

# **OFFICE OF INSPECTOR GENERAL**

## **Audit Report**

### **Implementation of Selected Requirements for Government Charge Card Programs at the Railroad Retirement Board**

**Report No. 08-02**

**May 14, 2008**



# **RAILROAD RETIREMENT BOARD**

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## INTRODUCTION

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This report presents the results of the Office of Inspector General's (OIG) review of the Railroad Retirement Board's (RRB) implementation of selected requirements of Office of Management and Budget (OMB) Circular A-123, Appendix B, "Improving the Management of Government Charge Card Programs."

### **Background**

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). These programs provide income protection during old age and in the event of disability, death, temporary unemployment, or sickness. The RRB paid over \$9.8 billion in benefits during fiscal year (FY) 2007.

The General Services Administration (GSA) has initiated a government-wide charge card program, GSA SmartPay, to provide agencies with an easy solution for making smaller purchases. GSA has contracted with commercial banks to provide credit card services to Federal agencies. The program includes purchase cards to pay for commercial goods and services as well as travel cards to be used for governmental travel expenses. Citibank is the credit card issuer for the RRB's program.

Under GSA SmartPay, the RRB authorizes issuance of purchase cards to agency organizational units and individuals who are authorized to purchase goods and services. All purchase card charges are billed directly to the RRB which is responsible for payment.

The RRB also issues travel cards to employees who travel frequently. All travel card charges are billed directly to the employee who is responsible for payment. Travel card holders are responsible for payment to the card issuer and may request reimbursement of authorized expenses through the RRB's established reimbursement process.

The RRB reported that, as of the end of FY 2007, approximately 10 percent of the RRB's staff were purchase card holders and 23 percent were travel card holders. The cardholders charged approximately \$447,000 on purchase cards and \$525,000 on travel cards in FY 2006. Through the first ten months of FY 2007, cardholders charged approximately \$328,000 to purchase cards and \$386,000 to travel cards.<sup>1</sup>

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<sup>1</sup> The latest information reported by GSA for FY 2007 (as of January 22, 2008).

OMB issued OMB Circular A-123, "Management's Responsibility for Internal Control" which defines management's responsibility for internal control in Federal agencies. The Circular provides a central reference point for guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. In August 2005, OMB issued Appendix B to OMB Circular A-123 (Appendix B) "Improving the Management of Government Charge Card Programs" which became effective for FY 2006. The goal of Appendix B is to maximize benefits to the Federal government when using government charge cards to pay for goods and services in support of official Federal missions.

The RRB's Office of Administration (OA) is responsible for authorizing Citibank to issue purchase and travel cards and providing oversight to the program. The Bureau of Fiscal Operations (BFO) is responsible for processing authorized payments to all agency vendors, including Citibank.

This audit supports the RRB in meeting its second strategic goal to "Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources."

### **Objective, Scope, and Methodology**

The objective of this audit was to assess the RRB's compliance with selected requirements of Appendix B to OMB Circular A-123. We assessed compliance with the provisions that require Federal agencies with government charge card programs to:

- ◆ develop a charge card management plan;
- ◆ develop and maintain written policies and procedures for the appropriate use of charge cards;
- ◆ provide training on charge card management;
- ◆ implement risk management controls, policies, and practices;
- ◆ retain and report data related to charge card management programs;
- ◆ assess creditworthiness of travel card applicants; and
- ◆ make a good faith effort to recover taxes paid to state and local governments.

The scope of this audit was RRB travel and purchase card activity as billed to the agency during October 2005 through April 2007.

To accomplish our objective we:

- ◆ interviewed responsible management and staff;
- ◆ identified pertinent RRB policies and procedures, Federal laws, regulations, and guidance;

- ◆ reviewed and documented the Citibank application process including the application form, account agreement, and travel card guide;
- ◆ reviewed monthly administrative reports from September 2005 through March 2007;
- ◆ reviewed RRB initiatives and efforts to strengthen controls over charge card usage;
- ◆ obtained and reviewed charge card statistics published by GSA for FY 2006 and FY 2007;
- ◆ obtained and reviewed reports of cardholders usage prepared by Citibank for the billing cycles included in the scope of the audit;
- ◆ reviewed a sample of purchase card transactions as described in Appendix I to this report;
- ◆ assessed the extent of cardholder and management training as described in Appendix II of this report;
- ◆ identified and tested controls over lost or stolen charge cards, separated employees, and the reasonableness of charge card limits;
- ◆ reviewed declined transaction authorizations for the period September 24, 2005 through March 23, 2007;
- ◆ documented the purchase card certification process for two administrative officers;
- ◆ reviewed transaction activity for several cardholders who had been identified in the delinquent payment report for July 2007; and
- ◆ compared the RRB charge card program with the specific requirements of Appendix B to OMB Circular A-123 and determined whether the program had been implemented as designed.

This review was conducted in accordance with generally accepted government auditing standards as applicable to the objective. We performed the fieldwork at the RRB headquarters in Chicago, Illinois from April 2007 through October 2007. Additional procedures were performed in March, 2008, to verify the completeness of purchase card transactions provided to us by agency officials.

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## RESULTS OF REVIEW

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The RRB has experienced some delays in implementing the requirements of Appendix B to OMB Circular A-123. The agency:

- ◆ has developed and maintains written policies and procedures for the appropriate use of charge cards;
- ◆ has implemented risk management controls, policies, and practices;
- ◆ retains and reports data related to its charge card management programs;
- ◆ assesses creditworthiness of travel card applicants; and
- ◆ has adequately addressed the requirement to make a good faith effort to recover taxes paid to state and local government by adopting a strategy of avoiding payment of such taxes to minimize the agency's exposure to excess payments.

However, the RRB has not yet complied with Appendix B requirements for preparation and submission of a charge card management plan and has not ensured that training on charge card management is provided to program participants prior to appointment. We also noted that risk management controls do not include procedures to identify misuse of government travel cards and that additional controls are needed over confidential information.

The Office of Administration has agreed to take the recommended corrective action. No recommendations were directed to the Bureau of Fiscal Operations; however, they reviewed the draft report and had no comments. The full text of their responses is included as Appendices III and IV to this report. The details of our findings and recommendations for corrective action follow.

### **Agency Charge Card Management Plan is Pending**

The RRB has not yet complied with the requirement of Appendix B to OMB Circular A-123 to submit a comprehensive charge card management plan.

Appendix B requires Federal agencies who have implemented government charge card programs to submit a management plan to OMB annually, not later than January 31<sup>st</sup> of each calendar year. The first such plan was due on January 31, 2007.

The RRB has not yet submitted its first management plan to OMB and attributes the delay to pending revisions to the agency's system of administrative circulars. The agency believed that these new policies and procedures would supplement existing policies and procedures to meet all of the management plan requirements of Appendix B.

During our audit, we reviewed current published policies and procedures for the charge card program.<sup>2</sup> In addition, management provided us with drafts of the pending circulars. Although these policies and procedures include many of the elements required by Appendix B, they do not address the following requirements:

- ◆ management controls for ensuring appropriate charge card usage;
- ◆ implementation of policies and practices to ensure strategic sourcing;
- ◆ explanation of how available reports will be used for monitoring transactions; and
- ◆ a description of how the agency will ensure the ongoing effectiveness of actions taken pursuant to the guidance in Appendix B.

The RRB cannot be fully compliant with the requirements of Appendix B until it completes and submits the required management plan for the charge card program. In addition, lack of a comprehensive management plan adversely affects the agency's ability to ensure that the charge card program is effectively and efficiently managed.

### Recommendation

We recommend that the Office of Administration:

1. finalize its management plan and submit it to OMB in accordance with the requirements of Appendix B to OMB Circular A-123.

### Management's Response

The Office of Administration advised us that they completed the management plan in the form of two Administrative Circulars that were approved by the Board in March 2008. However, recent guidance from OMB now requires that those circulars be updated. The revised management plan will be submitted to OMB by January 31, 2009.

### **Delays Experienced in Performing Creditworthiness Assessments**

The RRB experienced delays in implementing the creditworthiness assessments required by Appendix B to OMB Circular A-123 which requires that Federal agencies conduct creditworthiness assessments for all new, individually billed, government travel card accounts issued on or after October 1, 2005.

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<sup>2</sup> "Procedures for Using the Government-Wide Commercial Credit Card Service," August 2004; "VISA TRAVEL CHARGE CARD PROCEDURES," August 2002.

During our audit, we identified 19 individuals who received government travel cards during the period October 1, 2005, through March 31, 2007, for whom the RRB had not completed a creditworthiness assessment prior to authorizing Citibank to issue a charge card.

The RRB did not perform timely creditworthiness assessments because of delays in the design and implementation of a form to secure applicant authorization to obtain credit information. As a result, the RRB issued travel cards that did not conform to agency cardholder requirements. The agency subsequently performed creditworthiness assessments which resulted in cancellation of one employee's cardholder privileges and the reduction of four employees' credit limits.

During our audit, the RRB established policies and procedures to perform creditworthiness assessments prior to issuing new travel cards. Accordingly, we make no recommendation for further corrective action at the present time.

### **Improvement Needed to Ensure Timely Training**

The RRB has not complied with requirements to ensure that all participants in the travel card program receive adequate training in their responsibilities under the program.

Appendix B to OMB Circular A-123 requires that all program participants be trained in charge card management prior to appointment. This requirement applies to cardholders, charge card managers, and billing officials. To meet this requirement, RRB employees can take GSA Government Travel Card Training via the internet which provides a certificate of completion.

During the period October 2005 through March 2007, the RRB issued 19 new travel cards. We requested training certificates for 10 of the 19 employees to whom cards were issued and determined that 8 of those 10 employees had not completed the required training prior to obtaining their cards. In addition, the RRB's Designated Billing Official, who was appointed on March 11, 2005, assumed his responsibilities without having taken training in charge card management and had not completed such training as of October 31, 2007.

In general, program participants did not receive timely training because the RRB issued travel cards without requiring proof of training. Lack of training increases the risk of inappropriate, abusive, and/or unauthorized purchases in the charge card program.

## Recommendations:

We recommend that the Office of Administration:

2. establish controls to ensure that travel card applicants complete training prior to issuance of travel cards; and
3. ensure that the Designated Billing Official completes the required training as soon as possible.

## Management's Response

The Office of Administration has agreed to implement these recommendations. In response to recommendation #2, the Office of Administration advised us that effective immediately, they will ensure that training is completed before issuing a travel card. In response to recommendation #3, the Office of Administration advised us that the Designated Billing Official has completed the required training.

## **Additional Controls Needed to Identify Misuse**

The RRB needs to develop controls to identify misuse of government issued travel cards.

Appendix B to OMB Circular A-123 provides in part that agencies are required to establish management controls, policies, and practices for ensuring appropriate charge card usage and oversight of payment delinquencies, fraud, misuse, or abuse. Appendix B provides the following definition of misuse: "Use of a Federal charge card for other than the official government purpose(s) for which it is intended." Charge card managers are responsible for ensuring that charge cards are used for authorized purchases or expenses only. In carrying out these activities, charge card managers are required to ensure that the agency has policies in place that require managers to review charge card reports, as appropriate.

RRB procedures provide that: "The Government travel charge card may be used only for authorized official travel and authorized travel related expenses. Official travel related expenses are transportation, lodging, meals, and incidentals. The travel charge card may not be used for personal expenses at any time." Travel card applicants agree to the terms and conditions of the Citibank Cardholder Account Agreement including a statement that, "I agree to use the Card only for official travel and official travel related expenses away from my official station/duty station in accordance with my Agency/Organization policy. I agree not to use the Card for personal, family or household purposes."

During our audit, we identified an RRB employee who had made a large number of personal charges on his government-issued travel card. Most of the purchases were made at gas stations and restaurants. These personal purchases were made during the period August 27, 2006, through March 18, 2007. Some of these improper purchases went undetected for over a year. Concurrent with our audit, RRB management had been evaluating the status of the cardholder's account after it became delinquent. Subsequently, RRB management referred the matter to the employee's supervisor and cancelled the employee's travel card.

The RRB does not have an effective procedure requiring that travel card usage be reviewed periodically to identify personal use. Without effective controls, practices, and procedures to ensure appropriate charge card usage and integrity of the charge card program, fraud, misuse, or abuse of the travel cards can go undetected.

#### Recommendation

We recommend that the Office of Administration:

4. establish controls that provide for periodic review of travel card usage to ensure appropriate usage of the travel cards and identify misuse.

#### Management's Response

The Office of Administration has advised us that the SmartPay2 contract, which will be effective November 30, 2008, will provide the additional control necessary to ensure appropriate usage of the travel cards and identify any misuse.

#### **Additional Controls Over Confidential Information**

The RRB faxes travel charge card applications with personally identifiable information such as names, Social Security Numbers, and addresses to Citibank without a cover sheet.

The RRB's "Rules of Behavior for General Support Systems" (RRB Form G-5) provides that access to confidential, sensitive, or personally identifiable information be restricted to authorized individuals who need it to perform their jobs. This entails refraining from intentional disclosure and using measures to guard against accidental disclosure. It further provides that employees should "ensure that sensitive information sent to a fax or printer is handled in a secure manner; e.g., use of a cover sheet that contains a statement that the faxed information is confidential."

The RRB's credit card program coordinator had not believed that it was necessary to use cover sheets because Citibank, the credit card issuer, has a secure fax line for transmission of all RRB credit card applications. However, since the recipient of the fax is not alerted that the fax contains sensitive information, the recipient may not provide adequate security at the receiving end and there is a potential for unauthorized disclosure.

### Recommendation

We recommend that the Office of Administration:

5. ensure that a cover sheet indicating that the information being sent contains confidential information when sending travel card applications.

### Management's Response

The Office of Administration has advised us that they will use a cover sheet for travel and purchase cards, effective immediately.

## SAMPLING METHODOLOGY AND RESULTS

### Sampling Objective

To determine whether selected transaction-based provisions of the RRB's purchase card program have been implemented as designed.

### Sampling Unit

The sampling unit is defined as one purchase card transaction.

### Sample Universe

The universe consisted of 1,582 purchase card transactions dated September 26, 2005 through March 22, 2007, which were downloaded by the Office of Administration from the Citibank's website and provided to the OIG.

### Sample Size

We selected 42 transactions for detailed testing.

### Sample Selection Method:

We used judgment sampling in order to control for amount and type of transactions that would be subject to review. We selected individual transactions for review based on:

- high dollar transactions above \$3,000;
- unusual vendor names; and
- unusual merchant category codes.

### Sample Results

RRB Requirement	Transactions Reviewed	Compliant Transactions	Non-Compliant Transactions
1) Each cardholder statement must be approved by the responsible official or designated alternate.	42	41	1
2) Each cardholder statement must be signed by the cardholder.	42	42	0

## SAMPLING METHODOLOGY AND RESULTS

RRB Requirement	Transactions Reviewed	Compliant Transactions	Non-Compliant Transactions
3) Each purchase must be within an approved Merchant Category Code or individually approved by the RRB's charge card program coordinator.	42	42	0
4) No purchase may be of a type specifically prohibited by agency procedure.	42	42	0
5) The amount of purchase may not exceed the cardholders approved single transaction limit.	42	42	0
6) The purchase amount may not exceed \$25,000 except as specifically authorized for agency purchasing specialists.	42	42	0
7) The purchase should exclude sales and local taxes.	42	40	2
8) Purchases over \$3,000 must be supported by evidence of competitive bidding where required.	6 <sup>3</sup>	5	1
9) Purchase must be supported by required documentation, i.e. charge card slip, invoice, etc.	42	41	1

During our review of supporting documentation, we also considered whether there was any indication of fraud or abuse related to the purchase.

### Conclusion:

Transaction-based provisions of the RRB's purchase card program have been properly designed and implemented as designed. Although we identified instances where procedures were not followed, non-conformance was infrequent. We brought the specifics of these exceptions to management's attention during our audit.

<sup>3</sup> Only 6 of the 42 transactions in our sample were subject to this requirement.

## SAMPLING METHODOLOGY AND RESULTS

### **Sampling Objective**

To determine if RRB credit card applicants had received training in travel card management for government travel cards issued after October 1, 2005.

### **Sampling Unit**

The sampling unit is defined as one travel card applicant.

### **Sample Universe**

The universe consisted of 19 applicants who were issued new government travel cards during the period October 1, 2005 through March 31, 2007.

### **Sample Size**

We selected 10 applicant files for detailed testing.

### **Sample Selection Method:**

We used judgment sampling to select 10 files from the universe to determine if the file contained certificates evidencing completion of required training.

### **Sample Results**

Our review showed that 8 of the 10 applicants had not received the required training prior to obtaining their credit cards.

### **Conclusion:**

The RRB has not established procedures to ensure that participants in the travel card program have received timely training in travel card management.



UNITED STATES GOVERNMENT

**MEMORANDUM**

May 5, 2008

**TO** : Letty Benjamin Jay  
Assistant Inspector General for Audit

**FROM** : Henry M. Valiulis  
Director of Administration/Senior Executive Officer

**SUBJECT:** Draft Report – Audit of RRB’s Charge Card Program

The Office of Administration appreciates the opportunity to comment on the draft report, “Audit of RRB’s Charge Card Programs.” There has been a lot of negative news lately concerning waste, fraud, and abuse in the use of Government Charge Cards. We are pleased that the audit did not uncover any such instances in the RRB’s Government Purchase Card Program, and that only one employee was identified as having misused their Government Travel Card for personal charges. This is largely attributable to the limited use of purchase and travel cards by the agency and effective controls put in place by the program manager.

We agree overall with the five recommendations contained in the report. Implementing them will improve the overall procedures and ensure appropriate training to agency card holders. Our comments on each recommendation are as follows:

1. *Finalize its management plan and submit it to OMB in accordance with the requirements of Appendix B to OMB Circular A-123.*

The Office of Administration completed the management plan in the form of two Administrative Circulars (OA-21 and OA-22) that were approved by the Board in March 2008. However, OMB’s recent memorandum M-08-18 provided added guidance that will require us to further update the circulars. These will be revised and submitted to OMB with the next annual report which is due by January 31, 2009.

2. *Establish controls to ensure that travel card applicants complete training prior to issuance of travel cards; and*
3. *Ensure that the Designated Billing Official completes the required training as soon as possible.*

The Office of Administration will ensure that training is completed prior to issuing a travel card effective immediately. The Designated Billing Official has completed the required training.

4. *Establish controls that provide for periodic review of travel card usage to ensure appropriate usage of the travel cards and identify misuse.*

The new SmartPay 2 contract, which will be effective November 30, 2008, will provide for an email to be sent to the employee's supervisor/manager informing them of the use of the card. This should provide the additional control necessary to ensure appropriate usage of the travel cards and identify any misuse.

5. *Ensure that a cover sheet indicating that the information being sent contains confidential information when sending travel card applications.*

A cover sheet will be used to transmit this information for travel and purchase cards effective immediately.

Thank you again for the opportunity to comment on your findings. Please contact me if you have any questions or require additional information.

cc: Chief Financial Officer





UNITED STATES GOVERNMENT

FORM G-115f (1-82)

**MEMORANDUM**

RAILROAD RETIREMENT BOARD

MAY 06 2008

**TO :** Letty B. Jay  
Assistant Inspector General for Audit

**FROM :** John M. Walter *John M. Walter*  
Chief of Accounting, Treasury, and Financial Systems

**THROUGH:** Kenneth P. Boehne *Kenneth P. Boehne*  
Chief Financial Officer

**SUBJECT:** Draft Report – Implementation of Selected Requirements for  
Government Charge Card Programs at the Railroad Retirement Board

Thank you for your memorandum of April 28, 2008, providing us an opportunity to review and comment on the subject draft report. We have no comments on the draft report.

cc: Henry M. Valiulis, Director of Administration  
Dave Miller, Finance Officer  
Bill Flynn, Executive Assistant  
Jill Roellig, Management Analyst

