

# LEGAL SERVICES CORPORATION



## OFFICE OF INSPECTOR GENERAL

### INSPECTION REPORT

## AMERICAN EXPRESS CARD USAGE

(OIG Project Number 96-040)

JANUARY 1997

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### **BACKGROUND**

In February 1996, Congressman William F. Clinger, Jr., Chairman of the Committee on Government Reform and Oversight sent a letter to the Chairman of the Legal Services Corporation (LSC) requesting to receive any reports of the Inspector General (IG) concerning "...the personal use of all government credit cards by LSC employees...." The LSC Office of Inspector General (OIG) initiated this Inspection as a result of that request. Subsequently, the Office of Management and Budget (OMB), with concurrence from the Committee, modified and clarified the request. The revised review parameters stated that the "[m]ajor focus will be on the misuse of American Express (AMEX) cards issued to Federal government employees." The OMB's revision also requested that the agencies provide to the Committee "...information on oversight of card usage, management of delinquencies and misuse, and special features such as use of 'Retail Block.'"

The General Services Administration (GSA) contracted with American Express (AMEX) to provide charge cards to Federal travelers for purchase of transportation and related travel services. Under an agreement between LSC and GSA, LSC "is authorized to use Federal Supply Service sources of supply to the same extent and under the same terms and conditions as are applicable to Executive agencies." LSC has no direct contractual relationship with AMEX.

LSC has also entered into a Memorandum of Understanding (MOU) with Omega World Travel, Inc. under which Omega provides travel-related services to LSC employees and other affiliated persons. The MOU allows Omega to accept government sponsored credit cards only for official travel transportation and other official travel services.

LSC has documented policies and procedures governing employee use of government sponsored credit cards. The policies describe the credit card program and the cardholders' responsibilities, including the prohibition on use of the card for purposes other than official travel.

To obtain a government sponsored AMEX card, an LSC-affiliated person completes and signs a Government Card Application & Agreement. The Comptroller's Office completes one section of the application that authorizes AMEX to issue the card to the employee. In signing the application, the cardholder agrees to be personally responsible for paying AMEX bills and to use the card solely for official travel and official travel related expenses away from the official duty station. LSC employees and Board members are eligible to apply for the card.

### **SCOPE AND METHODOLOGY**

The Inspection covered the period from October 1, 1994 through December 31, 1995. We examined 641 transactions listed on AMEX reports between October 1994 and January 1996 and compared them to travel voucher files and other LSC information sources to determine whether they were purchases made on official travel. We eliminated 47 transactions that were non-purchase transactions (such as disputed charges and account adjustments) or occurred outside the review period.

The scope of the Inspection was limited to evaluating the use of the government sponsored AMEX cards under criteria contained in cardholder agreements and LSC policies related to card usage. Those criteria require the card to be used only for official travel expenses. For purposes of this Inspection only, we interpreted "personal" in the Committee request and the subsequent OMB clarifications to mean "not official". The primary evidence we used to determine whether the transactions were official was the existence of expense reimbursement. We reviewed reimbursement documentation to determine that the relevant AMEX card transactions related to travel away from the official duty station. We did not (1) evaluate the adequacy of LSC's policies for expense reimbursement as a whole, (2) assess the reasonableness or propriety of business purposes as stated on reimbursement documentation, or (3) evaluate accuracy or propriety of any expenses that were not charged to AMEX cards.

## **RESULTS IN BRIEF**

The inspection found that:

- Twenty-three percent of the purchases made during the 15 months covered by our review (134 of 594) were not related to official travel; and
- LSC policies and procedures covering the government sponsored credit card program had not been updated since AMEX replaced Diner's Club.

In addition to the above findings, we found transactions that indicated controls over processing of expense vouchers need improvement. We also identified erroneous and irrelevant information in reports provided by AMEX that complicates LSC's monitoring of cardholder accounts. These matters are discussed under Areas Requiring Further Study.

## **FINDINGS**

### **A. Twenty-three percent of the purchases made during the 15 months covered by our review were not related to official travel.**

We obtained the monthly AMEX reports for October 1994 through January 1996 and identified 594 purchases made on those accounts between October 1, 1994 and December 31, 1995. We examined travel voucher files for each person who made purchases during the period and attempted to identify official travel vouchers that corresponded to the transactions. We also

obtained dates of LSC Board meetings and compared those dates to some purchases that were not reimbursed.

The following table summarizes the results of our comparison of purchases to official travel documentation:

Summary of AMEX Card Purchases for the Fifteen Months Ended December 31, 1995				
Description of Purchases	# of Purchases	% of Total Purchases	\$ Amount of Purchases	% of Purchase \$
Not Official Travel	134	22.56%	\$ 10,673	13.50%
Unreimbursed Official Travel	32	5.39%	6,457	8.16%
On Official Travel	428	72.05%	61,957	78.34%
Total Purchase Transactions	594	100.00%	\$ 79,087	100.00%

We found 134 purchases (22.6%) that were not related to official travel. In 32 additional cases (5.4%), we were unable to verify official travel status because the expenses were not reimbursed by LSC; however, LSC management provided persuasive explanations to indicate that these transactions occurred during official travel. In one case, we could not determine the cardholder travel status as a result of the AMEX reporting methods discussed under "Areas for Further Study". The 134 purchases were made by 21 of the 45 cardholders who used the card during the review period. We traced the remaining 428 purchases (72.1%) to official travel reimbursements.

LSC *Travel Guidelines*, Parts VI.A.4 and IV.C.2 state that the card may only be used for expenses incurred in conjunction with LSC business travel. In addition, cardholders agree by signing the application that they will use the card only for official travel and related expenses, and that they will seek timely reimbursement from their "agency" for official travel expenses. The 134 exception transactions violated both the Corporation's policy and the cardholder agreement. The 32 official travel transactions that were not reimbursed may have been technical violations of the cardholder agreement; however, they did not appear to violate the Corporation's policy. LSC does not appear to be at risk as a result of these violations, since the cardholders are solely responsible for payment of the accounts and for honoring the agreements they signed. LSC does not guarantee payment of these accounts, regardless whether the transactions relate to official travel or not.

The volume and age of the transactions, coupled with the fact that a number of cardholders in our analysis have now left the Corporation, prevented us from determining the exact cause for each nonofficial purchase. In some cases, cardholders may have inadvertently used the government sponsored AMEX card instead of their personal AMEX account. In other cases,

cardholders were not completely aware of the restrictions on card usage. We believe controls are adequate to detect and correct the personal use of government sponsored credit cards. We recommended that the Corporation direct all LSC-affiliated AMEX cardholders to adhere to the policy which prohibits using the card except for official travel. Management took this action on July 17, 1996.

In its response, LSC management also provided additional information concerning the transactions we reviewed. In those cases where management demonstrated that charges were incurred on official travel, we adjusted the results and reflected those adjustments in the results we reported above.

In addition, the management response asserted that our findings included 24 transactions (18% of the 134 exceptions) incurred for business purposes, though not on official travel (7 of which, management states, were reimbursed). The response contended that LSC thus needs a credit card that covers business-related expenses that are not travel-related and requested that the OIG consider making a recommendation to that effect. We believe that 24 transactions over a 15-month period do not justify a need for participation in another, corporate-wide credit card program.

LSC management also requested that the OIG issue an additional finding to emphasize that none of the personal charges made with the cards were reimbursed by LSC and that no LSC funds were lost or misused as a result of any misuse of the cards. We believe that such a finding would imply that the Corporation received a discernible benefit for each of the purchases it reimbursed, which is beyond the scope of this Inspection. For example, a few of the 7 reimbursed transactions referred to in the preceding paragraph appeared to have been charges for individual employee lunches at restaurants near their official duty stations. Ordinarily, we would not expect employees to be reimbursed for daily lunches. Therefore, to determine whether the employees' lunches were business-related would require analysis and testing of the reasonableness of the stated business purpose and evaluation of underlying policies and procedures which apply to reimbursements in general, regardless whether purchased with AMEX cards.

We also examined certain transactions to determine whether any LSC-related cardholders obtained preferential government rates for nonofficial purchases. We found one transaction for which a cardholder obtained a personal airline ticket at the government rate. The difference between the government rate and the prevailing rate appeared to be minimal<sup>1</sup>.

## **B. LSC policies and procedures covering the government sponsored credit card program had not been updated since AMEX replaced Diner's Club.**

The government sponsored credit card program was converted from Diner's Club to AMEX years ago. The LSC travel policy Part VI, covering use of government sponsored credit cards, was not updated to reflect that change. Except for the contractor name, the policy appeared generally to reflect the current requirements of the AMEX card program. However, official travelers could have become confused as to whether the LSC policies applied to usage of government sponsored AMEX cards. We brought this situation to management's attention and they took corrective action on June 28, 1996.

## AREAS FOR FURTHER STUDY

### A. Controls over processing of expense vouchers may need improvement.

The scope of our review did not include tests of internal controls over payments of expense vouchers. However, during our review of travel expense reimbursement files, we found a few potential control issues. Examples of these issues included payment of vouchers based on incomplete expense reports or without adequate supporting documentation. Management indicated they would review the matter.

### B. Improvements in AMEX reporting would facilitate the account monitoring LSC performs.

Each month, LSC's Office of the Comptroller reviews the AMEX "Account Activity Report", which shows all transactions posted to the accounts of LSC-affiliated cardholders. Using the data on that report, Office of the Comptroller personnel contact cardholders who appear to have used the card for personal charges and remind those cardholders that the cards are to be used only for official travel. In using those same monthly reports to perform our review, we found that errors and irrelevant dates complicated the ability to match purchases to records of official travel. Specifically, we found a charge slip that did not match the amount actually charged to the account and another charge slip that never appeared on the AMEX reports. In addition, the reports contained the date AMEX processed each charge instead of the date the charge was made. These two dates can vary by as little as a day or as much as several weeks. (AMEX apparently records actual charge dates, because they appear on the cardholder statements.) Management stated that they would review this matter and advise the OIG of any actions taken.

## APPENDIX I - Transactions by Category

Transaction Description	Amount
Accommodations	\$ 48,855.64
Transportation	19,572.88
Retail	1,244.20
Services	268.58
Other	8,971.48
Total	\$ 78,912.78

## APPENDIX II - Management Response

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Footnote:

<sup>1</sup> The cardholder, an OIG employee, obtained an airline ticket at the government rate of \$600, which appeared to be less than the prevailing rate. The employee received a reprimand and has since terminated employment with LSC for unrelated reasons.

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## MEMORANDUM

TO: Edouard Quatrevaux, Inspector General

FROM: Alexander Forger, President

DATE: August 12, 1996

SUBJECT: Inspection Report Number 96-040 - American Express Credit Card Usage

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### 1. Individual Charges

The Comptroller's Office, in conjunction with the staff and Board Members involved, has reviewed the supplemental information supplied by Pat Layfield on June 28 in support of your Inspection Report Number 96-040.

The inspection covered a period of 15 months, and reported that 189 charges could not be traced to official travel. That total was broken down into two categories: (1) 150 charges were listed as not official travel and (2) 39 charges were listed as travel status undetermined.

Our review revealed that of these 189 charges, 24 were in fact travel-related, and were reimbursed by LSC. An additional 32 charges were related to business travel, but were not reimbursed by LSC. In these instances, Board Members had combined LSC travel with travel related to their own offices, and were reimbursed from their offices or other sources for the LSC travel-related charges as well. Thus no LSC reimbursement was sought.

In addition, we identified 24 instances in which the charges were for business-related, although not travel-related, expenses. Of these, 7 of the charges were reimbursed by the Corporation; for the other 17, no reimbursement was sought.

Finally, with regard to the remaining charges, which were not identifiable as business-related, we have confirmed that none were reimbursed by the Corporation.

We request that your first finding be amended to incorporate this supplemental information regarding travel-related expenses and non-travel related business expenses.

## 2. Request for Additional Recommendation

Our review of the instances in which AMEX cards were used indicates that LSC needs a credit card that covers business-related expenses that are not travel-related as well as those that are travel-related. It seems administratively cumbersome to require the use of two separate charge cards. If the current card cannot be expanded to cover non-travel expenses, it would seem reasonable to explore the possibility of obtaining a different charge card that would cover both categories. If this is not possible, LSC should at least obtain another card to cover non travel-related business expenses. We request that you consider adding a recommendation to this effect to the report

## 3. Request for Additional Finding

With regard to the presentation of the material in the report, we request that you give greater emphasis to the fact that none of the personal charges made with the cards were reimbursed by LSC. The report never explicitly makes this point: the conclusion on p. 4 that "LSC does not appear to be at risk....since the cardholders are solely responsible for payment of the accounts" lacks sufficient clarity and could easily be overlooked. As the findings are currently presented, a reader who is unfamiliar with the issue might well receive the impression that LSC funds were being used for personal purposes.

Specifically, we request that you add a separate finding that no instances of personal use were reimbursed by the Corporation, and that no LSC funds were lost or misused as a result of any use of the cards in violation of the GSA-AMEX contract. This would make clear from the beginning of the report the conclusion that is now buried on p. 4.

## 4. Response to Recommendations

With regard to the two recommendations made in the report, the Corporation has taken the following actions:

**Recommendation 1:** *The Corporation should direct all LSC-affiliated AMEX cardholders to adhere to the policy which prohibits using the card except for official travel.*

**Response:** The Corporation issued a memorandum to all cardholders dated July 17, 1996, stating that the card and account should be used for official business travel only, and attaching a copy of the application for their review and future reference.

**Recommendation 2:** *LSC should update and distribute Part VI of the LSC Travel Guidelines to all LSC-affiliated official travelers.*

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**August 12, 1996**

**Response:** Management revised the Business Travel Policy, Chapter 6 of the Administrative Manual, including Part VI regarding American Express Cards, and reissued the policy to all LSC Travelers on June 28, 1996.

In your report, two additional areas were noted for further study, the need for improved controls over the processing of expenses vouchers and the need for improvements in AMEX reporting of charges. We will review these matters and will advise you of any actions taken.

Management appreciates your efforts on behalf of the Corporation. If additional information is needed regarding this review, let me know.