EVALUATION OF THE RISKS AND COSTS RELATED TO THE PURCHASE AND CONTROL OF AIRLINE TICKETS

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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Executive Summary

During Fiscal Year 1996, the IRS paid over $15.7 million for employee travel by common carrier. We estimate employees purchased about 59% or $9.3 million of this amount with corporate American Express (AMEX) accounts (51%) or Government Transportation Requests (GTRs) (8%), with the other 41% purchased primarily with individual government AMEX credit cards.

Internal Audit performed this audit to determine if the Service has effective procedures and controls over transportation costs to prevent and detect fraud, waste and abuse.

Results

The extensive use of GTRs and corporate AMEX accounts increases the administrative costs of the IRS travel program, creating unnecessary work for controller staffs to control, reconcile and timely pay vendor invoices, and process unused tickets. Weaknesses in controls and the oversight process discussed below have also created an operational climate in which travel funds are vulnerable to fraud, waste and abuse. Of particular concern is our review identified five employees who erroneously claimed $7,000 in reimbursement for airline tickets purchased with corporate American Express accounts. Due to recent IRS reorganizations, staffing reductions and other workload demands, existing procedures and controls were not emphasized or used, or were used inconsistently.

Controls over the purchase, payment and return of airline tickets are not effective.

Internal control and process weaknesses relating to purchasing tickets, paying invoices and handling unused tickets resulted in potential additional costs or erroneous payments of $12,279 in 13% (25 of 187) of the airline tickets reviewed. We referred seven employees to the Office of Inspector General or Internal Security for further investigation as a result of our review.

The IRS has not maintained adequate physical control and accountability over GTRs.

There is no consistent national or regional functional responsibility for controlling GTRs. As a result, some offices had no record of the travelers who used GTRs, the disposition of GTRs, or original invoices for GTR expenses. In addition, managers could not locate basic control documents such as logs and retained copies of issued GTRs.

The use of non-contract carriers and cash increases travel costs.

IRS has not established effective procedures to identify employees who use non-contract fares or cash without proper authorization. Employees did not provide justification to use non-contract carriers or cash in 39 of the 82 cases we reviewed. This resulted in excess costs of about $3,440 in 19 of the cases.

Management review and controller oversight has not been effective.

Management review has not been adequate to ensure travel claims are proper and employees follow procedures. In addition, the post payment audit process has been de-emphasized due to the advent of the Travel Reimbursement and Accounting System (TRAS) and downsizing of controller operations. Several of the cases we identified that involved improper or questionable claims should have been identified by the approving manager or the post payment audit process based on existing criteria.

The IRS is not maximizing the use of travel rebates.

The IRS has not established a process to ensure rebates are received from travel agencies. One travel agency has refunded $16,330 in underpaid rebates as a result of our review. We also identified $171,262 in rebates deposited into the wrong accounts, making the funds unavailable for future use.

Summary Recommendations

We made several recommendations that could improve internal controls, lessen the risks of fraud and abuse, and reduce travel and processing costs associated with transportation tickets. These recommendations include:

- Reducing the use of corporate AMEX accounts and eliminating the use of GTRs.

- Establishing uniform controls and procedures for conducting post payment audits, returning unused tickets, processing vendor invoices and manual travel vouchers, and monitoring travel rebates.

- Educating employees and managers on the importance of preparing and approving vouchers that accurately contain the method of payment, travel itinerary, ticket amount and ticket number.

- Initiating changes to TRAS that would include:

⇒ Reestablishing the transmittal used to control and process unused tickets.
⇒ Adding alerts on the travel voucher and cover sheet to notify employees and approving managers of the need for authorization for use of non-contract carriers and purchase of tickets using cash.

We also recommended that IRS monitor the use of corporate AMEX accounts and consider future changes to improve the efficiency of the travel administration and oversight process, such as:

- Initiating changes to the Automated Financial System (AFS) and TRAS to allow employees to electronically direct a portion of their travel reimbursement to pay their Government travel card. This could provide employees with more incentive for using individual AMEX government credit cards.

- Obtaining electronic invoice files from AMEX to provide for a reconciliation with travel vouchers on the AFS and establishing a nationwide contract with one travel agency.

<u>Management's Response:</u> Management agreed with our recommendations and plans to take appropriate corrective action. Any major modifications to TRAS cannot be implemented until the software changes for the Year 2000 are complete at IRS.

Objectives and Scope

We initiated this audit because our research project identified concerns with the controls over the use of corporate travel accounts and Government Transportation Requests (GTRs)[1]. We conducted this review in the Northeast and Midstates regions and the National Office. We also conducted limited tests in the Manhattan and North Texas districts. We performed audit work during the period October 1996 to May 1997. The review followed generally accepted government auditing standards.

Our objective was to determine if the Service has effective procedures and controls over transportation costs to prevent and detect fraud, waste and abuse.

Our overall objective was to determine if the Service has effective procedures and controls over transportation costs to prevent and detect fraud, waste and abuse. To accomplish this, we determined if:

1. IRS adequately controlled and accounted for transportation tickets.
2. IRS maintained adequate physical control and accountability of GTRs.
3. Management review and controller oversight are adequate to monitor transportation expenses.
4. Employees used contract fares where available.
5. IRS received the correct travel rebates.

To accomplish these objectives, we:

- Obtained computer extracts from the Automated Financial System (AFS), Travel Reimbursement and Accounting System (TRAS), and American Express (AMEX).

[1] GTRs are sequentially numbered accountable forms that any person can use to purchase passenger transportation services.

- Conducted computer analyses to identify tickets purchased, but not reported on travel vouchers.
- Reviewed the procedures and controls used to purchase tickets and account for unused tickets.
- Analyzed a TRAS extract to identify potential excess travel costs.
- Evaluated contract data and the Services' process for monitoring travel rebates.

Attachment I contains the detailed objectives and scope of review.

Background

Employees may purchase transportation services (airline and train tickets) using four general methods of payment: (1) Individual government AMEX credit card; (2) Cash or personal credit card; (3) Corporate government AMEX account; and, (4) GTR.

Under the first two methods, employees claim reimbursement for the ticket when they file a travel voucher. The employee is responsible for paying for the ticket and obtaining any credit for unused tickets. The last two methods require employees to enter ticket information on their travel voucher for accountability purposes. The IRS is responsible for paying these tickets and should receive credit for any unused tickets.

There are financial risks associated with the use of GTRs and corporate AMEX accounts.

Due to the financial risks, this review focused on the accountability and controls over the purchase of airline tickets using GTRs and corporate AMEX accounts.

This audit supports the Service's objective to improve the economy and efficiency of support programs that constitute major expenditures. The use of GTRs and corporate AMEX accounts impacts on the effectiveness of internal controls and resource utilization.

Results

During Fiscal Year 1996, the IRS paid over $15.7 million in travel by common carrier. We estimate employees purchased $9.3 million (59%)[2] of this amount with corporate AMEX accounts or GTRs.

The use of corporate AMEX accounts and GTRs requires extra staffing and processing costs.

The volume of tickets purchased by these methods and return of unused tickets creates additional workload and processing costs for controller staffs. In addition, due to recent IRS reorganizations, staff reductions, and other workload demands, existing controls and procedures were not emphasized or used. We determined:

- Controls over the purchase, payment and return of airline tickets are not effective.
- The IRS has not maintained adequate physical control and accountability over GTRs.
- The use of non-contract carriers and cash increases travel costs.
- Management review and controller oversight has not been effective.
- The IRS is not maximizing the use of travel rebates.

The high use of corporate AMEX accounts combined with control weaknesses increases the risk of fraud, waste and abuse of travel funds.

The high use of corporate AMEX accounts combined with these control weaknesses increases the risk of fraud, waste and abuse of travel funds. We identified potential excess or unsupported travel payments of over $29,000. We referred seven employees to Internal Security or the Treasury Inspector General because of potential integrity violations, and nine employees to IRS management to consider obtaining reimbursements.

[2] Source: The CFO's office obtained the $15.7 million from AFS. A 7-month extract from TRAS showed employees purchased 51% of the tickets with corporate AMEX accounts and 8% with GTRs. We applied these percentages to arrive at $9.3 million.

Controls over the purchase, payment and return of airline tickets are not effective.

We conducted computer analyses to identify tickets or GTRs paid by IRS that did not match travel vouchers. These mismatches could be the result of unused tickets, processing errors, or potential improprieties. These analyses included:

- A 2-month extract from American Express that identified 1,003 (23% of AMEX tickets purchased) mismatches totaling $316,000.
- A 7-month extract from AFS that identified 551[3] (44% of GTR numbers paid) GTR mismatches totaling $186,913.

We selected a judgment sample of 187 tickets and GTRs in which the IRS paid $131,871. However, employees only reported $10,334 on travel vouchers; a mismatch of $121,537.

About 13% of the tickets we sampled resulted in potential increased costs or erroneous payments.

About 56% of the 187 mismatches were employee or controller processing errors. However, about 13% resulted in potential additional costs or erroneous payments totaling $12,279. We identified:

- 12 (2 AMEX and 10 GTRs) tickets for $4,799 that could not be resolved because the IRS had inadequate records.
- 6 tickets for $3,992 where employees used a corporate AMEX account, but erroneously received reimbursement claiming they used an individual government AMEX card.
- 5 tickets (3 AMEX and 2 GTR) for $2,905 that were unused and not returned for credit.
- 2 GTR invoices for $583 that were paid twice.

[3] The actual number and dollar amount are unknown because offices do not enter all GTR numbers when processing invoices.

Although we cannot project these results to all tickets purchased, our results indicate a need for additional management emphasis in the following areas:

There are no national procedures to ensure tickets are authorized.

Purchasing Procedures: There are no national procedures to ensure tickets purchased with a centralized GTR or corporate AMEX account are authorized. Some offices require a manager to approve an authorization form before the travel agent will release a ticket. Other offices do not. Employees with GTRs can authorize and obtain their own tickets.

We identified procedural and control issues with the approval and payment of invoices in all offices.

Payment Procedures: We identified procedural and control issues with the approval and payment of invoices in all offices. For example:

- ♦ None of the offices had effective procedures to ensure travel was actually performed.
- ♦ Two offices paid AMEX invoices without resolving discrepancies with the travel agent's reconciliation.
- ♦ One regional office paid GTR invoices for employees located in another region.
- ♦ One regional office used a blanket GTR[4] to purchase tickets. The office paid these invoices without the proper certification.

Offices either have not implemented uniform procedures to return unused tickets or did not follow the procedures.

Controls over Unused Tickets: During a 2-month period, employees purchased 4,404 tickets totaling $1.46 million using corporate AMEX accounts, and returned 693 (16%) as unused. We could not determine the amount of tickets purchased with GTRs and returned because of IRS' inconsistent processing procedures. The offices we visited either have not implemented uniform procedures to return unused tickets or did not follow the procedures. For example:

- ♦ None of the controller offices effectively monitored unused tickets to ensure they received credit.

[4] A blanket GTR is one GTR number used over a period of a week or month to purchase multiple tickets for different employees.

- Employees returned tickets directly to the travel agent or to the controller function -- some credits cannot be located. One employee advised he destroyed an unused ticket. Another employee had an unused ticket in his possession. One office found 11 unused tickets for $7,000 issued as early as 1993 in its travel files.
- Two offices did not prepare a SF 1170[5] when processing unused tickets purchased with GTRs. One office did not prepare the SF 1170 until they received the credit; usually 2 to 3 months later.
- The Travel Handbook gives conflicting instructions for the proper return of unused tickets.

The National Office has not implemented or enforced uniform processing procedures.

Processing Procedures: The IRS has established accounting controls to ensure that travel related expenses are authorized, monitored and properly recorded in the financial systems. However, the National Office has not implemented or enforced uniform processing procedures. For example:

- AFS provides a method to reconcile ticket invoices. However, due to the volume and staff reductions, the IRS does not enter the ticket data necessary to conduct this reconciliation.
- There are two methods for entering vendor invoices into AFS. Offices are inconsistent in the method used, and do not always enter GTRs, ticket numbers or the traveler's SSN.
- Procedures for processing unused ticket credits are inconsistent. Some credits are netted against current expenses; others are processed as cash receipts.
- Before October 1, 1995, TRAS provided a transmittal to return unused tickets to the regional controller office. However, TRAS no longer generates this transmittal message, but instead generates a message advising employees to return unused tickets according to local procedures. Local procedures either did not exist or were ineffective.

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[5] SF 1170 is required to control the return of unused tickets purchased with a GTR.

- Manual travel vouchers are processed inconsistently. 43 vouchers did not have the GTR or ticket number.

Due to control weaknesses, one region eliminated the use of GTRs and reduced the use of corporate AMEX accounts.

As a result of the control weaknesses we identified, the Northeast Region has eliminated the use of GTRs. The region also mandated the use of individual government AMEX cards for all non-bargaining unit employees, unless specifically authorized by the head of each office.

IRS has been reluctant to require employees to use their individual government AMEX cards.

Federal Travel Regulations state that the use of centrally billed accounts (corporate AMEX) is intended to supplement the use of individual government AMEX credit cards, rather than as the sole means to purchase tickets. However, IRS has been reluctant to require employees to use their individual government AMEX cards. One reason cited is that IRS would have to negotiate the issue with the National Treasury Employees Union (NTEU). However, non-bargaining employees purchased 60% of the tickets in our samples.

The use of corporate accounts and GTRs requires additional controls and increases the administrative costs of the IRS travel program. For example: (a) each month 131 different AMEX invoices must be reconciled and paid, (b) corrections to accounting codes must be made, and (c) unused tickets must be controlled and monitored. Also, delays in paying vendor invoices have resulted in late payment penalties.

Recommendations:

1. Reduce the use of the corporate AMEX accounts by requiring management and other non-bargaining employees to use individual government credit cards. Negotiate with NTEU to use individual government credit cards.
2. Issue uniform national procedures to return unused tickets purchased with corporate AMEX accounts or GTRs. These procedures should include: (a) a means to timely return the ticket or

credit advice to the function that pays or reconciles the invoice, (b) follow-up to ensure credits are actually received, and (c) reestablish the unused ticket transmittal on TRAS.

3. Establish uniform accounting procedures for processing vendor invoices, manual travel vouchers, unused tickets, SF 1170s, and cash receipts from employees and vendors.

<u>Management's Response:</u> Management will issue a policy that directs non-bargaining unit employees to use their individual government charge card for common carrier transportation. Management also proposed to include this issue in the next round of contract negotiations. Until this change can be negotiated, management will pursue methods that will encourage voluntary compliance among bargaining unit employees.

Management will amend the IRM to include instructions that credit advices or unused tickets must be submitted to the appropriate personnel that performs the centrally billed account reconciliation for the particular location. In addition, management will prepare a Request for Information Services (RIS) to reestablish the unused ticket transmittal for the employee's convenience.

Management will provide guidance on the specific transaction codes to use for the certain accounting events. In addition, they will review the procedures for accounting for credits from vendors and issue further clarifications as necessary.

The IRS has not maintained adequate physical control and accountability over GTRs.

There is no consistent functional responsibility over the control of GTRs.

Historically, the Facilities Management Branch of Resources Management maintained physical control of GTRs. However, since 1994, two major reorganizations have impacted the controls over GTRs. In 1994, the IRS reorganized the Facilities Management Branch into Support and Services host sites. Also, in October 1995, the IRS reorganization eliminated some regional and district offices. As a result:

- There is no consistent functional responsibility for the control of GTRs. In some offices, the Controller's staff has responsibility; in other offices, Support and Services or Publishing Services does. One Regional Director, Support and Services stated it was obvious there is confusion in this area.
- IRS has not conducted annual reconciliations.
- We observed unused GTR books in unlocked cabinets and under desks.

We selected a sample of 135 GTRs and requested each region to provide the status of the GTR (unused, issued, voided) and supporting documentation.

Offices did not maintain sufficient supporting documentation for GTRs.

The districts and regions could not locate some basic control documents such as logs and retained copies of issued GTRs. Some offices had no record of the travelers who used the GTRs, the disposition of the GTRs, or invoices for GTR expenses. One office had destroyed GTR records and related travel vouchers.

The above physical control weaknesses, combined with the control weaknesses with purchasing and payment of tickets with GTRs, increase the possibility of loss and misuse of government funds.

Recommendations:

4. Eliminate the use of GTRs. Use corporate AMEX accounts for infrequent travelers or other limited situations where travelers do not have individual government AMEX cards.

Management's Response: Management agreed that the use of GTRs should be eliminated and the infrequent travelers shifted to the corporate AMEX account, and has already taken steps to reduce the use of GTRs. The

Chief Financial Officer will issue a memorandum to the Regional Commissioner in one region to stop the practice of using GTRs in lieu of the American Express corporate account with travel agencies. In addition, a memorandum will be sent to the regions restricting the use of GTRs for only “compelling reasons” as determined by the Regional Commissioners.

The use of non-contract carriers and cash increases travel costs.

Federal Travel Regulations require employees to use contract carriers except in certain situations. The use of a non-contract carrier must be authorized in advance and employees must attach a justification to the voucher.

Travel Regulations allow employees to purchase tickets with cash[6] in emergency situations. Both the approving official and employee must certify on the travel voucher the reasons for using cash. Only the Chief Financial Officer can approve cash purchases in a non-emergency.

Our analyses of a nationwide TRAS extract for 7 months in FY96 identified 439 tickets that exceeded the average cost of all round trips between two cities by more than $100. This extract also identified 166 tickets purchased with cash that cost over $100. We reviewed a sample of 60 contract tickets and 22 tickets purchased with cash.

Procedures are not effective to identify employees who use cash and non-contract fares without proper authorization.

Employees generally used contract carriers and obtained contract fares. However, IRS has not established effective procedures to identify employees who use cash and non-contract fares without proper authorization. We determined that:

[6] For purposes of Travel Regulations and this report, the use of cash also includes employees’ personal credit cards. Employees do not need authorization to purchase tickets under $100 with cash.

- Employees did not provide the required justification for the use of cash in 18 cases, or the use of non-contract carriers in 21 cases. This resulted in an excess cost of about $3,440 in 19 of the 39 cases.

Employees may have circumvented the delegation order for non-emergency cash purchases.

- Employees may have circumvented the delegation order for non-emergency cash purchases. In our opinion, 17 purchases were not emergencies as the employees had individual government AMEX cards, or had sufficient advance notice of the travel.

Federal Travel Regulations state the unauthorized use of non-contract carriers or cash could result in employees being held personally responsible for any excess cost.

Recommendations:

5. Modify TRAS to alert employees and approving managers of the need for authorization to use non-contract carriers and purchase of tickets using cash. The alerts should also advise employees they may be liable for any fare above the contract rate, and continued use of cash may not be reimbursable.

Management's Response: Management will pursue including an interactive dialogue within TRAS when the traveler indicates that a non-contract carrier or cash under emergency conditions was used. However, any major modification to TRAS cannot be implemented until the software changes for the Year 2000 are complete at IRS and the Financial Management Service.

In the interim, management will send guidance to the travelers and travel approving officials reminding them about the need for authorization to use non-contract carriers and purchase of tickets using cash.

Management review and controller oversight has not been effective.

With the advent of TRAS and downsizing of controller operations, the post payment audit of vouchers has been de-emphasized. Instead, the IRS is relying more on the approving manager to ensure that employees prepare travel vouchers in accordance with Federal Travel Regulations and IRS procedures.

Management review is not adequate to ensure travel claims are proper and employees follow IRS procedures.

Management Review: Management review of vouchers is not adequate to ensure travel claims are proper and employees follow IRS procedures. This may be due to inadequate management emphasis and insufficient training regarding managers' responsibilities.

The need for more effective management review is evident from our review of 194 cases. We identified:

- 13 cases that did not have any airline receipts. Eight other cases contained an itinerary, but the itinerary did not show the ticket number, method of payment, or the type of fare.
- 62 cases where employees entered the wrong ticket number (26), wrong amount (17), or wrong method of payment (19).
- 44 cases with missing justification for use of non-contract carriers or cash.
- 18 cases that contained potential erroneous or excess claims. For example,
  - ⇒ One employee claimed $342 in cell phone calls during a one month period.
  - ⇒ Three employees (four vouchers) claimed $1,177 in transportation expenses for weekend travel to locations other than their post-of-duty or residence.
  - ⇒ One employee claimed $1,443 for a ticket that should have cost $636.

In addition, one region's post payment audit of 314 TRAS vouchers identified 187 errors; 15 involved potential overpayments and 102 required additional action. More effective review by the approving managers should have detected these situations.

IRS has not effectively implemented procedures for post payment audits of TRAS vouchers.

Post Payment Controller Review: During a previous national audit of TRAS[7], Internal Audit recommended that management establish national procedures for the examination of TRAS vouchers. In response, the Acting Director, Systems & Accounting Standards Division issued a Policy Announcement containing post payment audit procedures for TRAS vouchers.

However, controller offices have not effectively implemented those procedures.

- Two of the three controller offices did not conduct the required quarterly post reviews. At the time of our audit, one of the two offices had just started its first review.
- Two of the offices had established review guidelines. However, these guidelines did not cover contract rates, method of ticket purchase, or accuracy of ticket number and amount.
- There are no uniform procedures for obtaining reimbursement for overpayments from employees.

Post payment audits of TRAS vouchers should identify improper claims.

Seven of the 18 cases with potential improper or excess claims were on vouchers over $2,000 and should have been included in the post payment audits.

Five employees erroneously claimed and received reimbursement for tickets purchased with the corporate AMEX account.

In addition, of particular concern, we identified five employees (six instances from a sample[8] of 53 tickets) who purchased tickets with corporate AMEX accounts and erroneously received reimbursement on their vouchers. These employees filed vouchers claiming they purchased tickets with their individual government AMEX cards, resulting in the erroneous reimbursement. Investigations by the Office of the Treasury Inspector General on two of these employees confirmed improper claims of over $6,200.

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[7] Review of the Travel Reimbursement and Accounting System, report dated December 28, 1992.

[8] We selected this sample from a computer analysis that identified 957 tickets purchased in two months with corporate AMEX accounts, and there was no record on employees' travel vouchers.

These erroneous claims went undetected because approving managers did not verify that employees reported the correct method of payment used to purchase the ticket on the voucher. Tickets purchased with a corporate AMEX account begin with the account number 3783-**9**. Individual government AMEX cards begin with the account number 3783-**8**. This provides the approving manager with the capability of verifying how the tickets were purchased.

Recommendations:

6. Educate employees and managers on their responsibilities and the importance of preparing and approving vouchers that accurately contain the travel itinerary, ticket amount, ticket number and method of payment.
7. Establish national guidelines to conduct post payment audits of TRAS vouchers. These guidelines should include the frequency and scope of the reviews (including a review of tickets for amount, purchase method, and contract rate), and include procedures for obtaining reimbursement for overcharges and providing feedback.

Management's Response: Management will issue a memorandum reminding managers and approving officials of their responsibilities. Management also agreed to update the national guidelines to conduct post payment audits of TRAS vouchers.

The IRS is not maximizing the use of travel rebates.

Nationwide, IRS uses about 71 travel agencies. These agencies provide rebates ranging from 1/10 of 1% to 10%. During Fiscal Year 1996, the IRS expended over $15.7 million dollars in travel on common carriers. At an average of two percent, the maximum[9] potential rebate could total $314,000. The General Service Administration (GSA) also provides rebates to IRS for the use of American Express accounts and cards.

IRS did not maintain adequate records to monitor rebates.

We were unable to completely accomplish our objective because IRS did not maintain adequate records to monitor rebates. IRS' accounting system cannot track the amount of rebates received, nor could management provide us with the amount. Our review determined:

- None of the offices established controls and procedures to ensure they received the proper amount of rebates. Management advised they basically accepted what they received.
- Two of the offices did not maintain required Memorandums of Understanding to determine the terms of the rebate.
- One office recorded checks from one travel agency into AFS using five different vendor names.
- One office did not timely deposit rebate checks. It took an average of 26 days to deposit nine checks. This office also apparently misplaced one check for $8,472 that took over 500 days to deposit. In another office, we could not account for all rebate checks being received from one travel agency.

IRS did not establish uniform procedures to process rebates in the accounting system.

One of the benefits of travel rebates is agencies can use them to stretch tight travel budgets. However, the IRS did not establish uniform procedures to process rebates in the accounting system. For example:

- One office credited $36,918 in rebates to the general fund, making these funds unavailable for future travel.

[9] The rebate would be reduced by any tickets purchased directly from an airline, international travel and travel on AMTRAK.

- One office credited some of the rebates to the general fund and some to the travel budget.
- The IRS applied $134,344 of the $251,488 received from GSA in FY 96 to the general fund.

The number of different travel agencies used (about 71) may make it difficult to effectively monitor rebates. Each contract may have different terms and conditions. Some government agencies use only one travel agency for all of their travel.

One travel agency refunded $16,330 in underpaid rebates as a result of our review.

To date, one travel agency refunded $16,330 in underpaid rebates to one office. We can not determine if other offices are entitled to additional rebates due to the unavailability of records.

Recommendations:

8. Establish uniform accounting procedures and controls to monitor rebates. These procedures should ensure the rebate is correct and credited to the travel budget.
9. Consider establishing a nationwide contract with one travel agency.

Management's Response: Management agreed to establish uniform monitoring and accounting procedures for rebates from the travel management centers.

The recommendation to establish a contract with one travel agency has been under consideration for some time and it is one that they will continue to pursue with the General Services Administration who has jurisdiction in this area.

Emerging Issues

Our recommendations are designed to reduce the risks and costs incurred with the use of corporate AMEX accounts and GTRs. To accomplish this, IRS must: (a) require or encourage employees to use individual government credit cards, and (b) improve its overall controls. Two issues could impact the Services' effectiveness in achieving this.

- Pending legislation would make employees personally liable for interest or late payment charges on their individual government cards.
- The government is in the process of obtaining a new travel card contract. The proposed contract would require the contractor to accept electronic payments for both corporate and individual accounts.

While the first of these issues might make employees more reluctant to use individual government credit cards, the second could have the opposite effect. If the Service uses this proposed contract feature for electronic payments, employees may be more receptive to using individual government credit cards.

Depending on future initiatives involving electronic processes, consideration could also be given to obtaining electronic files from future contractors for use in reconciling tickets to travel vouchers, especially if the Service continues to use corporate accounts.

Recommendation:

10. Monitor the purchase of tickets with corporate accounts and if it does not significantly decrease, consider:

    ⇒ Modifying AFS and TRAS to allow employees to electronically direct a portion of their travel reimbursement to pay their Government travel card account. This could provide employees with more incentive for using individual AMEX government cards.

⇒ Obtaining electronic invoice files from AMEX to reconcile tickets to travel vouchers.

Management's Response: Management agreed to develop a process to monitor the use of the corporate account and if the activity does not decrease, will consider additional action.

Conclusion

The volume of tickets purchased with corporate AMEX accounts and GTRs creates unnecessary workload and operating costs on controller staffs. Reduced staffing and weak controls also increase the risk of fraud and waste of travel resources. The Service can reduce this workload and risk by having employees purchase tickets with their individual government credit cards. In addition, the Service needs to improve the effectiveness of management reviews, controller oversight, and processing procedures to increase travel savings.

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Audit Manager

Attachment I

Detailed Objectives and Scope of Review

Our overall objective was to determine if the Service has effective procedures and controls over transportation costs to prevent and detect fraud, waste and abuse.

I. Determine if the IRS adequately controlled and accounted for transportation tickets.

   A. Obtained and evaluated procedures for purchasing airline tickets, paying vendor invoices, and identifying and processing unused tickets.

   B. Determined how Controllers use AFS to process and control travel documents.

   C. Identified the potential population of unused tickets that were purchased with corporate American Express (AMEX) accounts and were not submitted for refund.

      1. Analyzed an extract from the General Services Administration (GSA) that contained 4,404 tickets totaling $1.46 million purchased by employees during November and December 1995 using 131 corporate AMEX accounts.

      2. Analyzed an extract from the GSA that contained credits for 2,122 tickets totaling $665,000 from November 1995 through March 1996. Determined that 296 tickets were voided and 693 tickets were refunded.

      3. Netted the debits against the credits and identified 3,491 tickets totaling $1.13 million.

      4. Conducted a match of the net payments to AMEX (Step 3) to an AFS extract of ticket numbers reported on travel vouchers. This match identified:

         a) 957 tickets totaling $306,218 which did not match to AFS. We selected a judgment sample of 53 cases with the highest dollar mismatch.[10]

         b) 46 tickets where the ticket amount paid exceeded the ticket amount vouchered by $9,772. We selected a judgment sample of 22 cases with the highest dollar mismatch.

[10] We selected cases from the National Office and the Midstates and Northeast Regions in all of our samples.

5. Reviewed 75 cases to determine the reason for the discrepancy.

D. Identified the potential population of unused tickets that were purchased with GTRs and were not submitted for refund.

1. Analyzed an extract from AFS table "TNLT" (contains GTR or ticket numbers from vendor invoices) that contained 1,239 GTRs totaling $424,389 for the first seven months of fiscal year 1996.

   (**NOTE:** *We cannot identify the population of tickets purchased with GTRs because offices do not always input the GTR number when paying invoices.)*

2. Conducted a match of the 1,239 GTRs to an AFS extract of GTRs reported on travel vouchers. This match identified:

   a) 502 GTRs totaling $171,312 which did not match to AFS. We selected a judgment sample of 67 GTRs with the highest dollar mismatch.

   b) 49 GTRs where the ticket amount paid exceeded the ticket amount vouchered by $15,601. We selected a judgment sample of 23 GTRs with the highest dollar mismatch.

3. Analyzed a TRAS extract for the period October 1995 through April 1996 that contained 1,060 GTRs.

   a) Sorted the GTRs and identified 365 missing GTRs.

   b) Matched the missing GTRs to the AFS table of paid invoices and identified 48 GTRs totaling $13,487 paid by IRS. We selected a judgment sample of 22 GTRs with the highest dollar mismatch.

4. Reviewed 112 cases selected in steps 2a, 2b and 3b to determine the reason for the discrepancy.

II. Determine if the IRS maintained adequate physical control and accountability of GTRs.

A. Discussed with management the procedures for requesting and controlling GTRs.

B. Determined if management conducted physical inventories and reconciliations of GTRs.

C. Selected a judgment sample of 135 GTRs from various samples and analyses. Requested management to identify the status of each GTR and provide supporting documents

D. Evaluated the physical security of GTRs.

III. Determine if managerial review and controller oversight is adequate to monitor transportation expenses.

A. Determined if Controllers effectively conducted required voucher audits.

1. Reviewed guidelines issued to conduct reviews.

2. Reviewed the results of reviews that were conducted.

B. Determined if processing errors were detected during the management approval or controller post review process.

1. Reviewed 194 vouchers (selected from previous objectives) to determine if:

a) there was sufficient documentation to substantiate the airline ticket charge.

b) the employee used the contract carrier (146 cases reviewed).

c) the employee received proper approval for use of a non-contract carrier and cash.

d) there were any potential excess or erroneous claims.

IV. Determine if the use of non-contract fares and cash were justified and authorized.

A. Obtained and evaluated current procedures and requirements governing city-pair and contract fare rates.

B. Analyzed a TRAS extract for the first 7 months of fiscal year 1996 and identified 19,216 tickets for round trip travel to 3,416 different city-pairs.

1. Calculated the average cost for each city-pair and identified 439 tickets that cost more than $100 over the average. Reviewed a judgment sample of 60 tickets originating from seven cities to determine if:

a) a contract rate existed for the city-pair.

b) the contract rate was exceeded.

c) the travel voucher contained authorization for the use of a non-contract carrier.

C. Analyzed a TRAS extract for the first 7 months of fiscal year 1996 and identified 166 tickets totaling $40,691 where employees used cash or personal credit cards to purchase tickets over $100.

   1. Selected a judgment sample of 50 cases with the highest dollar amount. We eliminated 28 cases not considered true cash (comparative cost or employee incorrectly selected cash on TRAS). We reviewed the remaining 22 cases to determine if:

      a) the trip was an emergency.

      b) the employee received authorization for the use of cash.

      c) the voucher fully explained why cash was used.

      d) the employee received the contract fare.

V. Determine if IRS received the proper rebates from travel agencies.

*(**Note**: The scope was limited because IRS did not maintain adequate records to monitor rebates. Memorandums of Understanding were not maintained and files showing the amount of rebates received were incomplete.)*

A. Discussed the procedures for monitoring and processing rebates with national and regional management.

B. Identified the travel agencies used by the various offices in the regions.

C. Selected four travel agencies and attempted to obtain the following:

   1. travel contracts to determine the terms of the rebate.

   2. the amount of travel expenses purchased from the travel agency during fiscal year 1996. We also analyzed fiscal year 1995 rebates for one travel agency.

   3. the amount of rebates received for the expenses in step 2.

D. Determined if the rebate is commensurate with the travel expenses.

E. Researched AFS to determine if rebates are credited to the travel account.

Attachment II

Internal Audit
Financial Accomplishment Assessment

This Internal Audit Report contains findings where the IRS should report financial accomplishments to the Treasury Department's Inventory Tracking and Control (ITC) System.

- **Findings/Recommendations Where Completed Management Corrective Action(s) will Result in Financial Accomplishments for the Service**:

  Finding - Controls over the purchase, payment and return of airline tickets are not effective.

  Internal Audit reviewed a judgmental sample of 187 airline tickets and GTRs in which the IRS paid $131,871 in fiscal year 1996. However, employees only reported $10,334 on travel vouchers; a mismatch of $121,537. About 13% resulted in actual or potential additional costs or erroneous payments totaling $12,279. In addition, we identified other related improper claims and unused tickets.

  Actual financial accomplishment can not be determined. However, based on our samples, the IRS has recovered $15,087. In addition, Internal Audit referred to management information about $6,466 in tickets not accounted for. Based on management follow-up, additional actual financial accomplishments may be realized.

  Revenue Enhancement

  Actual - $15,087
  Potential - $ 6,466

  Finding - Management review and controller oversight have not been effective.

  Internal Audit reviewed travel vouchers related to 194 tickets included in the various samples to determine if the vouchers are prepared in accordance with Federal Travel Regulations and IRS procedures. Internal Audit referred $3,000 in potential excess, improper, or unsupported claims to Internal Security or management. Based on management follow-up, additional actual financial accomplishments may be realized.

  Revenue Enhancement

  Actual - $ 1,720
  Potential - $ 1,280

Finding - The IRS is not maximizing the use of travel rebates.

Internal Audit analyzed rebates received from three travel agencies and American Express. As a result of our audit, one travel agency refunded $16,330 in underpaid rebates. We can not determine if other offices are entitled to additional rebates due to the unavailability of records.

In addition, Internal Audit identified $171,262 in rebates erroneously deposited to the general fund. As a result, these funds were unavailable for future travel. Other rebates in Fiscal Years 1996 and 1997 may also have been erroneously processed, but the amount cannot be determined. IRS management has indicated they will attempt to obtain these funds from Treasury.

Revenue Enhancement

Actual - $ 16,330

Opportunity Costs

Potential - $171,262

- **Potential Financial Accomplishment – To Be Determined Through Follow-up**

  This report also contains findings with potential financial accomplishment that cannot be determined at this point. These actions should be tracked and the financial accomplishment amount determined through management follow-up, after the corrective actions have been completed.

- **Findings/Recommendations Where Potential Financial Accomplishment Exists, But is not Determinable at Current Time**:

  Finding - Controls over the purchase, payment and return of airline tickets are not effective.

  Finding - The IRS has not maintained adequate physical control and accountability over GTRs.

  Internal Audit recommended that IRS: (a) eliminate the use of GTRs; (b) reduce the use of the corporate AMEX account by requiring management and other non-bargaining employees to use individual government credit cards; and, (c) negotiate with NTEU for bargaining employees to use individual government credit cards.

  Implementing these recommendations will eliminate the staff costs associated with the reconciliation and processing of corporate AMEX and GTR invoices, control of unused tickets, and physical inventories of GTRs. In addition, the Service will reduce or eliminate penalties for late payment on invoices.

Opportunity Costs

Not determinable

Attachment III

MANAGEMENT'S RESPONSE