

REPORT ON THE AUDIT OF EMPLOYEE USE OF
AMERICAN EXPRESS GOVERNMENT CREDIT CARDS

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EXECUTIVE DIGEST

On November 30, 1993, American Express became the Commission's credit card provider for all travel expenses. Under the program, American Express Government credit cards and bills are provided directly to employees. In a departure from their normal operating procedures, American Express conducts no credit check before issuing credit cards, does not charge any annual fee, and does not charge interest or impose late payment charges. Government cardholders are individually responsible to American Express for payment of charges made with their American Express Government cards, and misuse of the cards does not result in additional costs or liability to the Government.

On February 6, 1996, William F. Clinger, Jr., Chairman, House Committee on Government Reform and Oversight, sent a letter to Reed E. Hundt, Chairman, Federal Communications Commission requesting information about Commission employee use of American Express Government credit cards. In the letter, Representative Clinger stated that "(p)ursuant to its oversight responsibilities, the Committee is reviewing the personal use of government credit cards by Federal Communications Commission employees." Representative Clinger went on to state that "(t)he Committee is interested in reviewing any previously prepared Inspector General reports regarding the personal use of all government credit cards" and that "(i)f your office has not previously requested any reviews of the individually-billed employee accounts ... we request that you direct the Inspector General to prepare such a report."

The objective of this review was to respond to Representative Clinger's inquiry by examining the use of the American Express Government credit cards by Commission employees. Specific objectives included: (1) determining if Commission employees were using the account for personal purposes; (2) examining the controls in place to manage the account; (3) determining if management controls were identifying inappropriate charges made to the account; and (4) examining the steps taken to discipline employees who were using the account for personal purposes. To accomplish these objectives, we discussed the account management process with program officials, reviewed a variety of reports generated by American Express detailing account activity, and selected a sample of specific charges spanning a six-month period for detailed analysis.

Although there is no evidence of an adverse financial impact to the Commission (and Government), our review indicates that a significant number of charges being made to the American Express Government account by Commission personnel are not related to official travel. For example, we identified a substantial number of charges to local restaurants and area merchants. We also identified inappropriate retail purchases, gasoline charges, and charges for airline tickets. Furthermore, we determined that, although monthly reports are reviewed by the Agency Program

Coordinator and forwarded to senior management officials, there is presently no process to follow-up on misuse.

Although the Commission is not financially liable for personal charges to the account, unauthorized use of the American Express Government card negatively affects the Commission. Section 2635 of title 5 of the Code of Federal Regulations (5 C.F.R. 2635), entitled "Standards of Ethical Conduct for Employees of the Executive Branch", establishes basic obligations of public service. The regulation recognizes that public service is a public trust and that "(t)o ensure that every citizen can have complete confidence in the integrity of the Federal Government, each employee shall respect and adhere to the ethical conduct set forth in this section." In our opinion, unauthorized use of the American Express Government credit card violates the standards by which employees are expected to conduct the Commission's business. As part of the review, we requested that the Office of General Counsel review our interpretation of this issue and, in general, they concurred with our position.

AUDIT OBJECTIVE

The objective of this review was to examine the use of the American Express Government credit card by Commission employees in response to Representative Clinger's inquiry. Specific objectives included: (1) determining if Commission employees were using the account for personal purposes; (2) examining the controls in place to manage the account; (3) determining if management controls were identifying inappropriate charges made to the account; and (4) examining the steps taken to discipline employees who were using the account for personal purposes.

AUDIT SCOPE

The audit was conducted in accordance with Generally Accepted Government Auditing Standards, and included such analysis, interviews and testing as required to support the audit findings.

The scope of this audit included only a limited number of interviews with specific employees selected during our detailed analysis of charges. In addition, our review did not include an assessment of internal controls associated with the management of official travel records.

Audit fieldwork was primarily performed within the Office of the Managing Director (OMD) from April 1996 through June 1996.

BACKGROUND

On November 30, 1993, American Express became the Commission's credit card provider for all travel expenses. Under the program, American Express Government credit cards and bills are provided directly to employees. American Express conducts no credit check before issuing credit cards, does not charge any annual fee, and does not charge interest or impose late payment charges. Government cardholders are individually responsible to American Express for payment of charges made with their American Express Government cards, and misuse of the cards does not result in additional costs or liability to the Government.

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government credit cards" and that "(i)f your office has not previously requested any reviews of the individually-billed employee accounts ... we request that you direct the Inspector General to prepare such a report." Letters such as that received by Chairman Hundt were sent to many cabinet-level and independent agencies.

On March 13, 1996, representatives from the Inspectors General community met with members of Representative Clinger's staff to discuss the specific parameters of the requested review. Among those parameters established was a statement that "(t)he CFO, or their counterparts in non-CFO agencies, will provide the committee with a report describing the processes used to manage individual American Express card usage ... (t)his report could include information on oversight of card usage, management of delinquencies and misuse and special features such as use of "Retail Block." On April 15, 1996, the Managing Director sent a copy of a report describing FCC management practices and forwarded a copy to our office. Feedback from the meeting also noted that the "(m)ajor focus will be on the misuse of American Express cards issued to Federal Government employees." In addition, the meeting established that the period covered by the review will be that last six months of Fiscal Year 1995 and that valid statistical sampling may be used.

Finding - Employees Are Using American Express Government Credit Cards For Inappropriate Purchases Unrelated To Official Travel

The Federal Communications Commission (FCC) uses American Express as the credit card provider for all travel expenses. As of March 1996, the FCC account had five-hundred seven (507) active accounts. For the period April 1995 through September 1995, the account averaged approximately four-hundred forty-five (445) transactions per month with an average Commission-wide monthly billed value of \$83,351. We selected a series of transactions from this period for detailed review. Our review indicates that a significant number of charges made to this account were not related to official travel and were not incurred while on approved travel. In fact, of the three-hundred nine (309) transactions we selected for detailed review, two-hundred nineteen (219) were inappropriate. Inappropriate use of the American Express Government credit card represents a violation of the standards of ethical conduct and could result in the erosion of public confidence in the Commission's integrity.

Appropriate Use Of The American Express Government Credit Card Is Well Established In Government And Commission Regulations

The appropriate use of the American Express Government credit card is well established in both Federal and Commission regulations. In addition, information about appropriate use is routinely communicated to cardholders. Federal travel regulations are codified in of Title 41 of the Code of Federal Regulation (C.F.R.). Subtitle F, entitled "Federal Travel Regulation System", defines requirements for all aspects of official federal travel. Part 301-15.44 of the regulation system (41 C.F.R. § 301-15.44) establishes requirements for individual employee charge cards. This regulation states that "(t)he employee shall use the charge card issued under this program only to charge expenses incurred in connection with official travel or to obtain authorized ATM withdrawals" (emphasis added). The regulation goes on to state that, with respect to authorized ATM withdrawals, "(a)n employee may not withdraw any amount unless authorized to do so" and "withdrawals may not exceed any limitations on advances stated on the employee's travel authorization."

As part of credit card issuance, a document entitled "Agreement Between Agency/Organization Employee and American Express Travel Related Services Company, Inc." is provided to each cardholder. This document establishes the specific terms of the cardholder agreement (e.g., purpose of card, renewal and replacement, payment, etc.) and states that "(b)y either signing, using or accepting the Government Card, you will be agreeing with us to everything written here." The agreement states that "(y)ou agree

to use the Government card only for official travel and official travel related expenses away from your official station/duty station" and that "(y)ou understand that the Card and the Account are not to be used for personal purposes (emphasis added)." The agreement goes on to note that "(s)uch charges shall be considered as unauthorized charges but you will nevertheless be personally liable to us for them."

Information about the appropriate use of the American Express Government card is also routinely distributed by the Office of the Managing Director (OMD) to Commission cardholders. As part of our review we obtained copies of travel bulletins and messages periodically distributed to Commission personnel regarding travel regulations. Several of the bulletins we obtained provided reminders to Commission personnel about the appropriate use of credit cards.

Commission Discontinued Monitoring Employee Account Activity

The Commission established an American Express monitoring program which was codified by OMD in the "Procedures Used to Manage Individual American Express Card Usage." The procedures recognized that "(a)n integral part of the American Express Card Program is the monitoring of cardholder's use of their cards to ensure that they are complying with the terms of the contract." The procedures go on to state "(t)his monitoring activity is accomplished by the agency program coordinator and upper level management reviewing the account activity report." As part of our review, we conducted a detailed analysis of charges for the period of April through September 1995. During that period, we obtained evidence that OMD did monitor employee credit card purchases for charges incurred during July and September. The records reflect that OMD officials, on a selective basis, transmitted letters to FCC employees who used their American Express cards to make retail purchases.

The process of transmitting letters to FCC employees was discontinued by program officials as it was viewed as resource intensive, unproductive and a source of friction between the monitoring office, OMD, and other respective bureaus and offices.

Additionally, in suspending the employee notification program, officials stated that "retail charges did not provide adequate information to determine whether the charge was official or personal." Furthermore, we were informed by the Deputy Associate Managing Director - Operations that American Express card abuse was contractually a matter between American Express and the cardholder and that, as such, no contractual provisions existed between the parties to require the FCC perform an analysis of billing records as a means of isolating deviations from appropriate card usage.

Employees Are Using American Express Government Credit Cards For Inappropriate Purchases Unrelated To Official Travel

As of March 1996, the FCC account had five-hundred seven (507) active accounts. For the period April 1995 through September 1995, the account averaged approximately four-hundred forty-five (445) transactions per month with an average monthly billed value of \$83,351. As part of our review, we selected a series of transactions from this period for detailed review. Selections were made using judgmental and statistical sampling techniques.

A judgmental sample of two-hundred fifty-one (251) transactions was selected using the following criteria:

- *charges to restaurants within the greater Washington DC metropolitan area (including a reasonable commuting area);
- *retail charges;
- *charges for returned checks; and
- *charges for cash advances.

From the remaining charges, we used statistical sampling techniques to make fifty-eight (58) additional selections. Selections were based on a confidence level of ninety-five percent (95%) and a desired risk factor of five percent (5%).

Using both judgmental and statistical sampling techniques, we selected a total of three-hundred and nine (309) transactions for detailed review. For each specific charge selected, we reviewed Fiscal Year (FY) 1995 employee travel folders and, where available, we copied travel documents which supported selected charges. Based upon our review of official travel records, we classified each selected charge as being: (1) incurred on official travel and directly related to official travel (e.g., lodging); (2) incurred while on official travel but not directly related to official travel (e.g., retail purchase); or (3) not incurred while on official travel (e.g., local restaurants and services).

Our review of detailed charges indicates that a significant number of charges being made to American Express Government credit cards by Commission employees are not appropriate. Based on our review, we identified the following overall conditions:

- For those two-hundred fifty-one (251) transactions that were judgmentally selected, one-hundred eighty-eight (188), representing 75% of the transactions and 54% of the dollars reviewed, were not incurred while on

official travel. An additional eighteen (18) transactions, representing an additional 7% of the transactions and 6% of the dollars reviewed, were incurred while on official travel but were not official travel expenses (i.e., were not claimed as reimbursable expenses).

- For those fifty-eight (58) transactions that were randomly selected, we determined that thirteen (13), representing 22% of the transactions and 25% of dollars reviewed, were not incurred while on official travel.

Further analysis identified the following conditions related to specific types of charges:

- Four of the nine airline charges selected in our review, representing 44% of the transactions, were not associated with official travel.
- One-hundred thirty-one (131) of the one-hundred sixty-six (166) restaurant charges selected, representing 79% of restaurant transactions, were not associated with official travel. These transactions had a total dollar value of \$5,132. Most of the inappropriate charges identified were incurred at restaurants on the Washington, DC metropolitan area by employees stationed at headquarters.
- Fifty-eight (58) retail charges, representing 68% of the retail charges selected, were not associated with official travel. An additional eighteen (18) retail charges were incurred while on official travel but were not related to official travel.

Furthermore, we observed that, in general, the vast majority of inappropriate charges were made by a limited number of employees.

Our sample included charges made by one-hundred different Commission cardholders. One-hundred twenty-two (122) of the two-hundred thirty-two charges (232) we determined to be inappropriate, representing 58% of all inappropriate charges identified, were incurred by only seven employees. Two employees alone accounted for fifty-nine inappropriate charges.

Abuse Of Privileges Associated With Official Position Violates Standards Of Ethical Conduct And Erodes Public Trust

Section 2635 of title 5 of the Code of Federal Regulations (5 C.F.R. 2635), entitled "Standards of Ethical Conduct for Employees of the Executive Branch", establishes basic obligations of public service. The regulation recognizes that public service is a public trust and that "(t)o ensure that every citizen can

have complete confidence in the integrity of the Federal Government, each employee shall respect and adhere to the ethical conduct set forth in this section." In our opinion, unauthorized use of the American Express Government credit card violates the standards by which employees are expected to conduct the Commission's business. In addition, abuse of privileges associated with Government employment may erode taxpayer confidence in public officials.

On April 15, 1996, the Inspector General sent a memorandum to the Commission's General Counsel requesting of review of this issue as it relates to the Standards of Ethical Conduct for Employees of the Executive Branch (please refer to Appendix A). On May 7, 1996, the General Counsel provided a response to our request (please refer to Appendix B). In that response, the General Counsel stated the following:

"(s)ince employees obtain American Express Government Cards based on their Government employment status, thereby avoiding both the credit checks normally associated with credit card applications and the annual fees charged by the American Express Company to holders of its individual charge cards, the unauthorized personal use of such cards might be considered technically a violation of §2635.701." This section of 5 C.F.R. 2635 provides that "(a)n employee shall not use his public office for his own private gain."

The General Counsel went on to state that they "informally coordinated this position with attorneys at the Office of Government Ethics" and that they "agreed that §2635.702 could cover this situation." They also stated that "an agency taking action against an employee for this activity need not cite a particular section of the Standards, but rather should simply describe the employee's conduct in detail and proceed on that basis that such conduct is contrary to the agency's interests."

Recommendation for Corrective Action 1 of 1

The Managing Director and General Counsel establish a coordinated program for the periodic review of American Express Government credit card charges and resolution of instances of unauthorized personal use. The program should include procedures for: (1) notifying employees of the ethical consequences of inappropriate use of the credit cards; (2) targeting high risk charges (e.g., retail, cash advances, local restaurants, etc.); (3) counseling employees who use the card to make unauthorized personal charges; and (4) referring employees who abuse the program to the Office of Inspector General and the Designated Agency Ethics Official for investigation and disciplinary action.

Management Response

The Managing Director and General Counsel concurred with our recommendation and stated that "the initial coordination of this process has already taken place." The response stated that "(t)he Office of General Counsel (OGC) has agreed to issue a memorandum to all employees explaining the ethical consequences of inappropriate use of the credit card by August 30, 1996." In addition, the Financial Operations Division has drafted procedures for review and coordination with OGC.