluation, the Office of Financial Management will ensure that an alternative creditworthiness assessment is performed for all employees issued a restricted card since the implementation of SmartPay3 on November 30, 2018. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

## Finding 5. The SEC Did Not Issue Payments Directly to the Travel Card-Issuing Bank

According to OMB Circular No. A-123, Appendix B, Chapter 4, *Risk Management*, split disbursement is the process of dividing a travel voucher reimbursement between the traveler and the charge card vendor and sending the balance owed directly to each party. Split disbursements assist travelers with timely payment of their travel card bills, reduce the potential for delinquency, and reduce the risk of improper payments to the traveler. The Charge Card Act requires split disbursements, stating, "Each executive agency shall ensure that, where appropriate, travel card payments are issued directly to the travel card-issuing bank for credit to the employee's individual travel charge card account." As explained in OMB Circular No. A-123, Appendix B, to obtain a waiver from this requirement, agencies must determine that the cost of implementing split disbursement processes exceeds the benefits, and request (in writing) a waiver from the Director of OMB.

According to an Enterprise Services Center Manager, split disbursements were implemented in several agencies during FYs 2016 - 2017. Although the SEC did not obtain a waiver from the Director of OMB, the agency did not implement split disbursement processes until July 2019. The SEC delayed its implementation because of issues, such as rounding errors and budget object class hardcoding, identified during split disbursement testing. As part of its implementation of split disbursement processes, AAB changed relevant settings in E2 to ensure that the "Pay To" method for expenses typically charged to an IBA (that is, airfare, rail, and lodging) are paid directly to the travel card-issuing bank, whereas M&IE and other out-of-pocket expenses will continue to reflect a "Pay To" of "Traveler" for reimbursement to the employee.

By making these changes, the SEC has taken steps to improve its compliance with applicable Federal law and guidance and improve its travel charge card program internal control activities. Nonetheless, the SEC will not fully realize the benefits of implementing split disbursement processes unless the agency enforces the requirement for employees to use their travel charge cards as required and when possible (discussed in Finding 1). Additionally, employees can change their E2 profile settings to "Agency Billed," causing transportation expenses to be billed to the agency's CBA instead of the employee's IBA and effectively circumventing AAB's attempts to manage the travel charge card program and implement split disbursement.

### Recommendation, Management's Response, and Evaluation of Management's Response

To improve the SEC's oversight and management of the travel charge card program, we recommend that AAB:

**Recommendation 12:** Increase outreach efforts to make travelers and authorizing officials aware of their responsibility to confirm that travelers' E2 profiles support the agency's implementation of split disbursement processes.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management will review and make updates, as appropriate, to guidance and training documents. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

## Finding 6. The SEC Did Not Always Timely Cancel Separated Employees' IBAs

The Charge Card Act makes clear that agency heads must ensure the proper, efficient, and effective use of government travel charge cards. To help prevent abuse of government travel charge cards, the Charge Card Act requires agencies to ensure that employee travel charge cards are invalidated "immediately upon termination of employment." SECR 5-5, *Exit Clearance* (January 26, 2017), states that the SEC's Chief Financial Officer or designee(s) shall (1) determine if exiting employees were issued government travel charge cards and, if so, verify termination of the cards; and (2) determine if exiting employees' government travel charge cards have outstanding cash advances or unpaid vouchers.

We found that, for each exiting employee, AAB staff receive a notification from the SEC's Exit Process Portal.<sup>35</sup> AAB staff then determine whether the exiting employee has an IBA and whether the employee has a need to travel before separating from the SEC. If the employee does not need to travel, AAB staff cancel the employee's IBA, invalidating the employee's travel charge card. If the employee indicates a need to travel, AAB holds open the IBA until the travel is completed.

We determined that 175 of the 247 employees who separated from the SEC during our scope period (FY 2018 and FY 2019 Q1-2) had IBAs. We analyzed actions to cancel these employees' IBAs and determined that AAB staff did not timely cancel 16 (or about 9 percent). However, we verified that none of the travel charge cards associated with these employees' IBAs were used after the employees separated from the agency.

AAB staff cancelled the 16 IBAs in question between 1 and 37 days late. Seven of these instances were unexplained. For the remaining nine instances, AAB staff explained the following:

- seven occurred because the SEC's Exit Process Portal provided late notifications to AAB that employees were separating; and
- two were because of confusion caused by employee name changes.

These conditions indicate that some controls at the SEC may not be properly functioning. During our audit, AAB implemented a new procedure that involves comparing the roster of departing employees (received from the SEC's Office of Human Resources) to AAB's travel charge card records to ensure travel charge cards are cancelled upon termination of employees' employment.

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<sup>35</sup> The Exit Process Portal is the automated system used by the SEC to process and track the exit clearance process for individuals separating from the SEC.

## **Recommendation, Management's Response, and Evaluation of Management's Response**

To improve the SEC's oversight and management of the travel charge card program, we recommend that AAB:

**Recommendation 13:** Document AAB's new procedure for ensuring employees' government travel charge cards are invalidated immediately upon termination of employment with the SEC.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management has implemented an additional process to make sure the travel charge cards for departing employees are timely canceled and will update its policies and procedures accordingly. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

## Finding 7. Employees Did Not Always Timely Submit Travel Vouchers or Pay Account Balances

As previously stated, agencies receive sales refunds based on the timeliness of payments to travel charge card-issuing banks. The first step in the process for reimbursing the employee, paying the bank, and avoiding delinquency is timely submission of a travel voucher after a trip is completed. FTR § 301-52.7 requires employees to submit a travel voucher within 5 working days after completing a trip, or every 30 days if the employee is in continuous travel status. The SEC Travel Policy echoes the 5 working days requirement and states timely submission of vouchers should allow the employee to receive the reimbursement in time to pay his or her government travel charge card bill in total when it arrives. OMB Circular No. A-123, Appendix B and SECR 14-3 prohibit delinquency (that is, failure to pay an undisputed government charge card account balance for more than 61 days past the statement date).

According to OFM Reference Guide 91.04, Chapter 14.04, *Travel: Tracking Delinquent Travel Expense Reports* (March 2011), to resolve untimely travel vouchers, OFM relies on e-mail-based reminders and notifications first to the employee through the E2 travel system and then, as needed, to the employees organization's Administrative Officer, the SEC's Chief Operating Officer, and the SEC's Chief Financial Officer. After 60 days outstanding and until the traveler submits the delinquent travel voucher, the employee should not be able to book new travel. Furthermore, OFM monitors for delinquency and, as necessary, follows up with employees and other SEC officials to take appropriate disciplinary and corrective action. However, the AAB Branch Chief indicated that this policy is under review and acknowledged changes in actual practice. Namely, that E2 reminds travelers every 7 calendar days—not before the 5-day submission requirement—and does not have the functionality to disable travelers' ability to book new travel if they have an outstanding voucher.

To assess the timeliness of travel vouchers, we analyzed our random statistical sample of 203 closed TDY travel vouchers from the total population of 11,837 travel vouchers submitted by SEC employees in FY 2018 and FY 2019 Q1-2. We compared the last day of travel noted on each voucher to the date employees submitted the vouchers (allowing appropriate time if the employee was on continuous travel) and determined that employees submitted 67 (or about 33 percent) of the 203 travel vouchers late. Of these 67 vouchers, 32 were between 1 and 10 days late; 26 were between 11 and 20 days late; and the remaining 9 were more than 20 days late. (The latest was 43 days late.) Based on these results, we project with 95 percent confidence that the number of comparable errors in the total population of 11,837 closed TDY travel vouchers from our scope period is 3,907.<sup>36</sup>

We also reviewed delinquency reports provided by AAB staff and noted that, in FY 2018 and FY 2019 Q1-2, there were 57 instances in which 37 employees were delinquent in

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<sup>36</sup> The confidence interval for the proportion of errors translates into an upper limit of 4,723 instances (or 39.9 percent) and lower limit of 3,149 instances (or 26.6 percent).

paying their IBA balances. Of these instances, 49 were between 61 and 90 days delinquent, and the remaining 8 were between 91 and 120 days delinquent.<sup>37</sup> There were also 244 instances in which employees were between 31 and 60 days late; however, these events did not yet meet the definition of “delinquent.”

These conditions occurred, in part, because controls to remind employees to submit their travel voucher within 5 working days were not consistently implemented. For example, according to an OFM Assistant Director, OFM, at times, turned off the E2 travel system’s notification function related to timeliness of travel vouchers. Furthermore, notifications did not ensure that employees timely submitted travel vouchers because (1) employees and other officials were not notified until the last day, or after vouchers were already past due, to timely submit their vouchers, and (2) employees can unsubscribe to stop receiving the e-mail notifications.

Employees’ failure to timely submit travel vouchers as required may contribute to late and delinquent payments of IBA balances. Moreover, according to the GSA SmartPay 3 Master Contract, late travel charge card payments can negatively affect refunds an agency would otherwise receive. Although the SEC’s refunds have not yet been negatively impacted by delinquency and late payments, management’s attention is warranted.

## **Recommendations, Management’s Response, and Evaluation of Management’s Response**

To improve SEC’s oversight and management of the travel charge card program, we recommend that AAB:

**Recommendation 14:** Improve controls to better ensure employees timely submit travel vouchers in accordance with the Federal Travel Regulation and the SEC Travel Policy.

**Management’s Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management will reduce the number of days for system reminders from 7 to 3 days from the end date of travel. The Office of Financial Management will also issue guidance to travel preparers reminding them of the importance of meeting the 5-day deadline, and will continue to monitor vouchers over 30 days delinquent weekly and report to the Chief Operating Officer and Chief Financial Officer monthly. Management’s complete response is reprinted in Appendix III.

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<sup>37</sup> According to SECR 14-3, if an employee is more than 60 days delinquent without proof of payment or approved repayment agreement from the card issuer, the employee could receive a written warning (first offense), a reprimand to a 5-day suspension (second offense), or 14-day suspension to removal (third offense within 2 years). Although two employees were referred to the SEC’s Office of the General Counsel, no employee during our scope period had more than two offenses in a 2-year period and, therefore, none were suspended or removed.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

**Recommendation 15:** Update the Office of Financial Management Reference Guide, 91.04, Chapter 14.04, *Travel: Tracking Delinquent Travel Expense Reports*, to reflect the current process for ensuring timely submission of vouchers.

**Management's Response.** Management concurred with the recommendation. According to the Chief Financial Officer, the Office of Financial Management will update its policies and procedures to reflect the current process for ensuring timely submission of vouchers. Management's complete response is reprinted in Appendix III.

**OIG's Evaluation of Management Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

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## Appendix I. Scope and Methodology

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We conducted this performance audit from May 2019 through March 2020 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Scope and Objective.** Our overall objective was to assess the SEC's controls over its government travel charge card program during FY 2018 and FY 2019 Q1-2, and determine whether the agency complied with applicable laws, regulations, policies, and procedures. Specifically, we (1) determined whether the SEC effectively implemented the safeguards and internal controls established by the Charge Card Act, and (2) assessed agency travel charge card transactions from the scope period.

We conducted fieldwork at the SEC's headquarters in Washington, DC.

**Methodology.** To address our objectives, among other work performed, we:

- Reviewed applicable Federal laws, regulations, and guidance, including, but not limited to the Reform Act; the Charge Card Act; OMB Circular No. A-123, Appendix B (revised January 15, 2009); the FTR; and GAO's *Standards for Internal Control in the Federal Government*.
- Reviewed SEC policies and procedures, SEC administrative regulations, and relevant sections of the OFM Reference Guide.
- Interviewed OFM personnel, including the Assistant Director of Reporting and Analysis, the Account Analysis Branch Chief and staff, and the Internal Controls Branch Chief, to gain an understanding of (1) the policies, procedures, and guidelines OFM staff followed when overseeing SEC travel charge card charges; and (2) the tools used for monitoring SEC employees' travel charge card use.
- Reviewed the U.S. Bank travel charge card contract, travel charge card refund formulas, and sales refunds received from U.S. Bank and Citibank during our scope period.
- Tested (1) whether the SEC paid for lodging tax when a state tax exemption existed and quantified the amount of lodging tax that was paid but may have been avoided; (2) 100 percent of SEC-identified premium-class air travel for FY 2018 and FY 2019 Q1-Q2 to determine whether travelers qualified for premium-class air travel; and (3) 100 percent of the FY 2018 and FY 2019 Q1-Q2 travel advances to determine whether advances were requested no more than 3 days before the first travel date and no later than the last day of travel.

We also engaged our contractor—DAS—to conduct specific analysis of the SEC's travel card charges, and provide the OIG with a methodology for selecting and testing a random statistical sample of the SEC's closed travel vouchers. Specifically, the OIG requested DAS to compare the SEC's FY 2018 closed TDY travel vouchers to the

SEC's IBA and CBA transaction detail for FY 2018 to identify any FY 2018 closed TDY voucher expenses that did not have corresponding IBA or CBA transactions, as well as any FY 2018 IBA and CBA transactions that did not have corresponding closed vouchers. DAS reported possible IBA and CBA records without a corresponding closed voucher. We used the contractor's results to identify possible canceled trips (CBA records) without a corresponding voucher to verify whether a refund was applied to the trip, as discussed in the Results in Brief section of this report.

Additionally, DAS created a methodology for the statistical analysis of closed travel vouchers maintained by the AAB. DAS used the population of closed TDY travel vouchers (excluding OIG vouchers) for FYs 2018 and FY 2019 Q1-2 to determine the appropriate and recommended methodology to select and test a random statistical sample and project the results to the population. We used the sample to determine whether (1) SEC travel card processes complied with stated criteria, and (2) internal controls over the agency's travel card processes functioned properly during the period tested.

The statistical sample size for estimating the audit failure rate was determined using a desired confidence level of 95 percent, an error rate of  $\pm 3$  percent, and an assumed failure rate of 5 percent. We tested a random statistical sample of 203 of the total 11,837 closed TDY vouchers (excluding OIG vouchers). We projected the total number of comparable errors in the universe for travel vouchers with at least one error for three attributes tested (lodging receipt, lodging costs over per diem had justification, and POV use had justification). Additionally, we projected the total number of travel vouchers not submitted within 5 working days after completion of the trip or period of travel, or every 30 days if the employee was on continuous travel status. We present our test results and projections related to these matters in Findings 2 and 7 of this report, respectively.

**Internal Controls.** Management is responsible for the design, implementation, and operating effectiveness of the agency's internal controls. We assessed the internal and information system controls relating to the travel charge card program to determine the nature, timing, and extent of testing in accordance with GAO's *Standards for Internal Control in the Federal Government*. We documented our understanding of the 5 components of internal control and the 17 related principles and evaluated whether the SEC effectively implemented the safeguards and internal controls established by the Charge Card Act, among other Federal requirements.

To assess internal controls relative to our objectives, we reviewed OFM's management assurance statements and risk and control matrixes for FYs 2017 and 2018. As stated in the Results section of this report, we determined that the SEC established and maintained many of the internal control activities required by the Charge Card Act, or relied on alternate controls that were generally effective for addressing certain risks associated with government travel charge card programs. However, for aspects of the travel charge card program we reviewed, we identified areas of non-compliance and areas for improvement. Specifically, we identified SEC practices that are in conflict with Federal laws and regulations, and inconsistent or unclear SEC policies and practices. Our recommendations, if implemented, should correct the weaknesses we identified.

**Computer-Processed Data.** GAO’s *Assessing the Reliability of Computer-Processed Data* (GAO-09-680G, July 2009)<sup>38</sup> states that “data reliability refers to the accuracy and completeness of computer-processed data, given the uses they are intended for. Computer-processed data may be data (1) entered into a computer system or (2) resulting from computer processing.” Furthermore, GAO-09-680G defines “reliability,” “completeness,” and “accuracy” as follows:

- “Reliability” means that data are reasonably complete and accurate, meet intended purposes, and are not subject to inappropriate alteration.
- “Completeness” refers to the extent that relevant records are present and the fields in each record are appropriately populated.
- “Accuracy” refers to the extent that recorded data reflect the actual underlying information.

We relied on (1) travel authorizations and vouchers from the E2 travel system, and (2) IBA and CBA transactions from U.S. Bank and Citibank. To assess the reliability of E2 travel authorization and voucher data, we tested the validity of the E2 system by reconciling (1) OFM-identified premium-class air travel for the scope period to the E2 system report of premium-class air travel, and (2) our statistical sample of closed vouchers back to supporting documents. Additionally, we reviewed the *Report on the Enterprise Service Center’s System and the Suitability of the Design and Operating Effectiveness of Controls* (October 1, 2017 – June 30, 2018) and the Independent Service Auditors’ Report (October 1, 2018 – June 30, 2019). These reports concluded that the controls were suitably designed and operating effectively to achieve the related control objectives throughout the noted periods. Based on our assessment, we found the computer processed data we relied on to be sufficiently reliable for the purpose of this audit.

**Prior Coverage.** Between 2010 and 2019, the SEC OIG and GAO issued the following reports of particular relevance to this audit:

SEC OIG:

- *Audit of the FedTraveler Travel Service* (Report No. 483, September 2010).
- *Audit of the Office of International Affairs Internal Operations and Travel Oversight* (Report No. 508, September 2012).

GAO:

- *Management Report: Improvements Needed in SEC’s Internal Controls and Accounting Procedures* (GAO-11-348R, March 2011).

These reports can be accessed at: <https://www.sec.gov/oig> (SEC OIG) and <https://www.gao.gov> (GAO).

<sup>38</sup> GAO-20-283G, *Assessing Data Reliability*, published on December 16, 2019, supersedes GAO-09-680G. However, our audit was initiated before the release of this revised guidance; therefore, we used the guidance in place at the start of our audit.

## Appendix II. Monetary Impacts

As previously discussed, we identified three instances in which the SEC reimbursed employees for lodging tax expenses claimed on the employees' travel vouchers but not paid by the employees. We consider these costs to be questioned costs, as Table 3 shows.

**Table 3. Questioned Costs<sup>39</sup>**

Item	Actual Cost
Lodging taxes claimed by and paid to employees who did not incur them (see page 17)	\$209

To ensure that employees and authorizing officials minimized or justified travel costs to the agency, we reviewed, for the scope period, all 41 trips involving premium-class air travel by SEC employees, and selected and tested a random statistical sample of 203 closed TDY travel vouchers. We determined that authorizing officials and OFM approved 12 of 41 premium-class air travel expenses based on the 14-hour rule. However, we could not determine whether authorizing officials and OFM considered alternatives to premium-class air travel in these 12 instances because officials did not prepare or maintain constructive cost documentation or other analysis. Furthermore, we noted instances of lodging and POV expenses that employees and authorizing officials did not properly justify or adequately support. We consider these costs to be unsupported costs, as Table 4 shows.

**Table 4. Unsupported Costs<sup>40</sup>**

Item	Actual Cost
Cost of premium-class air travel without constructive cost documentation (see page 15)	\$103,496
Above per diem lodging expenses without proper justification (see page 19)	\$513
POV expenses without proper justification or analyses (see page 19)	\$2,751
Lodging expenses without receipts (see page 19)	\$3,122
<b>Total Unsupported Costs</b>	<b>\$109,882</b>

By not clearly and consistently establishing the threshold for requiring an IBA and enforcing the use of government travel charge cards, when possible, to pay for official travel expenses, the SEC has not maximized available refunds based on sales volume. We estimate that, in FY 2018, the SEC lost an estimated \$3,200 in refunds related to

<sup>39</sup> As defined by the Inspector General Act of 1978, as amended (Public Law 95-452; 5 U.S.C. App.), questioned costs include those costs questioned because of an alleged violation of a provision of a contract, and expenditures of funds that are unnecessary or unreasonable.

<sup>40</sup> As defined by the Inspector General Act of 1978, as amended (Public Law 95-452; 5 U.S.C. App.), unsupported costs are those costs questioned because, at the time of the audit, the costs were not supported by adequate documentation.

lodging expenses. Additionally, we estimate that, during FY 2018 and FY 2019 Q1-2, the SEC paid to the tax-exempt states and territories \$119,273 in lodging taxes and about \$2,300 in rental car taxes that could have potentially been avoided. We consider these costs to be funds that could be put to better use, as Table 5 shows.

**Table 5. Funds That Could Be Put to Better Use<sup>41</sup>**

Item	Estimated Cost
Travel charge card refunds that could have been received had employees used their IBAs for all lodging expenses during the audit scope period (see page 11)	\$3,200
Lodging taxes paid that could have potentially been avoided (see page 17)	\$119,273
Rental car taxes paid that could have potentially been avoided (see page 17)	\$2,300
<b>Total Funds That Could Be Put to Better Use</b>	<b>\$124,773</b>

<sup>41</sup> As defined by the Inspector General Act of 1978, as amended (Public Law 95-452; 5 U.S.C. App.), funds that could be put to better use are those funds that could be used more efficiently if management takes action to implement recommendations. This includes costs not incurred and other costs savings achieved through corrective action.

## Appendix III. Management Comments

### MEMORANDUM

TO: Rebecca L. Sharek  
Deputy Inspector General for Audits, Evaluations, and Special Projects  
Office of the Inspector General

FROM: Caryn E. Kauffman   
Chief Financial Officer  
Office of Financial Management

RE: Office of Financial Management's Response to the Office of Inspector General's Report, *Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits*

DATE: March 25, 2020

The Office of Financial Management ("OFM") submits this memorandum in response to the Office of Inspector General ("OIG") draft of report *Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits* ("Report"). We welcome the OIG's recommendations to strengthen the system of internal controls governing employee use of official travel charge cards. Our response to the recommendations is below.

**Recommendation 1:** Increase outreach efforts to make SEC employees aware of their obligation to use their government travel charge cards, and the benefits to the agency from their use of government travel charge cards.

*OFM concurs with this recommendation. OFM has sent several communications on this topic in recent months and will send a targeted email to frequent travelers without individual travel cards to stress the need to use a travel card for all official travel expenses.*

**Recommendation 2:** Update OFM Reference Guide Chapter 91.03, *Travel Payments Process Document*; SEC Administrative Regulation 14-3, *Travel Charge Card Monitoring Policy*; and the SEC Travel Policy. The updates should (a) be consistent and compliant with the Travel and Transportation Reform Act of 1998, the Federal Travel Regulations, the Government Charge Card Abuse Prevention Act of 2012, and the 2019 revision to Office of Management and Budget Circular No. A-123, Appendix B; and (b) provide clear and consistent guidance on the need for and use of government travel charge cards.

*OFM concurs with this recommendation and will update our policies, procedures, and guidance accordingly.*

**Recommendation 3:** Identify those SEC employees who are considered “frequent travelers” but who do not have Individually Billed Accounts, and either (a) seek an exemption to Federal requirements regarding such accounts, or (b) require those employees to apply for and use Individually Billed Accounts or Tax Advantage Travel Card Accounts, as discussed in Finding 2.

*OFM concurs with this recommendation. OFM will review and update current SEC Travel Policy regarding the use of the Individually Billed Account for frequent and infrequent travelers and take steps to communicate and enforce these updated policies.*

**Recommendation 4:** Increase outreach efforts to make authorizing officials aware of their responsibilities and obligations when reviewing and approving travel authorizations and travel vouchers.

*OFM concurs with this recommendation. We will update our Travel Approver training materials to address this recommendation and otherwise improve the effectiveness of this training to Travel Approvers.*

**Recommendation 5:** Ensure explanations and justifications for premium-class air travel, above per diem lodging, and usage of personal vehicles are documented and included in travel authorization files.

*OFM concurs with this recommendation. In addition to requiring a justification in the travel system for premium-class air travel and above per diem lodging, OFM added a new dynamic routing on May 30, 2019, whereby all such requests are now routed to OFM for approval. With regard to the usage of personal vehicles, there is currently no system justification but OFM will evaluate the ability to include one. Further, OFM will review the current SEC Travel Policy with respect to personal vehicles. Finally, OFM will update our Travel Approver training materials to address this recommendation.*

**Recommendation 6:** Encourage travelers and authorizing officials to take advantage of state tax exemptions, where available, and develop a process for recouping state tax payments that were paid when an exemption existed.

*OFM concurs with the recommendation. SEC Travel Policy provides information regarding lodging tax exemptions and there is a link on the Travel intranet site for*

*printing the required forms. OFM will update our Travel Approver training materials to address this recommendation. With respect to developing a process for recouping state tax payments that were paid when an exemption existed, we will reach out to other agencies to determine if a cost effective process can be implemented for the SEC.*

**Recommendation 7:** If cost-effective and feasible, transition to GSA SmartPay Tax Advantage Travel Card Accounts for all SEC employees with Individually Billed Accounts.

*OFM concurs with the recommendation. To determine feasibility, we will communicate with the Department of Transportation's Enterprise Service Center, which operates the E2 travel system used by the SEC and numerous other agencies, to learn when they plan to undertake the system upgrades that will permit agencies to use these new GSA Tax Advantage travel cards. To determine cost-effectiveness, we will undertake an assessment of the costs and benefits of transitioning to GSA Tax Advantage travel cards.*

**Recommendation 8:** Re-emphasize the Approving Official's responsibility to verify that all required receipts are included in travel vouchers.

*OFM concurs with this recommendation. We will update our Travel Approver training materials to address this recommendation.*

**Recommendation 9:** Document procedures for monitoring receipt of travel charge card refunds and verifying their accuracy.

*OFM concurs with this recommendation. With the implementation of SmartPay3, OFM has created a new process to validate the receipt and accuracy of rebates and we will update policies and procedures accordingly.*

**Recommendation 10:** Update the OFM Reference Guide Chapter 91.05, *Expenses and Costs – Travel: Government Travel Credit Cards*, to address the requirement and process for conducting alternative creditworthiness assessments in accordance with the 2019 revision to Office of Management and Budget Circular No. A-123, Appendix B, and the Government Charge Card Abuse Prevention Act of 2012.

*OFM concurs with this recommendation. OFM will review the guidance provided by OMB and GSA, and reach out to other agencies for best practices, to determine a process for conducting alternative credit worthiness assessments to address this requirement. We will also update our policies and procedures accordingly.*

**Recommendation 11:** Determine which employees with Individually Billed Accounts opted out of the creditworthiness evaluation, as of the date of this report, and ensure they undergo an alternative creditworthiness assessment.

*OFM concurs with the recommendation. Because OFM is unable to determine which employees with Individually Billed Accounts opted out of the creditworthiness evaluation, OFM will ensure that an alternative creditworthiness assessment is performed for all employees issued a restricted card since the implementation of SmartPay3 on November 30, 2018.*

**Recommendation 12:** Increase outreach efforts to make travelers and authorizing officials aware of their responsibility to confirm that travelers' E2 profiles support the agency's implementation of split disbursement processes.

*OFM concurs with this recommendation. OFM will review and make updates, as appropriate, to guidance and training documents.*

**Recommendation 13:** Document AAB's new procedure for ensuring employees' government travel charge cards are invalidated immediately upon termination of employment with the SEC.

*OFM concurs with this recommendation. OFM has implemented an additional process to make sure the travel charge cards for departing employees are timely canceled and will update our policies and procedures accordingly.*

**Recommendation 14:** Improve controls to better ensure employees timely submit travel vouchers in accordance with Federal Travel Regulations and the SEC Travel Policy.

*OFM concurs with this recommendation. OFM will reduce the number of days for system reminders from 7 to 3 days from the end date of travel. OFM will also issue guidance to Travel Preparers reminding them of the importance of meeting the 5-day deadline. We will also continue to monitor vouchers over 30 days delinquent weekly and report to the Chief Operating Officer and Chief Financial Officer monthly.*

**Recommendation 15:** Update the OFM Reference Guide, 91.04, Chapter 14.04, *Travel: Tracking Delinquent Travel Expense Reports*, to reflect the current process for ensuring timely submission of vouchers.

*OFM concurs with this recommendation. OFM will update our policies and procedures to reflect the current process for ensuring timely submission of vouchers.*

We appreciate the opportunity to review and comment on the Report. Please contact Todd Johnson, Assistant Director Reporting and Analysis if you have any questions.

## Major Contributors to the Report

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## To Report Fraud, Waste, or Abuse, Please Contact:

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100 F Street, N.E.  
Washington, DC 20549

## Comments and Suggestions

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits, evaluations, or reviews, please send an e-mail to OIG Audit Planning at [AUDplanning@sec.gov](mailto:AUDplanning@sec.gov). Comments and requests can also be mailed to the attention of the Deputy Inspector General for Audits, Evaluations, and Special Projects at the address listed above.